

PRINCETON UNIVERSITY SCHOOL OF

PUBLIC AND INTERNATIONAL AFFAIRS

Dhananjayrao Gadgil Library



GIPE-PUNE-063909

EXECUTIVE CONTROL
OVER STATE EXPENDITURES IN
NEW JERSEY

BY

DENZEL C. CLINE

Assistant Professor of Economics

Princeton University

SCHOOL OF PUBLIC AND
INTERNATIONAL AFFAIRS

ON

CITY PRESS

X-74.3013-N

63909

FOREWORD

WITH present conditions demanding the utmost care in the expenditure of money by all public agencies, and with the citizens of New Jersey more earnestly concerned than they have been in many years for the improvement of the government of the state, it is timely to publish the ensuing study by Professor Denzel C. Cline. Mr. Cline is a member of the Princeton faculty and participated in the survey of the government and finances of New Jersey which was carried out by the School of Public and International Affairs in 1932. He has examined very thoroughly the situation which has developed since then respecting executive control over state expenditures. He alone is responsible, of course, for his findings and opinions. I feel, however, that the School of Public and International Affairs performs a good service in making the results of Mr. Cline's work available to the public, and I commend what he has written to the thoughtful consideration of the citizens of New Jersey and to all who are interested in the problems of government.

D. C. POOLE

Director, School of Public and
International Affairs

Princeton
May 25, 1934



EXECUTIVE CONTROL
OVER STATE EXPENDITURES IN
NEW JERSEY

I

THE BACKGROUND: ADMINISTRATIVE DECENTRALIZATION

DURING the last two decades there has been a decided trend in the United States towards the reorganization of state governments and the consolidation and integration of departments. The tendency of such reorganizations has been to increase the power and also the responsibilities of the governor. In certain states he has been made the keystone, in fact as well as in theory, of the executive branch of the government. He has been given important powers, such as control over expenditures and the right to select and remove the heads of administrative departments. The purpose has been to centralize both power and responsibility in the chief executive in order that he may be held accountable for the efficient and economical operation of the administrative departments. It is an attempt to apply to government a fundamental principle of modern business organization.

This conception of the office of governor has been almost unknown in New Jersey. The chief executive is conspicuously lacking in power. Administrative control has been decentralized with the result that it has been difficult to fix responsibility. Several factors are responsible for this situation. One is the difficulty of changing the state constitution adopted in 1844. Any proposed amendment must be passed by two successive legislatures and receive a majority of the votes cast in a general election. The people may not vote upon any proposal to change the constitution more often than once in five years. The constitution has been amended only twice, the last change occurring forty years ago. ✓

The constitution provides that the governor shall be elected for a term of three years. Upon the expiration of a governor's

board of control of the department of welfare institutions and agencies. The various boards and commissions are the official heads of their respective departments and control their activities. In most cases they select the chief administrative officers of such departments. The membership of these boards and commissions varies from three to ten, and is usually fairly large. The members are appointed by the governor with the consent of the senate and have overlapping terms. In most cases the term of office of a member is longer than that of the governor. The administrative official actually in charge of the daily affairs of such departments is directly responsible to his board or commission. These boards and commissions are supposedly under the control of the governor but in practice it has been most difficult for him to maintain effective supervision over them. Any one governor has the opportunity to appoint only a portion of the board members and ordinarily it is necessary to bring charges to remove a member before his term has expired. It would seem that the express purpose of the legislature in creating and continuing a large proportion of these boards and commissions has been to remove their departments from effective control by the chief executive. In defense of this decentralized form of organization, it is claimed that it "takes the department out of politics," but it would be rash to maintain that the use of bi-partisan boards and commissions has been successful in this respect in New Jersey.

Although the constitution is partly to blame, the weak position of the governor has been due for the most part to opposition from the legislature towards strengthening his authority. The political situation in New Jersey has been primarily responsible for the antipathy of the legislature towards an enlargement of the executive power. Since 1910 this state has elected six Democratic and only two Republican governors. On the other hand, the Republicans usually have controlled the legislature. Since 1910 there have been only two years when they did not have a majority in the senate and only four years in which they did not control the house of assembly. This has been due to the fact that while more than three-quarters of the counties are normally Republican, a huge Democratic majority in Hudson county, in which Jersey City is situated, is usually sufficient to overcome Repub-

lican majorities elsewhere in a state-wide gubernatorial election. But the legislature, the members of which are elected by counties, remains dominantly Republican. Obviously a legislature controlled by one party will not be interested in increasing the power of the governor when he usually represents the opposite party. To a Republican legislature any reorganization which would centralize responsibility in the chief executive by allowing him to appoint and remove the heads of all administrative departments, would mean placing more patronage at the disposal of the Democrats. Consequently, any proposal for improving the administrative organization of the state government is considered first with an eye to party advantage. It is not at all strange, therefore, that the legislature has taken to itself so much of the appointing power and has established numerous departmental boards and commissions.

The need for a thorough reorganization of the New Jersey state government to provide a unified and well integrated plan of administrative organization has long been recognized. As early as 1895 a legislative committee pointed out that the multiplication of unnecessary bureaus and departments was largely responsible for the increase in state expenditures.² As a result a small amount of overlapping and duplication of effort was eliminated by abolishing certain agencies or merging them with other departments. But the haphazard creation of new agencies to perform the additional functions which were being assumed by the state was continued. When Woodrow Wilson became governor of New Jersey he emphasized the need for reorganization and a consolidation of related departments. An efficiency and economy commission was created by the legislature in 1912 for the purpose. It studied the situation and made a series of reports. A letter received by this commission contains unintended humor in expressing a common attitude of officials towards administrative reform:

“. . . I heartily concur in the recommendations of the Efficiency Commission for the consolidation of certain homogeneous departments and the elimination of existing duplication of effort. However, I want to go on record as saying that I am unalterably opposed to

² *Report of the select senate investigating committee, 1895, p. xxii.*

any move or recommendation that will disturb the work of the . . . Commission."³

The chairman of the economy and efficiency commission was Walter E. Edge, a Republican member of the legislature who was beginning his political career. Due largely to his influence in the legislature and later as governor, a number of the proposals of the commission were adopted. However, no thorough reorganization of the state government as a whole was attempted, and such changes as were made tended to weaken further the position of the governor. In the years 1915 to 1918, inclusive, most of the present departmental boards and commissions were established. Consequently, this attempt at reorganization, instead of building the administrative organization around the office of governor, had the opposite effect of further decentralization.

In 1925 the legislature created a committee, of which Senator Bright was chairman, to make a survey of the organization of the state government. The lengthy report of the Bright committee published the same year was promptly relegated to the legislative waste-basket. The contents of the report give a strong clue to its lack of popularity. The committee presented a plan under which 14 major departments would replace the existing 78 departments, boards, commissions, and agencies. It was proposed that each of the new departments would have a single executive head appointed by and directly responsible to the governor. A comprehensive budget and important improvements in fiscal administration were also recommended.⁴ These proposals were rank heresy to the New Jersey legislature.

For the first time in several years the Republicans elected a governor in 1928. In his inaugural message the following January, Governor Larson suggested to the Republican legislature that a thorough audit should be made of all the state departments. The legislature promptly gave the governor ample authority and funds to employ experts and accountants to audit the records of

³ *Report of the commission upon the reorganization and consolidation of different departments of the state government whose functions are inter-related*, 1914, p. 15.

⁴ *Report of the joint legislative committee of New Jersey*, December 9, 1925, Sections 2, 3.

the various departments. At the same time it created the state audit and finance commission, of which Senator Abell was chairman. At the suggestion of the Abell commission the governor contracted with the National Institute of Public Administration to make a comprehensive audit and survey of the state government. The Institute report was published in two volumes early in 1930.

The governor had intended to have only a financial audit made but the most important part of the report proved to be the survey of administrative organization and procedure. The report contained a bold attack on the existing system and presented evidence which exposed its defects. There were very few departments which did not receive some adverse criticism with the result that the investigation aroused general hostility. The lack of budgetary control and proper fiscal administration stood out in bold relief as a result of the survey. The report made numerous specific suggestions for improving the work of the various departments. It was shown, however, that the best results could not be obtained without a thorough reorganization necessitating constitutional changes. It was proposed to establish 14 major departments to replace the 94 separate departments, commissions, boards, and agencies then in existence. One of these was a department of finance which would contain bureaus of budget, accounts, purchases, and personnel, respectively. The report recommended that heads of departments be appointed by the governor to serve at his pleasure and that bureau chiefs be selected by competitive examination. In addition to the 14 administrative departments, it proposed that a department of audit headed by a comptroller appointed by the legislature be created to serve as an independent check upon the administration. It recommended also the introduction of a unicameral legislature and proportional representation.⁵

This report called forth a storm of protest, including a special message from Governor Larson. One of the milder criticisms was that the report was the work of impractical theorists. Its sane constructive criticisms and suggestions were belittled be-

⁵ National Institute of Public Administration, *Report on a survey of the organization and administration of the state government of New Jersey*, 1930, Chapter I.

cause the proposed plan of reorganization was too radical for party politicians and important job holders in a state accustomed to decentralization and a weak executive. In view of the political situation and the disturbing effect of the proposed plan on the patronage, it did not have the slightest chance of adoption. But wide publicity was given to facts brought out at hearings held by the Abell commission, which was making further investigation of certain matters.⁶ Particularly shocking were the revelations of extravagance and questionable practices in connection with the construction and furnishing of the new state house annex. After numerous excuses and delays, the legislature finally adopted in 1931 several of the Abell commission bills. Many of the bills were garbled beyond recognition by amendments before adoption, but a few notable changes, particularly in tax administration and state purchasing, were secured. Senator Abell desired a more thoroughgoing change, such as the budgeting of all state expenditures and more effective fiscal control, but was unable to persuade enough of his fellow Republicans in the legislature to support him. As it was politically impossible to obtain a complete administrative reorganization of the state government, little consideration was given to this subject by the Abell commission. However, a bill to create a department of finance was introduced by one of its members but it was quietly shelved.

In 1931 the Democrats elected their candidate for governor and won a majority in the house of assembly. When Governor Moore was inaugurated the next January he strongly advocated a thorough administrative reorganization and presented a detailed plan somewhat similar to that of the National Institute of Public Administration.⁷ Only a few of the bills to accomplish the changes proposed by the governor passed the Democratic assembly and these were defeated in the Republican senate. Senate leaders then proposed that a bi-partisan commission be established to study the subject further, but the commission was never created. Since then there has been no further discussion of a complete administrative reorganization in New Jersey.

⁶ *Reports of the state audit and finance commission*, February 1930; November 6, 1930.

⁷ Governor A. Harry Moore, *Inaugural Address*, January 19, 1932, p. 16.

II

RECENT STEPS TOWARD EXPENDITURE CONTROL

As a substitute for his reorganization plan the legislature gave Governor Moore broad powers to reduce expenditures in order to meet the pressing financial situation (Laws of 1932, Chapters 189, 190). These emergency powers, however, were specifically limited to a period of one year. The depression was causing a serious decline in revenues and a treasury deficit was impending; to secure a balanced budget would be a difficult problem. The governor was endeavoring to reduce the state's expenditures and avoid increasing taxation. Consequently he made vigorous use of his emergency powers to curtail expenditures.

Governor Moore saw the need for making reductions so as to cause the least injury to essential services. He therefore invited Princeton University to make a survey of the state government for the purpose of recommending economies to balance the budget. The invitation was accepted and President Harold W. Dodds, then professor of public administration in the department of politics at Princeton, was selected to direct the survey. He was assisted by a staff drawn from the departments of politics and economics. The survey was completed and a report published in three months.⁸ There was no cost to the state. The survey did not go beyond the essential problem of securing economies and balancing the budget. Only such structural changes were recommended as seemed to be necessary to obtain and maintain economical government. The larger part of the report dealt with the activities of the various departments and contained suggestions for performing necessary functions with less expense. The aggregate net savings which it was estimated could be obtained from the specific economies recommended for the various departments was \$7,600,000, of which \$2,500,000 would result from salary reductions and salary standardization. No new taxes were proposed but it was estimated that current revenues could be increased by \$6,300,000 if the recommendations for an increase in the license fees for commercial motor

⁸ School of Public and International Affairs of Princeton University, *Report on a survey of administration and expenditures of the state government of New Jersey*, December 1932.

vehicles and the elimination of exemptions from the gasoline tax were followed.

But it was realized that economy in government means more than balancing the budget for any given year. The existing machinery was such as to make any permanent effective control of expenditures almost impossible. In addition to recommendations for bringing all state expenditures under complete budgetary control, the Princeton report proposed two important structural changes. It recommended the creation of a new department of fiscal control and the reorganization of the highway department. It proposed that the bi-partisan highway commission of four members be replaced by a single executive appointed by the governor. The highway commission had been spending as much as \$40,000,000 in a single year, or more than a third of the total expenditures of the state. The commission operates on funds which have been dedicated specifically to its use by the legislature and which at that time were not subject to adequate budgetary control. It was deemed essential that the highway department should be controlled by an executive directly responsible to the governor.

To secure more effective control over state expenditures despite New Jersey's decentralized type of departmental organization, the creation of a department of fiscal control was recommended. Under the plan proposed this department would consist of three divisions which would have complete control over the budget, purchases, and accounts, respectively. The commissioner of fiscal control and the director of each division would be appointed by the governor to serve at his will. The commissioner of fiscal control would be the governor's right-hand man in financial matters and would have the power to prevent unwise and unnecessary expenditures. This was to be achieved in two ways. First, it was proposed to introduce a system of quarterly allotments under which no department could spend any of its appropriation until its financial program had been submitted and an allotment for the quarter approved by the commissioner of fiscal control. Secondly, questionable expenditures might be stopped by the refusal of the fiscal department to approve the bills. Through the personnel of the budget, purchase, and accounts divisions the commissioner would receive information

enabling him to stop such expenditures before it was too late, and to pass intelligent judgment upon the quarterly allotments.

In addition the Princeton report demonstrated that savings could be effected by coordinating the purchasing, budgeting, and accounting functions under one head. Separate departments of budgeting and purchasing were established in 1916. The head of each of these departments is appointed by the governor. The central controlling accounts of the state are maintained by the comptroller's department, which has been in existence since 1865. At the time of the Princeton Survey this department also performed the auditing function. In consequence the comptroller was responsible for auditing his own accounts. It was proposed to correct this situation by the transfer of all accounting work to the department of fiscal control. It was recommended that the comptroller should have the sole function of auditing all accounts and financial records and that this work should be expanded. This change did not necessitate a constitutional amendment and would have provided for an independent audit and check upon the administration by an appointee of the legislature.

The Princeton proposals received favorable publicity in the newspapers of the state. There was apparently a widespread feeling that changes were needed. Governor Moore gave the Princeton report his active support. The State Taxpayers' Association waged a vigorous fight in behalf of the proposals for a department of fiscal control and a single executive head for the highway department. Only a few state administrative officials publicly criticized the Princeton recommendations but undoubtedly many others expressed their disapproval in conferences with members of the legislature.

The legislature showed no inclination to act upon the Princeton proposals and for months only a very few of its members supported them. Several were openly hostile to the suggestions for a new department of fiscal control and for a single executive head for the highway department. The general objection was that these changes would give the governor too much power. However, Senator Kuser, a Republican, sponsored a bill to create the office of commissioner of finance which would give this official wide powers and control over a system of quarterly allotments. The Kuser bill did not provide for a unified fiscal

✓

department combining the accounting, budgeting, and purchasing functions as recommended in the Princeton report. Originally the bill did integrate the work of the budget department and the commissioner of finance, but this feature was eliminated and certain other changes were made. Thus amended the bill was finally adopted (Laws of 1933, Chapter 363).

Senator Reeves also introduced bills providing for changes in fiscal administration. One bill placed important restrictions on the dedication of revenues and provided for the inclusion of all state expenditures in the budget. Another removed the auditing function from the comptroller's department and made the commissioner of municipal accounts the state auditor. A third introduced an improvement in the law governing the preparation of accounting reports by the comptroller's department. Like the bill to create the office of commissioner of finance the Reeves bills also were opposed for months before they were finally passed late in June 1933. The auditing and accounting bills were adopted with only a few minor changes. But the budget bill was replaced by two separate acts which preserved the dedication of funds and were weaker in other respects (Laws of 1933, Chapters 193, 293, 294, 295, 296, 451). The public was informed by certain members of the legislature that the Princeton recommendations were being followed. Plainly, however, the laws which were enacted fell far short of accomplishing this purpose.

The controversy attending the enactment of this fiscal legislation of 1933 constitutes an interesting page in the history of New Jersey politics. In February hearings were held on the various fiscal proposals by a special senate committee on economy and reorganization of which Senator Kuser was chairman. At these public hearings there were numerous opponents of the proposed changes. The key to the opposition was the fact that both the Princeton plan and the original Kuser and Reeves bills would have seriously disturbed the system of dedicated funds.

New Jersey had reached a ridiculous extreme where approximately three-quarters of the total state revenue had been allocated by the legislature to certain departments or dedicated to specified purposes. The state railroad tax is dedicated to educa-

tional expenditures, including the state's share of the cost of the teachers' pension fund. Various taxes on insurance companies are dedicated to other pension funds. The money received by the state licensing boards and certain departments may be spent only by the agency which collects it. Even the inheritance tax has been dedicated in part to the support of old age pensions. State levies on general property have been used for certain purposes, such as state aid for schools, and debt service on highway and soldiers' bonus bonds. All the revenue from the gasoline tax and motor vehicle license fees is allocated to specific purposes, principally for the use of the highway department and state aid for roads. Furthermore, the expenditure of the major part of these dedicated funds has not been subject to budgetary control, although the legislation of 1933 introduces an important improvement in this respect.

The Princeton report insisted that all state expenditures should be included in the governor's budget and authorized only in accordance with the annual appropriation act. The dedication of revenues to specified purposes necessitates the use of about forty different segregated funds. This seriously interferes with proper budgetary planning, prevents the best use of state funds, especially in a financial emergency, and greatly complicates accounting records and treasury management. The situation is comparable to that of a man who carries the money for his lunch, cigarettes, shows, etc., in separate pockets and goes hungry because his lunch money pocket happens to be empty although the others contain cash. The Princeton report urged that the practice of dedicating revenues should be greatly curtailed. The original Kuser and Reeves bills went a long way in this direction and thus incurred the enmity of several self-interested and politically important groups. Particularly strong were the protests by spokesmen for those groups especially interested in highway finance. These included the state highway department, the local officials interested in preserving state aid for roads, and various automobile associations. They commanded sufficient votes in the legislature to block any move to disturb the dedicated highway revenues. As any discussion for improving the budget and securing effective control over expenditures soon encoun-

tered the problem of highway finance, it seemed impossible to make any progress on the proposed fiscal legislation.

Meanwhile, the press throughout the state and the New Jersey Taxpayers' Association were urging the legislature to follow the Princeton proposals. The Taxpayers' Association had some excellent bills prepared to establish a department of fiscal control and a department of audit which would have carried out the recommendations in this respect.

The 1933 session of the legislature dragged on for four months without the slightest prospect that any of the proposed fiscal changes would be made. Suddenly in the second week in June the public was amazed when the senate suddenly passed the modified Kuser and Reeves bills. Until this time the senate apparently had no intention of making any of the proposed changes in fiscal legislation. The Taxpayers' Association had previously warned the legislature that unless definite action was forthcoming it would take more vigorous measures. This was considered an idle threat until the Association called a mass meeting at Trenton to consider the advisability of conducting a state-wide tax strike until the legislature adopted its fiscal control bills. The day before this mass meeting was held the senate passed the revised Kuser and Reeves bills without a dissenting vote. This dramatic yielding by the senate surprised even the leaders of the Taxpayers' Association. The mass meeting was held but it was decided not to call a tax strike and to give the house of assembly an opportunity to act. At first the Taxpayers' Association insisted that its own fiscal bills should be adopted and opposed the bills which had been passed by the senate. The leaders of the Association became persuaded, however, that to adhere to this policy would be inadvisable. They finally agreed to support the Kuser and Reeves bills with the hope that they could be improved and strengthened before final enactment.

The taxpayers already were well organized with an association in each county and numerous local organizations. Shortly after the mass meeting in Trenton the leaders of the state organization instructed each county taxpayers' association to call a special meeting to which the legislators from its district should be invited. At these conferences the advisability of supporting the fiscal reform measures was demonstrated to the members of the

assembly. Largely as a result of this process of "education" assurance of sufficient votes was obtained to secure favorable action. Incidentally, before the election of last November the State Taxpayers' Association canvassed all candidates seeking election to the legislature as to their record and attitude toward the Princeton program, among other things, and published the results. *

The accounting and auditing bills were soon passed by the assembly almost unanimously. The budget bill, on the other hand, was passed only after certain obstacles had been surmounted. A factor of great importance in securing the adoption of the budget legislation, which brings all departments under the budget, was the disappearance of the pressure from the highway groups. A separate bill sponsored by Senator Kuser was passed which amended the section governing the highway budget. This bill provided that the amount of state aid to be paid annually to counties for roads should be \$6,000,000 instead of \$4,000,000 as formerly. Including state aid to townships and \$5,000,000 from the gasoline tax which is apportioned upon the basis of assessed valuation, the total amount of state money received annually by the local units for road purposes was raised to \$14,045,000. The increase in state aid effectively silenced the opposition from county and local officials and induced them to support the fiscal reform program. The highway budget bill also explicitly provided for the continuance of the existing legislation concerning the dedication of the gasoline tax and motor vehicle revenues and thus eliminated the antagonism of the various automobile associations. Finally, the legislature had decided that the highway department should continue to be controlled by a bi-partisan commission of four members. After these vital concessions had been made, there was little difficulty in bringing highway expenditures within the budget and under the control of the commissioner of finance.

The chief opposition to the budget bill in the assembly came from the professional licensing boards, such as the State Board of Public Accountants, the State Board of Medical Examiners, etc. Despite the fact that the bill continued the dedication of the money received by each of these boards to its exclusive use, they objected to any budgetary control whatever. They exerted

sufficient pressure in the assembly to compel the adoption of an amendment by a vote of 45 to 6 which exempted them entirely from the budget law. Fortunately, the senate refused to permit this exception. The budget law as finally enacted permits each of twelve specified professional licensing boards to continue to spend at will the entire amount of the revenues it collects until July 1, 1935. After that date, however, they will be subject to the same budgetary control as other departments and agencies which have dedicated funds. That is, only the amount specified in the appropriation act may be spent in a given year, but any of the dedicated revenue in excess of the amount expended must be held in the treasury for the exclusive use of the department or agency to which it has been allocated.

The law creating the office of commissioner of finance and establishing a quarterly allotment plan was passed by the assembly June 21 by a vote of 40 to 10 (Laws of 1933, Chapter 363). This was almost the last act of one of the longest legislative sessions in the history of the state. At one time it appeared that the assembly would amend the bill by requiring that the commissioner of finance should be elected by joint session of the legislature instead of being appointed by the governor. This was prevented by the senate which agreed to ask the governor to veto certain other bills if the assembly insisted upon the election of the commissioner of finance by the legislature.

In the assembly the principal change in the finance law as finally adopted was the omission of a provision which made the commissioner of finance the secretary of the state sinking fund commission. This commission consists of the governor, the comptroller, and the state treasurer. An employee in the comptroller's department has been the secretary to the commission and assisted it with investments. The Princeton report recommended that the proposed commissioner of fiscal control should be the secretary and that a person skilled in investment work should be engaged by the commission to assist in the investment of funds. It also suggested that a special investigation should be made of the condition and management of the sinking funds. The section of the finance bill which made the commissioner of finance the secretary to the sinking fund commission was dropped at the request of Senator Kuser, the author of the bill.

This unwise change was made after the senator secured an oral agreement with the members of the commission that a different person would be employed as secretary. But after the finance law was passed the sinking fund commission refused to make any change.

In November 1933 a legislative committee was created to investigate the administration of the state sinking funds. Majority and minority reports were submitted by the committee last March.⁹ The minority report, signed by four of the nine members including Senator Kuser, the chairman of the committee, reviewed the evidence and testimony of witnesses before the committee. The minority concluded that there had been mismanagement of the sinking funds and that considerable losses had been incurred from improper investments such as the purchase from brokers at excessive prices of certain municipal bonds for which a ready market did not exist. The other five members of the committee refused to censure the actions of the sinking fund commission despite the seriousness of the evidence presented. They agreed with the minority, however, that expert advice and assistance should be made available to the commission to consider the advisability of any investments and that full publicity should be given to the transactions of the sinking fund commission. Bills to accomplish these purposes were promptly passed by the senate (Senate Bills Nos. 232, 233), but to this time (May 24, 1934) they have not been enacted by the assembly.

At one time in the legislative session of 1933 there was considerable sentiment in the senate to follow the Princeton recommendation that the highway commission be abolished and replaced by a single executive appointed by the governor. The opposition proved too strong, however, and this change was not made. There was a prolonged contest between the highway commission and Governor Moore. During the session the terms of two members of the commission expired and the governor refused to send any nominations to the senate to fill their positions. As the law required the presence of at least three of the

⁹ *Majority and Minority Reports of the Economy and Reorganization Commission on the investments and management of the several sinking funds of the State*, March 19, 1934.

four members of the highway commission before it could transact business, a deadlock ensued. The governor asked the two remaining members of the commission to resign but they refused. He then threatened to bring charges against them and they then consented to resign. As the legislature refused to change the law, the governor had no other alternative but to appoint four new members to the bi-partisan highway commission. The new commission removed the state highway engineer and attempted to reorganize the highway department. Although a one-man highway administration was not secured, the fiscal legislation adopted by the 1933 legislature requires that highway expenditures shall be made from appropriations granted annually by the legislature and shall be subject to the system of quarterly allotments under the control of the commissioner of finance.

In addition to the fear of giving the governor more power much of the opposition on the part of the Republican majority in the legislature to the creation of the office of state finance commissioner was due to a feeling that the governor would treat the position as political patronage. The leaders of the State Taxpayers' Association were able to overcome this objection by securing an agreement with Governor Moore that before appointing the commissioner of finance he would consult with the director of the Princeton survey. By this time Dr. Dodds had been appointed president of Princeton University.

As the law creating the position of commissioner of finance was not passed until a few days before the appropriations for the present fiscal year became available, obviously it was impossible to put the new law into full operation at once. In August 1933 Governor Moore appointed John Colt of Princeton as commissioner of finance. Commissioner Colt was the president of the Princeton Bank and Trust Company and had been serving without compensation as director of the state emergency relief administration for several months. Upon becoming commissioner of finance he resigned his position with the bank but at the request of the governor continued as state director of unemployment relief. Before entering business several years ago, Mr. Colt was a professor of politics at Princeton University. It would seem that he is fitted by training and experience for his

new task, but it remains to be seen whether he will make the office of commissioner of finance as effective as it should be.

It is unfortunate that Commissioner Colt was required to continue as state relief administrator until May 1934. The relief work was very heavy and all of his time and energy were needed to organize his work as commissioner of finance. It was unwise to expect any man to fill both positions. Commissioner Colt supervised the distribution of millions of dollars of relief funds but despite his duties and responsibilities as relief director endeavored to administer the new finance law. Preliminary work programs were devised and the allotment system was placed in effect for most of the departments for the quarter beginning January 1, 1934. The highway and motor vehicle departments could not be subjected to the allotment plan until the legislature granted appropriations upon the basis prescribed in the new budget law. Thus the allotment system is still in process of introduction in New Jersey. It is too early to attempt to appraise the practical results of its operation.

III

CRITIQUE OF THE FISCAL LEGISLATION OF 1933

THE decentralization of administrative organization in New Jersey resulting in an anomalous weakness in the power of the governor, and the struggle resulting in the adoption of a series of laws in the summer of 1933 to provide more effective control over state expenditures have been described. The experience under this recent fiscal legislation has been much too short to permit discussion of its actual results but the legislation itself is worthy of more complete description and should be subjected to critical examination.

The law creating the office of commissioner of finance and defining his powers and duties (Laws of 1933, Chapter 363) provides that this officer shall be appointed by the governor and receive an annual salary of \$10,000. Confirmation of the appointment by the senate is not required, and the commissioner may be removed at any time by the governor. The legislature made no appropriation for the commissioner of finance but the

state house commission granted an allowance from the emergency fund for his use in the fiscal year ending June 30, 1934.

The commissioner of finance is to execute the provisions of the finance law under the authority and control of the governor. As stated in the act, the intent is to provide control by the governor over state expenditures by the adoption of a system of allotments. By June first in each year, each spending agency which has received an appropriation is required to file with the commissioner of finance a work program showing for each quarter how it proposes to spend its appropriation. Its financial program shall be made in such form and in as much detail as the commissioner shall request. In reviewing the requested allotments, the commissioner is authorized to revise them before giving his approval. No part of an appropriation may be spent until an allotment has been approved. A copy of the allotment as approved is sent to the spending agency and another is transmitted to the state comptroller. In the payment of bills, the comptroller is required by the law to allow expenditures from the spending agency's appropriation on the basis of such allotment and not otherwise.

In case a spending agency is dissatisfied with the action taken by the commissioner of finance upon its requested allotment, it may appeal to the governor, whose decision is final. Such appeal is permitted to a spending agency at the beginning of each quarterly period. The act requires that the allotment requests for each of the four periods shall be submitted on June first, and that the work program for the entire year shall be acted upon by the commissioner of finance. The spending agencies are permitted to submit a revised work program for the approval of the commissioner at the beginning of any quarter and with his consent a revised allotment is sent to the comptroller. The act does not authorize the commissioner on his own initiative to revise an allotment that he has once approved. If the commissioner approves all allotments for each of the four quarters at the beginning of the year as the law seems to intend, this lack of power to revise an approved allotment on his own initiative is an important weakness. One of the essential purposes of the quarterly allotment plan is to provide a method of curtailing expenditures made necessary or desirable by a change in condi-

tions after the legislature has passed the appropriation act. For example, an unforeseen decline in revenues may necessitate a reduction in expenditures below the appropriations to avert a deficit. Likewise changes might need to be made after the commissioner of finance has approved at the beginning of the year all of the allotments for the year. Furthermore, circumstances may arise in the course of the year which would make it unwise for a spending agency to use all of its appropriation, and in such cases it is the duty of the commissioner of finance to prevent it from spending more than is necessary. Therefore the finance act should be amended specifically to permit the commissioner to approve allotments for one quarter at a time.

To provide for emergencies, the law authorizes the commissioner of finance to require a spending agency to set aside part of its appropriation as a reserve in an amount which he shall determine. No part of such reserve may be spent until the commissioner directs the comptroller to transfer it to an allotment of the spending agency. Consequently, at the beginning of the year the commissioner could approve only the allotment for the first quarter and place the remainder of an appropriation in a reserve account. Then at the beginning of each quarter he could approve new allotments and release the necessary amount from the reserve. This offers a method whereby the commissioner can approve allotments for one quarter at a time even if the present law is not changed. ✓

In authorizing the commissioner to establish reserves, the finance law provides a method under strict executive control of meeting emergencies from regular appropriations. This should eliminate the extensive use of deficiency appropriations and the emergency fund and the abuses they have encouraged in the past. The plan of setting up departmental reserves for emergencies also offers a method whereby the commissioner of finance can compel savings by preventing the expenditure of the entire amount of an appropriation when this is unnecessary. Ordinarily, if a spending agency finds that it has more money than is really needed, it endeavors to spend the full amount to prevent the lapsing of any unspent balances. Consequently, some of its expenditures may be entirely unwarranted. In New Jersey, as elsewhere, departmental heads are afraid that if they do not

spend all their funds, this will be taken as proof that their appropriations should be reduced. In addition, there are always ways to spend money, which from the point of view of the individual department would be desirable and even necessary, but which might not be sound economy under the circumstances. The commissioner of finance is in a position to take a broader and more impartial view because he must consider the state's finances as a whole. By requiring the establishment of substantial reserves and allowing the money thus set aside to be spent only for actual emergencies and really necessary purposes, he can compel a considerable amount of saving through the lapsing of unspent reserves. Naturally there will be great pressure from the spending agencies to be allowed to spend the full amount of their appropriations regardless of whether the money in reserves is needed for emergencies. If he makes energetic use of the reserve plan to compel savings, there will be loud complaints that he is usurping legislative power in not permitting the expenditure of all the money appropriated. It is easy for a departmental head to take the attitude that an appropriation is a mandate from the legislature to spend the full amount, and not merely as much thereof as may be necessary and economical.

There is a danger that the legislature will grant sufficiently larger appropriations to compensate for the reserves required, particularly if the latter are used to compel additional savings. This is especially likely to happen with the appropriations made from dedicated funds. The fact that approximately three-fourths of the total state expenditures are made from dedicated funds may restrict the usefulness of the reserve plan in another way. An unspent balance from an appropriation made from a dedicated revenue cannot lapse to the general fund but must be held in a segregated fund for future use by the particular agency to which the money has been allocated.

For many years it has been the practice of the legislature to make a sizeable appropriation to the state emergency fund, which is administered by the state house commission. This commission consists of the governor, the comptroller, the state treasurer, and two members of the appropriations committee of the legislature. Among other functions, this commission receives requests for grants from the emergency fund and for transfers

of appropriations. The abuses which had developed in granting such requests brought about in 1931 an increase in the membership of the commission by including the two members from the appropriations committee of the legislature, and the requirement that requests should not be granted until the state budget commissioner first was informed and given opportunity to file his recommendations.

The fiscal legislation of 1933 leaves the powers of the state house commission unchanged except that a request for a transfer of appropriations or for a grant from any emergency fund must be sent first to the commissioner of finance accompanied with a revised work program and allotment request. Within forty-eight hours the finance commissioner shall forward the request, with the reasons for his approval or disapproval, to the state house commission. The latter still renders the final decision but must make public its disposition of the request together with the recommendations of the finance commissioner. In view of this change there seems to be little reason for the requirement continued in the present budget law that the budget commissioner also shall file his recommendations upon such requests. In fact, there should be little need for continuing the use of an emergency fund of any considerable size, if the departments are required to provide against emergencies by setting aside reserves from their regular appropriations. The mere existence of any considerable amount of money in such a fund is a temptation to departmental heads to attempt to secure more money than has been appropriated to them. In the past there have been many instances in which allotments were granted from the emergency fund for purposes which in no sense could be deemed emergencies. In such cases the departments were really securing supplementary or deficiency appropriations without the necessity of obtaining the approval of the legislature.

In the past the New Jersey appropriation acts have been lengthy and detailed. To provide some flexibility in the use of funds, the state house commission is authorized to allow the transfer of money from one appropriation account to another. However, no part of an appropriation for a capital improvement may be transferred to an account for current expenditure. Each year numerous requests for intra-departmental transfers are

granted but almost no inter-departmental transfers of appropriations are made. Since a method of maintaining control over spending has been provided by the work programs and quarterly allotments, there is no longer any need for such a high degree of itemization in the appropriation acts. The new budget law requires that the appropriations for the highway department shall be made in lump sums under a few general heads, such as new construction, maintenance of state highways, etc. If the lump sum type of appropriation were extended to the other departments, as could safely be done now under the new system of financial control, there would be little necessity for requests to the state house commission for transfers of appropriations. The departments would need only to submit revised work programs and requests for changes in allotments for the approval of the commissioner of finance in order to make most of the necessary adjustments in expenditures. In fact, a highly itemized appropriation act is inconsistent with a flexible administration of the quarterly allotment plan. If the legislature continues to use this type of appropriation act and to require that all transfers shall be made by the state house commission, the latter should pay especial heed to the recommendations of the commissioner of finance in this regard.

The finance law does not integrate the purchasing, budgeting, and accounting functions and bring them under the control of the commissioner of finance. In proposing that the purchasing department should be made an integral part of a unified fiscal control department it was the intention of the Princeton report that there should be a closer check upon the purchase of materials and supplies. Under this plan the director of the division of purchases would be held responsible by the commissioner for examining carefully all requests for purchases with regard to their cost and the need for them. If this were done there would be less chance of a department purchasing waste-baskets at \$17 each as occurred in this state not long ago. The purchasing department seems to have taken the attitude that it is merely an agent of the spending agencies to buy upon the best terms whatever the agencies may ask.

Although the purchasing department has been continued as a separate and independent department, the finance law of 1933

attempts to give the commissioner of finance some control over purchases. It requires the comptroller to send a copy of every purchase order and request for permission to spend, after examining it for legality and availability of funds, to the commissioner of finance. If the latter gives his approval it is forwarded to the purchasing department which then has the authority to make the purchase. The act apparently intends that the finance commissioner shall decide upon the necessity and expediency of every purchase order, regardless of the fact that only the personnel of the purchasing department, over whom he has no authority, has the necessary information concerning prices, quality, grades, and the most economical quantities in which to buy. So far, the procedure prescribed in the act has not been followed. The commissioner of finance has had neither the time nor the necessary assistance to examine and approve purchase orders. Consequently, the comptroller has been instructed to send such orders directly to the purchasing department. Commissioner Colt has decided not to build up an expensive department with a large staff. He expects existing departments to keep necessary records and to produce information at his request.

If the purchasing department is not made an integral part of the department of finance the law should be amended to relieve the commissioner of finance of the obligation of approving purchase orders. The responsibility for passing upon the need and propriety of purchases should rest in the first instance upon the head of the spending agency and finally upon the purchasing commissioner. The latter can refer any requests of doubtful wisdom to the governor, who has the power under the budget law to direct the comptroller to refuse to pay for such purchases. The purchasing commissioner is appointed by the governor with the consent of the senate for a term of five years. As the governor's term is only three years, he sometimes has no opportunity to appoint the purchasing commissioner. Nevertheless, the latter would be likely to cooperate if each governor made it plain that he expected the purchasing department to subject every purchase order to careful scrutiny as to its need and desirability.

The finance law is commendable for the extensive power it gives the chief executive in the control of state expenditures. The)v

major criticism of the law is that it does not provide the commissioner of finance with adequate facilities for making the most intelligent and effective use of this power. He has ample authority under the law to compel the introduction of economies and the elimination of waste but to be most successful he should be able to show where and how it can be done. Normally the spending agencies will not be anxious to volunteer information of this character. If the commissioner is active and alert he will discover wasteful practices and ways to economize but for the most part he must ferret out the facts himself. If he does not build up a separate staff, under the present law he must rely upon the personnel of independent departments to provide and put into usable form the data essential for passing intelligent judgment upon the quarterly allotment requests. The departments have had long experience in the game of obtaining funds. Anyone familiar with the various devices and subterfuges that are sometimes used knows that a finance commissioner must be well armed with pertinent and impartial facts to avoid being misled. A step in the right direction is the recent formation of a committee of which Commissioner Colt is the head, to make a thorough study of the cost and use of state owned motor vehicles.

The commissioner should have adequate and reliable standards of service and costs to guide him in approving allotments. What should it cost to feed a prisoner, heat a building, maintain an automobile, etc.? How many employees of each class are really needed in a particular department or institution? The development of reliable yardsticks to answer questions like these is almost a virgin field in New Jersey. If the proper attention were devoted to the task a considerable amount of data of this kind could be assembled which would be useful not only to the commissioner of finance but also in budget making. Valuable as standards of service and costs would be, however, there are always many questions which can be answered only by making a special study of the situation. Should a certain activity be undertaken by the state? Should an institution have a new building? Does a certain department need a new automobile? The budget officer should have sufficient reliable data upon which the governor can base his budget recommendations and the appro-

priations committee can be advised upon such questions. This information would also be very useful to the commissioner of finance in making decisions upon allotments.

If the budget and other departments cooperate fully in providing the necessary information, it may be possible for the commissioner of finance to make full use of his power under the present law without the expense of building up a large separate staff. One of the distinct merits of the Princeton proposal for an integrated department of fiscal control is that the commissioner would have at his command and under his immediate control the personnel performing the budgeting, purchasing, and accounting functions. The people doing this work would also be his research and investigating staff.

The budget law of 1931 was greatly changed by amendments adopted in 1933. The state budget has been made much more comprehensive in its scope. This is the most significant improvement. On the other hand, no change has been made in the organization of the budget department. The budget commissioner is appointed by and serves at the pleasure of the governor. His salary is fixed at \$7,000 a year. The principal function of the budget commissioner is the preparation of the budget in cooperation with the governor. After the legislature has acted upon the governor's budget proposals by passing the appropriation acts, the execution of the budget is in the hands of the commissioner of finance. The latter has no official connection with the budget commissioner. But as both officers are appointees of the governor and may be removed at any time, it is to be expected that the chief executive will require them to work in harmony.

Under the new law the expenditures of the highway department must be made from appropriations annually granted by the legislature and for the first time the highway budget must be submitted regularly for legislative action (Laws of 1933, Chapters 193, 451). The law provides for a separate annual state highway fund appropriation act which grants funds for the use of the highway and motor vehicle departments and the gasoline tax division of the state tax department upon a calendar year basis. The regular appropriation act provides funds for the use of the other spending agencies in the ensuing fiscal year which begins

July 1. The highway fund appropriation act makes appropriations for the current calendar year and is not likely to be passed for three or four months after the beginning of the year. During the interval before the adoption of the highway fund appropriation act, the highway and motor vehicle departments are permitted by the law to expend from the state highway fund the amounts necessary for the maintenance of the state highway system and the administration of the two departments. But no more may be spent for these purposes than was expended in the same period in the preceding year. Furthermore, the state highway commission may not enter into any new contracts for construction until the highway appropriation act has been passed.

The highway budget law requires that certain mandatory dedications shall not appear in the appropriation act. The law specifies the amount that shall be paid annually to the local subdivisions of the state as state aid for roads. Another mandatory dedication is the payment from gasoline tax revenues of the interest and amortization charges upon state bonds. New Jersey now has an authorized state debt of \$182,000,000 but some of the bonds which have been authorized by the voters have not yet been issued. The debt service on all but \$12,000,000 of this debt is now paid from the proceeds of the gasoline tax (Laws of 1933, Chapters 218, 441). This tax is used to pay the interest and amortization charges on \$42,000,000 of debt authorized for unemployment relief, construction of state welfare institutions, and assistance to public schools.

A commendable feature of the highway budget law is that it requires that the appropriations to the highway department shall be made in lump sums only, under five major heads. As the legislature must appropriate a single sum for the construction of state highways, there is a minimum opportunity for log-rolling, because the determination of where the money shall be spent is left to the highway commission subject to the approval of the commissioner of finance.

In submitting the first budget under the new law in January 1934, Governor Moore disregarded the requirement that his recommendations for appropriations from the state highway fund shall be given to the legislature at the same time. Shortly

before the budget was printed the governor ordered the deletion of the section containing the state highway fund budget. The governor later conferred with the appropriations committee concerning the highway budget but the latter was never printed and distributed. In his annual message to the legislature Governor Moore proposed that new construction of state highways should be limited to that which could be financed with federal aid funds. He asked that no more state highway bonds be sold and that the money from motor vehicle licenses and the gasoline tax, which ordinarily would be available for new construction, should be apportioned for a period of three years among the municipalities to be used solely for public school purposes.¹⁰ But the fact that the governor wished to restrict severely state expenditures for new highway construction does not appear to be sufficient justification for failing to submit the highway fund budget in accordance with the law. The last published budget is somewhat improved in form but it is incomplete and misleading as it omits all expenditures of the highway department, the motor vehicle department, and the motor fuels division of the state tax department.

The budget law, as amended in 1933 (Chapters 193, 293, 451) continues unabated the dedication of funds for specified purposes but does take a great step forward in bringing the expenditure of a large part of these funds under budgetary control. But the continuance of such an extensive use of the practice of dedication still complicates budgetary planning, the form of the budget, accounting records, and treasury administration. The evil is aggravated by the danger that the recipients of dedicated funds will exert sufficient pressure to be allowed to spend about the full amount of revenue collected, regardless of whether this will result in the soundest and most economical use of state funds. If the dedicated revenue has been collected and is lying idle in segregated funds, the recipients of such money have a powerful argument with the legislature for larger appropriations. They can claim that since the money belongs to them, they should be allowed to spend it and that their expenditures "do not increase taxes or constitute a drain on the general fund." One

¹⁰ *Annual Message*, January 9, 1934, p. 26.

may venture the opinion that the beneficiaries of dedicated funds will be allowed to spend about the full amount of the revenue collected. If the latter becomes insufficient they will endeavor to have it increased, as the fish and game commission did a short time ago, when it persuaded the legislature to double the charges for fish and game licenses.

In addition to the so-called mandatory dedications for state aid for roads and schools and debt service, there are other state expenditures from dedicated funds which have not been subjected to budgetary control. For example, it has been the practice of the commissioner of motor vehicles to pay his licensing agents throughout the state, about 140 in number, from the money collected from motor vehicle licenses before turning over the proceeds to the state treasury. An attempt was made in the 1933 legislature to require that these agents should be paid from appropriations to the motor vehicle department. The attempt was unsuccessful because two members of the assembly were also motor vehicle agents and it was maintained that they could not continue to hold both positions if the change were made.

The procedure for computing the amount to be set aside annually by the comptroller for the annual contribution by the state to the teachers' pension fund is fixed by law. A fixed proportion of the proceeds of certain insurance taxes is dedicated to the state police pension fund and various local pension funds. The annual appropriation acts do not include the state's contributions to these pension funds.

The budget law of 1931 contained the following provision which gave to the governor for the first time the authority to stop the expenditure of an appropriation :

"In any case wherein it appears to the satisfaction of the Governor that *any expenditure proposed to be made under any appropriation by any spending agency is not in the best interests of the State, as in the case of extravagance, waste or mismanagement, then he shall be and hereby is authorized and empowered to prohibit and enjoin any such expenditure or any future expenditure under said appropriation and to prescribe the terms on which the same shall be made, if at all, by making and signing an order to that effect and serving it on the duly authorized request officer of such spending agency, and also serving a certified copy of such order on the Comptroller*

and the State Purchase Commissioner, whereupon said order shall immediately become operative. . . .”

This section was retained in the 1933 amendment to the budget law with the exception that the words italicized above were omitted. As the law now stands its meaning is not clear and the power of the governor is not as great as might appear. Can he prevent an expenditure when he thinks it would be in the best interests of the state, or only when it is a case of extravagance, waste, or mismanagement? What can he do if the comptroller, who is elected by the legislature, should disregard his executive order? Even as it stood before amendment, this section was inadequate in that it gave the governor no authority to stop most state expenditures. The attorney-general has ruled that the reference to the state purchase commissioner makes the section refer exclusively to the purchase of goods and chattels. The Princeton report urged that this section be strengthened by specifically authorizing the governor to stop any type of expenditure by executive order. As the section was apparently weakened instead, it will be through the quarterly allotment system rather than the budget law that the governor will have the most power over the execution of the budget.

In 1930 the legislature created an accounting and auditing department and made the state comptroller its head (Chapter 269). The law directed the comptroller to improve his accounting system, authorized him to require uniform accounts in all state departments, and required him to prepare monthly accounting reports on an accrual basis showing the condition of the state finances. The Princeton Survey revealed that adequate and uniform accounts were not being kept in certain departments and that there was much unnecessary duplication of accounts, especially in the treasurer's department. The complicated and voluminous monthly reports required by the law were criticized and doubt was expressed as to the need for such frequent formal reports. It was recommended that the classification of accounts and the annual report on the state finances be improved. The act of 1933 relating to accounting (Chapter 294) made no material change in the law except that under it the comptroller now prepares less complicated and lengthy monthly reports. During the

last year the comptroller's department has installed a system of uniform accounts in several of the state institutions and departments. The comptroller's annual report for 1933 shows a marked improvement in clarity and content but it is still unduly complicated as a result of the extensive use of dedicated funds and the lack of a uniform fiscal year for all departments. No change has been made in the classification of accounts as yet but plans are under way for the introduction of a new combined object and functional classification system. Little or nothing has been done to eliminate the needless duplication of accounts in the treasurer's department.

Under the accounting and auditing act of 1930 the comptroller employed a few auditors to post-audit state accounts. Under this arrangement the comptroller was responsible for the auditing of his own accounts. The administrative function of keeping accounts and paying bills was combined with that of checking the accuracy of financial records and both were placed under the control of a constitutional officer elected by the legislature. The Princeton plan proposed to separate these two distinctly different functions by transferring the keeping of accounts and the payment of bills to a department of fiscal control and making the comptroller the state auditor. The latter, as the representative of the legislature, would have no other function than to audit and report upon the financial transactions of all state spending and revenue collecting agencies and would serve as a check upon the administration. It was recommended that at least a dozen competent auditors be employed constantly in this work. Recent revelations by state auditors of shortages in the accounts of certain departments indicate the need for an expansion of the auditing function.

✓ The legislature of 1933 refused to strip the comptroller of his duties and authority with regard to accounts but followed the suggestion of separating the auditing and accounting functions. It created the office of state auditor and made the head of the department of municipal accounts, Mr. Walter Darby, its first incumbent. It also vested all the powers and duties of the commissioner of municipal accounts in the state auditor (Laws of 1933, Chapters 295, 296). Five auditors in the comptroller's

department were transferred to the new auditing department. When the term of the present state auditor expires, the law requires that his successor shall be elected by joint session of the legislature for a term of five years. His salary is fixed in the law at \$7,500 a year, or the same as the commissioner of municipal accounts was receiving before he became responsible for his additional duties as state auditor.

The state auditor is given the authority and the duty of examining all financial records and making independent verification of all assets, liabilities, revenues, and expenditures of the state and of all its accounting agencies. Such examination shall extend also to a complete audit and verification of all moneys handled for the account of the state government by all county and other officials. The state auditor shall report in writing to the governor the findings of any special condition disclosed by his audit of the accounts of the state and of each accounting agency at least once every two years. Such reports shall be made to the governor within 30 days after the conclusion of every audit or investigation. The state auditor has asked that the size of his unduly small auditing staff be enlarged. It is estimated that it would take eight years for the five auditors transferred to him to audit the accounts of all state departments. Under the new arrangement, however, there has been a considerable improvement in state auditing. It has been due largely to the fact that employees formerly engaged exclusively in auditing municipal accounts have been assigned to auditing state departments. Hitherto, a number of departments have employed their own auditors to examine their financial records. This practice is now forbidden by the law, and all state agencies are required to rely entirely upon the state auditor for the performance of this duty except when permission is given in writing by both the governor and the state auditor.

The new auditing law provides that any state officer or employee charged with the custody of state funds whose accounts are found by the state auditor to be inaccurate shall be automatically suspended from having any further connection with such funds until the audit is completed and the findings reported to the governor. Upon receiving the report the latter shall conduct a hearing, after notice, and may take such action as may be neces-

sary, including removal from office, if the officer is found guilty of the charges. However, the law provides that any officer, in respect of whom the right of removal is vested exclusively in the legislature, may be suspended from further duty by the governor only until the legislature takes final action.

The auditing law of 1933 is a distinct improvement but is still unsatisfactory. If the state auditor is given the necessary assistance, marked progress should be made in the critical inspection of state accounts and financial records. The chief criticism of the new arrangement is that it may interfere with the most effective operation of the department of municipal accounts. This department has the duty of supervising the finances of the various local governmental units. It enforces the law regulating local indebtedness, sees to it that local budgets make proper provision for debt service, requires periodic audits of local accounts, and has various other functions with regard to municipal and county finances. The department has been well managed and has performed a very useful service despite many serious defects in the laws governing local finance. There is a danger that his duties as state auditor will divert the attention and energy of this officer from his other exceedingly important function of supervising local finances. This is particularly significant at this time because of the financial crisis in local government in many parts of the state. It is also unfortunate that the head of the municipal accounts department is now more subject to local pressure by being elected by the legislature. He was formerly appointed by the state treasurer. Luckily the present head has been continued in office since the department was first organized several years ago. The head of the department supervising local governments should be appointed by the governor, whereas the state auditor should be selected by the legislature and be the agent of that body.

IV

CONCLUSION

IN THE past the governor of New Jersey has had very little control over state expenditures. New Jersey usually has a Democratic governor and a legislature controlled by the opposite major

CHECKED
2003-04