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THE STATE CONTROLLER AS BUDGET OFFICER 1951-1959

by

LARRY STANLEY STEVENS

B. A. Montana State University, 1961


Presented in partial fulfillment of the requirements for
the degree of

Master of Arts

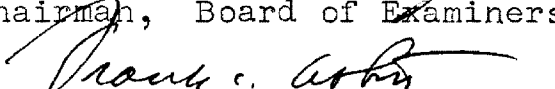
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1963

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INTRODUCTION

The administration of finances of the State of Montana includes many important functions. Among them are formulation of the budget, control of expenditures after the budget is accepted, proper auditing and reporting of finances, purchasing, and investment of funds. The number of elected and appointed officers concerned with this process is many. Numerous agencies are involved. The entire process has been changed, revised, and improved by the legislature over the years.

These functions must be carried out efficiently for they determine the amount of funds that are to be used in the various agencies of state government. The managers of the financial bases of Montana government will not only determine the total funds to be used for various services but the total amount that will be available and how much will be spent for each specific service. It is, therefore, of great importance to Montana that the financial administration be efficient and that the personnel involved be fair and above all reproach.

This thesis is concerned with just a part of the overall financial organization of Montana government--the controller. In this paper the controller's department is analyzed from the period before the Controller Act of 1951 up to the present, with major emphasis placed upon the period from 1951 to 1959.

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CHAPTER I

FINANCIAL ADMINISTRATION

Montana had a unique experience in financial administration from 1951 to 1959 following the enactment of the Controller Law.¹ This law provided for the controller who was the budget officer, purchasing agent, and administrator over the accountant. The state had several problems in financial administration before 1951 which was the main reason for the enactment of the Controller Law. The uniqueness of this was that Montana was the only state of all the 48 states which had a controller serving as the budget-making authority. The controller's budgeting powers were also unique in that they were limited by the 1951 law. He was required to reduce expenditures to conform to the total

The material contained in this first section was obtained from:

¹A. E. Buck, The Budget in Government's of Today, (New York, 1934), pp. 54-55; Clint E. Grimes, Reorganization in the Executive--Administrative Branch of Montana Government, Thesis, Montana State University, 1960, p. 19; Frank Smothers (ed.), Book of the States, (Chicago: Council of State Governments, 1952-53) pp. 166-169; Montana, Griffenhagen And Associates, Report of the Governor's Committee on Reorganization and Economy, Financial Administration Report No. 48, Dec. 12, 1941, pp. 3-24; and Montana Legislative Council, The Organization and Administration of State Government, A Report to the Thirty-Seventh Legislative Assembly, Report No. 3, November 1960, p. 29.

of the revenue with appropriations if the expenditures exceeded total anticipated revenues plus appropriations. The controller was politically independent once appointed by the governor and confirmed by the senate. He served for a long eight year term and could not succeed himself.

Financial administration in a broad sense includes all the processes involved in collecting, budgeting, appropriating, and spending public money. It also includes the accounting for the assets, the liabilities, and the financial transactions of the state government; and in reporting upon income and expenditures, receipts and disbursements, and the condition of funds and appropriations. Financial administration includes these tools: accounting, auditing, budgeting, appropriating, financial reporting, and all methods of expenditure control. There is not one function of the government of the State of Montana which can carry on without funds. Financial administration embraces the problems involved in providing, allotting, and using these public funds.

One study of Montana government, which was suggested as a model plan for state financial administration, included these principles:

- a) A central budget agency to prepare an executive budget.
- b) A central accounting agency to set up a uniform accounting system for the state. This agency should allot

appropriations, settle claims, and make a pre-audit of all state expenditures.

- c) A central purchasing agency should be established.²

Up until 1951 there was actually no provision in the organization structure for any central fiscal agency in the Montana government that would be responsible for active management or administration of all of the financial affairs of the state. Several attempts were made by the Legislative Assembly to make some such provision through such measures as the budget act, the act creating the purchasing department, and the legislation dealing with the fiscal functions of the board of examiners.

It was well known that after the appropriation acts were passed, the various spending agencies were left to handle their own financial matters very much as they pleased. They were able to draw on the appropriations just as if they were bank accounts. However, in theory the board of examiners was the chief financial agency with the normal financial responsibilities involving pre-audit, recording, accounting, budgeting, and approval of claims for payment. This agency did have a small staff which did the work in the pre-audit, recording and approval of

²Clint E. Grimes, Reorganization in the Executive-Administrative Branch of Montana Government, Unpublished M.A. Thesis, Montana State University, 1960, p. 19.

claims. The accountant at that time was under the direction of the board and would furnish the staff services necessary for budget preparation and accounting.

The governmental powers in a democratic system-- executive, legislative, and judicial--are separated. The legislative branch in theory should determine the services that the government must render to the public and just how detailed and extensive each service shall be. The legislative branch also authorizes all expenditures for the government and provides the means for meeting them. The executive branch of the state government is responsible for carrying out the plans and policies of the legislature. Its main job is the administration of laws passed by the legislature. The judicial branch is not ordinarily involved in fiscal matters but is concerned with the interpretation of the laws.

Colonial statesmen had read and believed in the theories of Locke and Montesquieu dealing with the separation of powers. They were receptive to this theory after their experience with autocratic British kings and colonial governors. Consequently, the separation of powers theory was adopted by all of the states in their constitutions.

The governor, as the head of the executive branch, should have the facilities at his disposal to administer the state finances. He is also responsible for carrying

out the policies of the legislature and administering the affairs of the state. It is essential that the governor have a reasonable measure of control over the fiscal agencies which do the detailed work in connection with handling the state's finances.

The legislature must have some power with which it can insure that the administration carries out its policies and plans. It should be in possession of the facts so that a committee can determine where the administration is failing to provide efficient and economical management. This could be done best by providing that the independent post-auditing be accomplished by a qualified officer responsible to the Legislative Assembly. There must be adequate facilities set up through a legislative committee for the analysis, review, and interpretation of the findings and conclusions of the post-auditing officer.

The organization of financial administration in Montana has generally not followed these principles. The board of examiners and elected state fiscal officers shared with the governor the responsibility for financial administrative matters. The accountant and the examiner did the post-auditing. The accountant was under the control of the board of examiners and the governor, and the examiner was responsible directly to the governor. Therefore, the post-auditing which was done was not actual independent

post-auditing. Instead, responsibility for post-auditing was entangled with the responsibility for authorizing the transactions which required an audit.

State Finance Before 1951

There was before 1951 a lack of coordination of the processes of financial administration in Montana government. Effective financial administration was and still is largely dependent upon the coordination of the overall financial processes involved in state government. The system ought to be well developed as it concerns accounting, purchasing, pre-auditing, adequate budgeting, and fiscal reporting. They must be woven together in a unified and integrated system. An officer, with the proper authority, should be in charge of the system and function as the chief fiscal officer of the state. This officer should be thoroughly familiar with the principles and practices of successful office management, budgeting, purchasing, accounting, and auditing. He ought also to have a thorough grasp of the principles of public administration and finance. The financial officer above all should be able to prepare reports on the financial conditions and operations of the government which should convey all the essential financial information to the public so that the average layman would be able to understand them.

The Griffenhagen Report stated that under the statutes the board of examiners, the auditor, and the purchasing

agent have pre-audit functions, but there was no provision for a systematic pre-auditing in the real sense of the term. There was no attempt made except in very minor instances to record obligations at the time incurred. There were no rules and regulations made to govern the conduct of the pre-audit.

The report also stated that Montana had not provided for the most effective kind of fiscal procedure and had not eliminated the duplications in effort and of forms and records. It was essential that all the procedures relating to budgeting, purchasing, pre-auditing, post-auditing, personnel administration, property control, and accounting be integrated. The conflicts and duplications in duties and responsibilities that arose between the various state officers and with the departments charged with financial administration were an effective bar to efficient financial administration operation.

The Griffenhagen Report recommended that the position of director of finance be established in the state government. Under him the controller was to prescribe a unified and integrated system of budgetary, proprietary, and allotment accounts for the state as a whole. The report recommended that the controller should be responsible for keeping the spending agencies informed as to the status of their appropriations and allotments. Under this method it was felt that the information required for budgeting

could be produced when it was required. It was recommended that the controller should also be responsible for the pre-audit of all commitments.

Up until 1951, the board of examiners was the chief financial agency. This board was created by the constitution. Its membership comprised the governor, the attorney general, and the secretary of state. They all served ex-officio with no additional compensation for discharging the duties and responsibilities which devolved upon them by reason of their membership on the board. The board of examiners was charged by law with many administrative functions. These involved budgeting, pre-audit of obligations and disbursements, approval of claims against the state, purchasing, and the establishment of auxiliary controls over the financial affairs of the state by means of rules, regulations, or statements of policy.

In carrying out these duties the board found it necessary to set up under its own jurisdiction an administrative organization. This organization was headed by the clerk to the board of examiners. The work performed by this organization related primarily to the duties other than budgeting. The responsibility for developing the budget proposal had been placed by the board with the state accountant which required that he maintain a set of accounting records.

The accountant's office has been in existence since 1909. The accountant received his appointment from the board of examiners for a term of four years unless removed before that time by action of the board. The accountant, under the direction of the board, furnished the staff services necessary for budget preparation and accounting.

Under the statutes, the board of examiners, the auditor, and the purchasing agent performed pre-audit functions. Nevertheless, there was no provision for systematic pre-auditing in the full sense of the term. The post-audit function was and still is vested in the examiner and the accountant. Both of these agencies spent considerable time in the examination of the fiscal affairs of the other state agencies. The accountant was charged with the post-audit of the state institutions and the examiner was charged with the examination of all state agencies. The apparent duplication was overcome by the simple device of appointing the accountant as the deputy examiner.

The Beginnings of the Controller

Views concerning the financial administration including the introduction and passage of the Controller Law were expressed by important state officials during 1951. The views held by these officials were instrumental in the passage of the Controller Law. Winfield E. Page (R-Missoula) was responsible for introducing this bill. Gov. John W. Bonner, a Democrat, signed the bill into law. The bill

reorganized the financial administration of the State of Montana.

On January 23, 1951, several stories in newspapers around the state reported Page's intention of introducing a bill in the Montana House of Representatives to set up a "State Controller." The controller would be in charge of all state fiscal agencies. Page said the measure would "give the legislature more control over financial affairs of the state after it has made its appropriations and has adjourned."³

The purpose of the bill would be to reorganize Montana's fiscal agencies under the "State Controller" and would do away with deficit spending. The bill would provide for readjustments of the budget after the legislature had adjourned to insure that the state agencies did not exceed legislative appropriations. The controller would be able to advise on the validity of the justification of the demands for the increase in budget requests. "The more careful allocation of funds and central control over spending will ultimately result in saving of millions of dollars to the taxpayer," Page said. He said that his bill was "necessary to reduce the cost of state government and streamline antiquated and outmoded fiscal structures."

³Great Falls Tribune, January 23, 1951, p. 3.

The bill would create the office of controller to "ride herd" on budget requests and expenditures.⁴

The bill also would grant power to the governor to name a controller by April 1 as an interim appointee by and with confirmation of the Montana Senate by 1953. The controller would be paid \$7,000 a year for eight years, and he could not succeed himself. The bill provided that within 30 days after appointment, the controller would receive from each department head except the executive a "complete operating budget" for the fiscal year which began July 1. Budgets would have to be submitted not later than 60 days before the end of each fiscal year annually thereafter.⁵

At the close of each fiscal year, the controller would weigh anticipated expenditures against expected revenue and trim budgets accordingly. The controller would also have the power to examine the books and accounts of the treasurer and secretary of the greater University system of Montana, Montana State Industrial School, Montana State Training School, Vocational School for Girls, School for the Deaf and Blind, state orphans' home, state hospital, soldiers' home, state prison and state fair. The

⁴The Daily Missoulian, January 23, 1951, p. 2.

⁵The Daily Missoulian, January 27, 1951, p. 2.

controller would be required to make a full financial report of the status of each department.⁶

When Representative Page introduced House Bill 137, he wanted to reduce the cost of government and streamline an antiquated conglomeration of fiscal agencies. Under the law itself, the purchasing department, the accountant, and the budget function would all come under control of the controller. The controller was to work for the legislature by re-adjusting the budgets of agencies to fit the appropriations allowed by the legislature and discourage deficiencies. The controller, it was thought, would be able to compile the budget four months before the legislature met. This budget would be in a reviewable form instead of one large lump sum.

Mr. Page felt that:

Frankly, there will be economy in the consolidating of the two agencies under the controller, and with more careful allocation of funds and central control over spending, it will ultimately result in the savings of millions of dollars to the taxpayer.⁷

When House Bill 137 was introduced, Mr. Page received several letters on the bill. One of the more detailed letters received was from R. Lowell Watkins, who was a certified public accountant in Helena, Montana, at the time. Mr. Watkins stated that if House Bill 137 became law, it

⁶Great Falls Tribune, January 27, 1951, p. 5.

⁷Interview with Winfield E. Page, September 27, 1962.

would be possible for a competent controller to save untold sums of money. This would reduce the tax burden of Montana taxpayers as well as expediting the work of the legislature by giving proper information to the Appropriation Committee of the Montana House of Representatives and to the Finance and Claims Committee of the Montana Senate. He stated that during the past biennium the Montana government presented to the state taxpayers the highest tax bills in the state's history. It was stated in the letter that a competent and independent controller and his staff could greatly reduce expenditures through the methods outlined in the bill over a period of time. Mr. Watkins said, "Duplications of work done by different state departments and employees could be eliminated without impairing the essential governmental services that are required."⁸

House Bill 137 placed an enormous responsibility on the controller. If the maximum results were to be obtained it would be absolutely essential that (1) he have top executive ability, (2) he have a thorough knowledge of the principles of governmental accounting, and (3) he be empowered to employ the best accountants,

⁸Letter from R. Lowell Watkins, President of the State Certified Public Accountants, to Winfield E. Page, February 15, 1951.

lawyers and engineers available with an adequate appropriation and without political interference.⁹

When Mr. Page introduced House Bill 137, he had the following four definite objectives in mind for this legislation. They were:

(1) The controller would budget on the present tax structure and could therefore let the legislature know how much money was available to spend.

(2) The controller's office was to help all the members of the legislature, but mainly the House Appropriation Committee and the Senate Finance and Claims Committee, wade through the many budget figures.

(3) The bill would also remove politics from state finances. The controller would be an independent fiscal agent who would have true figures and would be under no political pressure. In this non-partisan position it was felt that the budget would be more objectively prepared.

(4) The budget would be based on the need of each agency or department which would be justified by the controller and the department head.¹⁰

The controller would eliminate the problem of deficiency spending by the departments. The purchasing department and the accounting department would work in

⁹Ibid.

¹⁰Interview with Winfield E. Page, September 27, 1962.

harmony with each other with the controller as the head of the department. The controller would pre-audit the spending to make sure there was money available to cover expenditures. The controller would control state spending through the use of budget figures. The controller could determine by these figures when no money would be spent in excess of the amount of expenditures contained in the operating budget. The controller was to apply expenditures against cash funds before using the general fund appropriations.

Opposition To House Bill 137

Before House Bill 137 passed either the Montana House or Senate, J. T. Wilson and D. N. Wilson, Jr., drew up "A memorandum in opposition to the bill on the ground that it is unconstitutional, and upon the further grounds that it was based on unsound political principles and would cause much duplication and overlapping and would tend to promote discord and friction in the executive branch of state government."¹¹

In the "Memorandum In Opposition To House Bill 137," several points of law were considered.

1. The bill is unconstitutional by express

¹¹J. T. Wilson and D. N. Wilson, Jr., "Memorandum In Opposition To House Bill 137," p. 1. The Wilsons' were employed by the House of Representatives as law clerks to draft legislation for its members. They were from Billings, Montana.

provisions of Article VII and Article III, Section 29 of the Constitution.

2. The bill is not legislation of the sort authorized under the provisions of Article X of the Constitution.
3. The bill does not conform to the general pattern or plan of executive government disclosed by the constitutional ties between the chief executive offices enumerated in Article VII, Section I and the several boards and commissions which are constitutionally based, to wit: Board of Equalization, Board of Education, Board of Land Commissioners, Depository Board, State Examiner, Board of Prison Commissioners, and Board of Examiners.
4. House Bill No. 137, in its present form, is a piece of irresponsible legislation which could not be made effective and might become a serious obstacle to the economical and orderly functioning of the executive department.¹²

Ernest E. Fenton¹³ and Mr. Page wrote an "Answer To Memorandum In Opposition To House Bill 137." On the introductory page, Mr. Page wrote that the effect of the opposing memorandum was to question the constitutional right of the legislature to create any independent office or board. The Wilsons' argument was fallacious in that the government in 1951 had a great number of independent boards and offices created by the legislature. The purchasing agent, the accountant, the highway commission, and the fish and game commission were some of the examples of

¹²Ibid., pp. 7, 8, 9, 11.

¹³Ernest E. Fenton was an attorney for the Montana taxpayers Association. He was loaned by the Association to aid Winfield E. Page draft House Bill 137. He is presently a district judge in Billings, Montana.

independent boards and offices that were offered in argument by Mr. Page. The same constitutional power which enabled the legislature to create the existing boards and offices that are independent also empowers the legislature to create the office of controller.¹⁴

Fenton continued the discussion by stating that the opposing memorandum did not cite any provision of the Montana constitution which prohibits the legislature from creating the office of controller. The power of the Legislative Assembly to enact laws creating offices is expressly recognized by the passage below:

The governor shall nominate, and by and with the consent of the senate, appoint all officers whose offices are established by this constitution or which may be created by law, whose appointment or election is not otherwise provided for.¹⁵

It was significant that the legislature of Montana and its constitutionally granted power to create a great number of independent boards and offices had never before been questioned. There was no constitutional restriction upon the legislature to create the office of controller.¹⁶ Fenton cited the following rule:

¹⁴Ernest E. Fenton and Winfield E. Page, "Answer To Memorandum In Opposition To House Bill No. 137," p. 1.

¹⁵Montana, Constitution, Art. 7, Sec. 7.

¹⁶Ernest E. Fenton and Winfield E. Page, op. cit., pp. 2, 3.

Every sovereign government has within its own jurisdiction the right and power to create whatever public offices it may regard as necessary to its proper functioning and its own internal administration, and to abolish such offices as it may deem superfluous * * *. In the United States, except for such offices as are created by constitution, the creation of public offices is primarily a legislative function insofar as the legislative power in this respect is not restricted by constitutional provisions. It is supreme and the legislature may decide for itself what offices are suitable, necessary or convenient. When in the exigencies of government it is necessary to create and define new duties, the legislative department has discretion to determine whether these duties shall be attached to and become ex-officio duties of existing offices.¹⁷

Mr. Fenton argued that since the constitutional authority was granted to the legislature to create the offices of the purchasing agent and the accountant, it was within its authority to create the office of the controller. The above paragraph specifies that the legislature was within its authority to create the controller. It seems clear in the preceding quoted material that "the legislature may decide for itself what offices are suitable, necessary or convenient."¹⁸

The Passage of House Bill 137

House Bill 137, creating the office of controller, passed the House with 83 representatives in favor of

¹⁷Sec. 31, 42 Am. Jur. 402.

¹⁸Ernest E. Fenton and Winfield E. Page, op. cit., pp. 2, 3.

the legislation and none opposed.¹⁹ On February 26, 1951, it was reported that ". . . Senate committee of the whole approval went to bills . . . providing for a state controller to take over duties of the purchasing agent and much of the budget making and enforcing work of the State Examiners Board, and requiring publication of notice of applications for retail liquor licenses."²⁰ The Senate roll call recorded the vote as 36 senators for the measure, 13 against, 6 absent, and 1 excused.²¹

On March 6, 1951, Governor John W. Bonner signed into law the bill creating the office of controller. Mr. Page stated on this occasion that state spending had increased each biennium to nearly \$43,000,000 in 1951, and the necessity of reducing the cost of state government had long been due. He expressed the hope that with the creation of the controller, more economy would be brought into the workings of state government. The deficiency and supplemental appropriations of the 1951 legislative session

¹⁹Montana, House Journal of the Thirty-Second Legislative Assembly of the State of Montana, January 1, 1951, to March 1, 1951, (Helena, Montana: State Publishing Co., 1951), p. 416.

²⁰Montana Standard, February 16, 1951, p. 3.

²¹Montana, Senate Journal of the Thirty-Second Legislative Assembly of the State of Montana, January 1, 1951, to March 1, 1951, (Helena, Montana: State Publishing Co., 1951), pp. 459-460.

was \$916,509. Mr. Page cited figures which showed how appropriations had increased from \$72,384 in 1941 to \$520,904 in 1949.²²

On March 23, 1951, Governor John W. Bonner appointed A. M. Johnson, veteran first assistant state examiner, as the controller. Johnson, who had been in the state examiner's office since 1926, resigned from his second term as Sanders county clerk and recorder to take the state job. Governor Bonner gave great praise to the new controller for his outstanding record in governmental service. He said that he was doubtful if there was any person in the state who could possibly know more about the functions of the state and the problems confronting it.²³

On May 16, 1951, Governor Bonner felt that Montana was at the crossroads--one of which would lead to progress, prosperity and opportunity for Montanans and the other to nowhere. The governor believed that Montanans were definitely tax conscious. He believed that they could be given the kind of service they wanted and desired without any great increase in the tax burden. This could be done through the elimination of duplicating agencies and department consolidation and streamlining the state government. Governor Bonner believed that progressive

²²The Daily Missoulian, March 6, 1951, p. 1.

²³Ibid., March 23, 1951, p. 2.

steps had been taken in this direction with the creation of the office of controller and the appointment of a committee commonly referred to as the Little Hoover Commission to reorganize the state government and eliminate department duplications. Governor Bonner felt that in no event should expenditures exceed income, and he had reason to believe, through enactment of legislation at the next legislative session, that "Montana need not look to a great burden of taxation."²⁴

House Bill 137 was passed in 1951 to correct the financial problems that had confronted the state government up to that time. Two state officials were instrumental in the introduction and passage of the State Controller Law. They were Winfield E. Page (R-Missoula) and the Democratic governor John W. Bonner. Mr. Page introduced the bill which created the unique financial administration which was directed by the controller. Montana was the only state of the 48 at that time which had a controller serving as the state budget-making authority. The controller was politically independent. He was appointed by the governor for an eight year term which was considered a long term. The controller was also unique in that the law creating the controller limited the controller's budgeting powers. The controller was charged with reducing the amount of

²⁴Montana Standard, May 16, 1951, p. 2.

items of expenditure in each budget to an amount which was no greater than the total of the revenues and appropriations available to pay the same. It was thought that the controller would solve the problems in financial administration that had plagued the state before 1951. Governor Bonner was instrumental in the passage of the Controller Law in that he willingly signed the bill making it state law. The Controller Law was not a political issue in that it was introduced by a Republican legislator and signed into law by a Democratic governor. Only 13 do not pass votes were cast against the State Controller Law in the Montana Senate.

CHAPTER II

CONTROLLER ACT AND ANALYSIS

In 1951 the Legislative Assembly passed the Controller Act. This act removed the power to prepare a budget from the board of examiners and placed that responsibility with the newly created controller, an appointee of the governor with confirmation by the senate. To comprehend the financial reorganization of the state in 1951, it is important to understand the Controller Law in detail. It is also important to understand the Controller Law to be able to ascertain the law's strengths as well as its weaknesses.

The controller's duties, which are discussed in the following paragraphs, were: (1) expenditure control, (2) examining powers and duties, (3) cooperation with the auditor and examiner, (4) budget control, and (5) legislative assistance.¹

Expenditure control was among the important functions of the controller. The controller received annually a complete operating budget for the ensuing fiscal year from the administrative head of every state agency. These estimates were made on standard forms prescribed by the

¹Montana, Revised Codes, Annotated (Choate and Wertz, 1956), c. 1, secs. 82-109, 82-110, 82-111. Hereafter cited as R.C.M.

controller and were based on actual expenditures of previous years. The controller examined the budget; and, if total contemplated expenditures exceeded total anticipated revenues plus appropriations, the controller was required to reduce expenditures to conform to the total of the revenue with appropriations.²

The controller was to examine quarterly the books and accounts of the treasurer and secretary of the following institutions and their branches: Montana State University, Montana State College, Montana School of Mines, Western Montana College of Education, Eastern Montana College of Education, Northern Montana College, Montana State Hospital, Montana State Industrial School, Montana State Training School, State Vocational School for Girls, School for the Deaf and Blind, State Orphans' Home, State Tuberculosis Sanitarium, State Soldiers' Home, and the State Home for the Aged. He prescribed the methods of accounting for receipt and disbursement of all monies that were available to these institutions. After having completed the examination of all monies that had been disbursed, he reported the results of this examination to the board of examiners.³

²R.C.M., c. 1, sec. 82-102.

³R.C.M., c. 1, sec. 82-109.

Acting with the auditor and examiner, the controller was directed to prescribe and install uniform accounting and reporting systems for the general boards, bureaus, departments, commissions, and institutions. This was in addition to the duties that were listed before. The purpose of this system was to show the receipt, use, and disposition of all public funds and property. The controller was also required to submit recommendations for improvements and economies in the organization and operation of these several boards, bureaus, and commissions.⁴

All departments, institutions, and agencies requiring an annual appropriation were required to present their requests to the controller on or before the first day of September of each year preceding a regular session of the legislative assembly. When the controller received these appropriation requests, he would examine them for determination of necessity. The controller's standard of necessity was based upon his studies of the operations, plans, and needs of each department, institution, and agency. Between the first of September and the opening of the legislative session, the controller was to prepare a tentative budget for each department, institution or agency. This tentative budget was based upon: (1) the

⁴R.C.M., c. 1, sec. 82-110.

appropriation request received from the department, and (2) the controller's studies of the operation, plans, and needs of the department. This tentative budget was to be so designed that it provided for the maintenance of essential governmental services. In the construction of the budget, the controller had two gauges, or guides, to follow. They were: (1) the total of the appropriations must be within the total of the anticipated revenues, and (2) particular regard must be given to the last preceding appropriation made by the Legislative Assembly.⁵

The controller was required to set forth separately those proposed expenditures he approved which required a greater appropriation than that granted by the last session of the Legislative Assembly. When the Legislative Assembly convened, the controller submitted to it a revised and final budget which set out, among other requirements, the following: (1) total revenues and expenditures of the state for the preceding biennial period and estimated revenues and expenditures for the succeeding biennial period, and (2) all revenues, expenditures, and balances for the preceding biennial period and the requests for the succeeding biennial period, showing amounts, item by item, and the controller's recommendation of appropriations,

⁵R.C.M., c. 10, sec. 79-1004.1.

together with the fund or funds from which each appropriation was proposed to be made.⁶

The controller was to give legislative assistance. This meant that the controller was required to prepare all reports and information that were requested of him by the Legislative Assembly. He was also required, when so requested, to attend all meetings of the Appropriations Committee of the House and of the Finance and Claims Committee of the Senate. The controller was directed to devote so much of his time as the respective chairmen of those committees required of him.⁷

Contained in the Controller Act was also a provision to create a department to be known as the purchasing department. This department was in charge of a state officer who was known as the purchasing agent. The controller was ex-officio the purchasing agent from April 1, 1951.⁸

The budget system under the controller is an important consideration upon which a determination of the controller's strengths and weaknesses can be made. The first step in the preparation of the budget by the controller was the collection of the estimates of expenditure for the biennium.

⁶Ibid.

⁷R.C.M., c. 1, sec. 82-111.

⁸R.C.M., c. 19, sec. 82-1901.

It was the controller's task to harmonize them with the estimate of revenue furnished by the auditor and the treasurer. In Montana as well as in other states, department estimates invariably exceeded the amount of anticipated income. Under the controller, the estimates greatly exceeded the amount of anticipated income. This wide margin became so out of context that the controller became useless in controlling budget requests by departments.⁹

After estimates of the department's expenditures were collected, some means had to be used to reduce the department requests. The controller had to find a way to bring department requests in line with anticipated state revenue. The simplest way to bring proposed expenditures within the limit of probable revenue as used by the controller was to slice a uniform percentage from all department estimates. This was the "meat ax" approach in bringing budget departmental requests into line with anticipated revenue. This method was used without regard to conditions or needs of any department or agency.

This method produced grossly unfair treatment to the state agencies, as can well be imagined. This method required little time and no highly specialized knowledge

⁹Interview with Eugene C. Tidball, October 3, 1962.

of budgetary procedure or intimate acquaintance with the details of financial administration. Since the controller was lacking in staff, there was no other alternative. This scheme of uniform cuts in departmental requests was a slipshod method of preparing the budget. The only way a budget officer can ever produce a satisfactory budget is to subject each department's estimates of expenditure to an item-by-item scrutiny. This was not done by the controller.¹⁰

The department heads could not measure the needs of their own departments in relation to the needs of other agencies of the Montana government. This was the task primarily of the controller and ultimately for the legislature and the governor.

When the budget was balanced and arranged in a form satisfactory to the controller, it was submitted to the legislature. There it was referred to the appropriate committees of each house. After these committees had finished their work, they reported their findings and recommendations to their respective houses. The Legislative Assembly was free to amend the budget plan according to its desires. It might strike out, increase, or reduce expenditure recommendations made by the controller. The

¹⁰Ibid.

assembly might even add new items. The budget plan was then adopted as appropriations and signed by the governor.

The money appropriated could be in two forms: (1) the lump sum, and (2) in segregated appropriations. The lump sum system was in effect during 1951-1959 when the controller was the financial officer. The quarterly allotment system was incorporated in the original Controller Act, but the provision was deleted before the final passage and approval. An amendment to the 1951 Controller Law was passed in 1953 which provided the controller the use of an allotment system. The lump sum plan was based on the assumption that the heads of departments would allocate their appropriations according to some carefully devised work program. The segregated appropriation plan was dedicated to the belief that department heads cannot be trusted, and that the only way to prevent them from carelessly spending public money was to prescribe in the appropriation act exactly how the funds were to be spent. The lump sum appropriation could be refined in that the funds could have been placed on a quarterly allotment system. This was the system that had been in effect since the 1959 Budget Law was passed. The controller also could have used this system from 1953 to 1959, but did not, however.¹¹

¹¹Ibid.

There was no simple formula for reducing department estimates to meet the total expected revenue brought in by the state. The task was extremely difficult. The controller should have had extensive experience, broad knowledge, and infinite tact to be able to complete the required financial task. Controller A. M. Johnson, who was appointed by Governor Bonner, may have been improperly equipped to assume the responsibilities of the office of controller. A man who held the same position of first assistant state examiner for a period of 25 years may have become very qualified as an examiner, but possibly not actually qualified to handle effectively the demanding responsibilities of this office.¹²

As the Griffenhagen Report noted, continuous budgeting was a prime essential of effective financial management. The controller was not able to do frequent reviewing of revenue estimates, reestimating revenue yields, considering the condition of the treasury, and reviewing expenditures. The legislation did not include machinery necessary for this important control.¹³

¹²The Daily Missoulian, March 23, 1951, p. 2.

¹³Montana, Griffenhagen And Associates, Report of the Governor's Committee on Reorganization and Economy, Financial Administration Report No. 48, December 12, 1941, p. 27.

The members of the Legislative Assembly were handicapped in evaluating the state's financial needs mainly because of a lack of reliable information. The requests by the various state departments were quite higher than the controller's recommendation to the Legislative Assembly. Between 1953 and 1959, the controller's recommendations were frequently disregarded by members of the legislature in granting actual appropriations. The controller's recommendations were often unrealistically low. The controller continually presented a budget that had been essentially compiled from figures showing past appropriations and were not based on need. There was no actual budget analysis done by the controller. This was done by the controller primarily to keep the budget as low as possible, but the ultimate result was a poorly prepared budget. The controller was forced to cut budget requests. These cuts were not a result of analysis to determine the need of each department but were, instead, a percentage slice off all departments' requests to bring the budget into the proper prospective.¹⁴

During the 1949 to 1959 economic period, it is important to consider the rising cost of state government. This period was one of growing inflation. There can be no period of sustained inflation without a demand-pull in the

¹⁴Interview with Eugene C. Tidball, October 3, 1962.

economy. While the controller was the state budgeting officer, there were two exceptionally powerful demand-pulls: (1) the Korean conflict, and (2) the investment boom of 1955-1957. The price level was lifted during this period to new heights and the cost of government rose. The price level was lowered during the 1949-1959 period which effected the cost of government, however, when three different recessions occurred. The demand of consumer goods eased off and a recession followed in 1949, 1954, and 1958.¹⁵

During the time the controller was the state budget official, there was definitely a rising inflationary situation in Montana, as elsewhere. Services, which constitute one-third of the consumer price index, caused the greater part of the recent inflation period in Montana and other states. More than an upward price trend of 1 or $1\frac{1}{2}$ percent per year is thought to be creeping inflation. The price of services rose 47 percent during the period from 1948 to November, 1959. During the same period the commodity component of the consumer price index increased less than 14 percent.¹⁶

¹⁵Alvin H. Hanson, Economic Issues of the 1960s, (New York, 1960), pp. 12-13.

¹⁶Ibid., p. 7.

During the period the controller was budget officer, a severe squeeze was placed upon state finances. With a rapidly growing population, the normal traditional services of state government were hard pressed. This has caused the trend of rising state and local taxes to meet rising cost of government. Generally, the public has been unwilling to pay higher taxes. Therefore, it then became imperative for the state government to hold public expenditures to a bare minimum in order to prevent inflation. This was one reason why the controller was limited by the statutes. The statutes were necessary to keep the cost of government down during a period of inflation. The controller could not anticipate any changes in the tax structure. He was required to keep the budget within the then present tax structure.¹⁷

Another problem of the controller was that various departments were not submitting their detailed budgets to the office of controller by the required deadline, which was 60 days prior to the close of each fiscal year. The budget that was prepared was the complete operating budget for the next succeeding fiscal year. Three state agencies had not complied with the law. The controller did have enough power and authority to force the various departments to prepare their budgets by the required deadline;

¹⁷Ibid., p. 23.

however he did not use this authority.¹⁸ The law is quoted below:

- (c) All officers, employees, and other persons connected with the fiscal affairs of any state office, board, bureau, department, commission, or institution must afford all reasonable facilities for the examination of accounts and investigations provided for in this act, and must make reports, returns and exhibits relating to such fiscal matters to the controller in such form as he shall prescribe; and the controller shall have and keep in his office the names of and amount of salary paid to each person regularly employed by the State of Montana and every agency thereof.
- (d) If any officer or employee of the state or any agency thereof shall refuse or neglect to comply with subdivision (c) of this section, the salary of such officer or employee shall, on request of the controller to the proper official, be withheld until such recreant officer or employee shall comply therewith and the controller certifies approval to the disbursing officer.¹⁹

There was no definition of the areas of proper authority as between the board of examiners, controller, and the legislature. This caused overlapping and duplication of jobs and some considerable confusion as to who had the actual authority in certain areas. A typical example was the conflict between the examiner and the controller as to areas of proper authority. The examiner had become the

¹⁸Montana, The Commission on Reorganization of State Government of the State of Montana, Minutes, September 13, 1951, Collected Papers, Montana State and Territory (Montana State University Library), Microfilm. Hereafter cited as Minutes.

¹⁹R.C.M., c. 1, sec. 82-110.

principal post auditing officer of the state, since he annually audited the financial affairs of all state agencies. There was a duplicate assignment by statute of the function of examining certain state institutions by both the examiner and the accountant. The accountant was a member of the controller's office by the 1951 Act. However, an arrangement had been developed whereby the accountant was a deputy examiner serving without pay, with the examiner accepting the accountant's reports on these institutions as his own.²⁰

There was a need for the modernization of the state's accounting systems. Controller Johnson said:

There was great need for more frequent and more thorough audits of the respective Institutions and the University system. The Controller doesn't have the appropriation necessary to give a complete picture of custodial institution operation.²¹

The controller did not know just how many more men his department could have used to make the proper audit of state institutions, but he suggested that three would have probably been sufficient. From 1951 to 1959 one auditor was required to cover 17 institutions every three months, which was virtually impossible. The controller had

²⁰Minutes, September 13, 1951.

²¹Ibid.

the proper legal authority to appoint additional members to his staff, but the legislature failed to grant the required funds that were needed.²²

The controller may appoint a chief assistant and may employ such other persons as assistants, clerks and stenographers as may be necessary to carry out the duties of said office, and may fix their compensation; provided, however, that the total expenses of the controller's office shall not exceed in the aggregate during any fiscal year the amount appropriated for said office by the legislative assembly for such fiscal year.²³

The auditors in the controller's office checked for fraud, for more efficient expenditure of money, and to correct misspending of appropriations. The auditors reconciled institutional operations with the budget and developed greater uniformity in reporting procedures.²⁴

There was some questions as to the division of auditing authority between the examiner and the controller. The same officer was doing both pre-audits and post-audits. Controller Johnson said, "The Controller only sees that the money is available. He pre-audits only those claims passing through his office." The controller's office made and calculated estimates of revenue. Controller Johnson said, "The use of the data gathered was somewhat uncertain because all departments did not report monthly

²²Ibid.

²³R.C.M., c. 1, sec. 82-108.

²⁴Minutes, September 13, 1951.

revenues." This statement directly describes how inefficient the biennium budget figures were prepared for each department. The function of the controller as it was envisaged was that of continued examination of the state institutions as concerned with the financial matters of the state.²⁵

There seemed to be considerable overlapping of duties to be performed by the controller and the examiner. The Montana constitution specifies that the examiner shall examine the custodial agencies.²⁶ The Controller Law on the other hand also set forth that the controller shall examine the institutions and university units.²⁷ The controller actually did the work although this statutory conflict was present.

The respective roles of the auditor, treasurer and controller in accounting were confusing. The auditor had three main functions. They were: (1) drawing, recording, and accounting for all warrants issued in payment of claims, (2) auditing all claims, and (3) keeping an accounting with the treasurer relating to

²⁵Ibid.

²⁶Montana, Constitution, Art. 7, sec. 8.

²⁷R.C.M., c. 1, sec. 82-102.

all state money held, received or disbursed by the treasurer.²⁸

The treasurer's primary functions were receipt, custody, and disbursement of the state's moneys. The treasurer was also the custodian of the investments in bonds, warrants, and negotiable paper belonging to the state or its agencies. An exception to this were those investments held by the industrial accident board and the teachers' retirement board.²⁹

The auditor served as an internal check on the treasurer's accounts. The treasurer kept a record of expenditures from the warrants issued and presented for payment. The treasurer and the auditor reconciled their cash balances at the end of the month. The controller encumbered the respective funds when an obligation was incurred, whereas, the treasurer and auditor records only showed payment of claims. The controller maintained a classified revenue record which was the basis for the next year's appropriation. The controller was interested in the availability of the funds, whereas, the treasurer, examiner, and auditor performed post-auditing functions.

²⁸Minutes, October 17, 1951.

²⁹Ibid.

The examiner examined the accounts of the auditor and the treasurer.³⁰

These three state agencies--controller, auditor, and treasurer--were primarily responsible for controlling and accounting for the expenditure and receipt of state monies. All of these three officers were required to process the expenditure and receipt of public funds.

The controller was not responsible to the governor even though the governor appointed the controller. It was possible for a new governor to inherit the previous administration's controller. The desirability of transferring the responsibility for budget preparation to the chief executive was often discussed from 1951 until 1959. Dr. Sly elaborated this point:

It was pointed out that the power of the budget making has, through enactment of the Comptroller Law (sic), been removed from the hands of the executive and placed in the hands of an official who is strictly neither legislative or executive. Dr. Sly's comment was that it is better to adhere to the constitutional divisions of power, as between the executive and legislative and judicial. He said that departures from long established forms are certain to lead to eventual trouble. He said in the long run, the state will be better off with an executive budget prepared by the governor

Dr. Sly said that it is a mistake to let subordinate officers determine fiscal policy . . .

³⁰Ibid.

officers, such as the comptroller (sic) who are outside the traditional framework of government, do not have the responsibility to the people upon which the determination of fiscal policy must rest.³¹

A primary rule of administration, especially financial administration, is that authority must be commensurate with responsibility. Responsibility and performance are both weakened when responsibility does not have sufficient power and authority to accomplish the job. This was true to some extent as applied to the controller's office. There was conflict of interests and duplication of functions between the examiner and the controller.

The controller was the state budget officer from 1951 to 1959. During this time more people were becoming concerned that the independent controller was not really responsible to anyone including the governor. It was evident that the state budget officer not only had to be appointed by the governor but also had to be in the executive department directly under the authority of the governor. This would make the state budget officer responsible directly to the governor and indirectly responsible to the people.

In December 1958, the Montana Legislative Council recommended to the 36th Legislative Assembly a change in the budget system of the state. The council recommended that responsibility be vested in the governor for the

³¹Minutes, April 14, 1952.

preparation of the budget as well as the recommendations of any revenue measures needed to balance the budget. The council also recommended a program establishing a legislative review of the budget. The proposed law would establish an executive budget in Montana which would divest the controller of all budget-making responsibility.³² Thus, the reorganization of the financial administration of the State of Montana was begun.

³²Montana Legislative Council, General Report to the Thirty-Sixth Legislative Assembly, General Report No. 1, December 1958, p. 4.

CHAPTER III
QUESTIONNAIRE

A questionnaire was used to ascertain the opinions of the legislators who attended the 1957 and 1961 Legislative Assembly concerning: (1) the controller and his degree of effectiveness, (2) the director of the budget and his degree of effectiveness, and (3) to determine a basis of comparison between the two systems.

It was determined that the best way to develop a basis of comparison between the two systems would be to use the double post card. Through the use of this double post card, it was hoped that the rate of return would be higher since the receiver would only have to check his reply to the three questions asked and sign his name. The reply portion of the card had the original sender's address printed on it. The double post card also had the postage paid by the inquirer so there would be no postage expense incurred by the legislators unless they also wanted to send a letter with their reply.

The questionnaire was sent to each legislator who attended the 1957 and 1961 legislative sessions in either the Montana House of Representatives or the Montana Senate. The year 1957 was chosen simply because it was thought by that year the controller would be operating under all the

authority provided to him and his office by the law, and he would have been able to implement his office to its highest degree of effectiveness. The year 1961 was chosen since the director of the budget was put into law in the 1959 session and a two year period was needed to allow the office to develop and operate effectively.

The questionnaires returned from the senators and representatives who attended the 1957 legislative session totaled 71. The questionnaire replies from the senators and representatives who attended the 1961 legislative session totaled 75. Over 300 questionnaires were sent out. Of these, 146 replies were received, a 48 percent return.

Since both the controller's budget and the director of the budget's recommendations for a budget were sent to the legislature, it was felt that the members of the House Appropriations Committee and the Senate Finance and Claims Committee would have a better perspective than the general legislature of how the two systems worked.

QUESTION ASKED OF THE COMMITTEE MEMBERS

1) Which of the following responses most accurately indicates the degree to which the figures contained in the State Controller's budget for the 1957-59 biennium were useful to the 1957 Legislative Assembly in passing appropriations bills?

TABLE I

Legislative Committee	No. of Replies	Very Useful	Moderately Useful	No Opinion	Of Limited Value	Useless
Senate 1957	78%	0%	15%	15%	71%	0%
Senate 1961	81%	0%	11%	11%	56%	22%
House 1957	78%	7%	29%	0%	43%	21%
House 1961	41%	0%	14%	43%	29%	14%

QUESTION ASKED OF THE COMMITTEE MEMBERS

2) Which of the following responses most accurately indicates the degree to which the figures contained in the State Budget Director's budget for the 1961-1963 biennium were useful to the 1961 Legislative Assembly in passing appropriations bills?

TABLE II

Legislative Committee	No. of Replies	Very Useful	Moderately Useful	No Opinion	Of Limited Value	Useless
Senate 1957	78%	43%	43%	14%	0%	0%
Senate 1961	81%	44%	44%	0%	11%	0%
House 1957	78%	29%	29%	0%	36%	7%
House 1961	41%	57%	29%	0%	14%	0%

QUESTION ASKED OF THE COMMITTEE MEMBERS

3) Please check the response below which most nearly indicates your feelings about the following statement: The present system of state budgeting adopted through the Budget Act of 1959 creating the State Budget Director is more effective than the system in use from 1951-1959 employing the State Controller in the preparation of the budget.

TABLE III

Legislative Committee	No. of Replies	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
Senate 1957	78%	71%	14%	14%	0%	0%
Senate 1961	81%	78%	11%	11%	0%	0%
House 1957	78%	43%	36%	7%	7%	7%
House 1961	41%	57%	29%	14%	0%	0%

The replies to the questionnaire by the members of the House Appropriations Committee and the Senate Finance and Claims Committee were presented in Table I, Table II, and Table III. These tables show that the legislators favored the budget director's budget over the controller's budgets.

In Table I the legislative committee members responded more in the areas of limited value and useless in their replies to the question: "Which . . . responses most accurately indicates the degree to which the figures contained in the State Controller's budget for the 1957-59 biennium were useful to the 1957 Legislative Assembly in passing appropriations bills?" The committee members felt that the controller's budget was of limited value or useless in aiding the financial committees of the house and senate in passing appropriation bills.

In Table II very useful and moderately useful were the replies made by the majority of the committee members to the question: "Which . . . responses most accurately indicates

the degree to which figures contained in the State Budget Director's budget for the 1961-1963 biennium were useful to the 1961 Legislative Assembly in passing appropriations bills?" The committee members replied that the figures prepared by the director of the budget were very helpful to the appropriation committees of the house and senate.

In Table III the committee members' replies show that the present system of state budgeting adopted through the Budget Act of 1959, which created the budget director, is more effective than the system used from 1951-1959 employing the state controller in the preparation of the budget. An average of 84 percent of the committee members agreed that the state budget director is more effective than the controller. Only 16 percent of the committee members replied that they disagreed or had no opinion.

Shown below in Tables I thru III is the exact number of replies made by the members of the 1957 and 1961 Montana Senate and House of Representatives with the percentages for each answer to the questionnaire shown in the appropriate column.

QUESTION ASKED OF THE LEGISLATORS

1) Which of the following responses most accurately indicates the degree to which the figures contained in the State Controller's budget for the 1957-59 biennium were useful to the 1957 Legislative Assembly in passing appropriations bills?

TABLE IV

Legislative Branch	No. of Replies	Very Useful	Moderately Useful	No Opinion	Of Limited Value	Useless
Senate 1957	26	8%	23%	8%	58%	4%
Senate 1961	31	0%	23%	26%	45%	6%
House 1957	45	16%	33%	7%	36%	9%
House 1961	44	5%	11%	55%	20%	9%

QUESTION ASKED OF THE LEGISLATORS

2) Which of the following responses most accurately indicates the degree to which the figures contained in the State Budget Director's budget for the 1961-1963 biennium were useful to the 1961 Legislative Assembly in passing appropriations bills?

TABLE V

Legislative Branch	No. of Replies	Very Useful	Moderately Useful	No Opinion	Of Limited Value	Useless
Senate 1957	26	38%	35%	23%	0%	4%
Senate 1961	31	35%	42%	10%	10%	3%
House 1957	45	31%	36%	16%	9%	9%
House 1961	44	50%	30%	2%	14%	5%

QUESTION ASKED OF THE LEGISLATORS

3) Please check the response below which most nearly indicates your feelings about the following statement: The present system of state budgeting adopted through the Budget Act of 1959 creating the State Budget Director is more effective than the system in use from 1951-1959 employing the State Controller in the preparation of the budget.

TABLE VI

Legislative Branch	No. of Replies	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
Senate 1957	26	65%	27%	8%	0%	0%
Senate 1961	31	48%	39%	13%	0%	0%
House 1957	45	33%	36%	20%	7%	4%
House 1961	44	52%	30%	14%	5%	0%

Table IV, Table V, and Table VI report the complete results of opinions from members of the 1957 and 1961 legislative sessions which were obtained through the use of the questionnaire. For the analysis of these tables, the answers received on question number one of the questionnaire is shown in Table IV. The question asked the legislators which response most accurately indicates the degree to which the figures contained in the controller's budget for the 1957-1959 biennium were useful to the 1957 Legislative Assembly in passing appropriations bills. Most of the legislators felt that the figures contained in the controller's budget were of limited value or useless to the 1957 Legislative Assembly in passing appropriations bills. An average of the replies made by members of each session showed that 40 percent of the legislators felt that the controller's budget figures were of limited value and 7 percent felt they were useless.

Question number two of the questionnaire asked the legislators which response most accurately indicates the degree to which the figures contained in the budget director's budget for the 1961-1963 biennium were useful to the 1961 Legislative Assembly in passing appropriations bills. As is shown in Table V, most of the legislators felt that the figures contained in the budget director's budget for the 1961-1963 biennium were very useful or moderately useful to the 1961 Legislative Assembly in passing appropriations bills. An average of replies made by the members of each session shows that 39 percent of the legislators felt that the figures contained in the budget director's budget for the 1961-1963 biennium were very useful to the 1961 Legislative Assembly in passing appropriations bills. Thirty-six percent felt that the budget director's budget figures were moderately useful.

Question number three of the questionnaire asked the legislators their opinion as to how they felt about the following statement: "The present system of state budgeting adopted through the Budget Act of 1959 creating the State Budget Director is more effective than the system in use from 1951-1959 employing the State Controller in the preparation of the budget." As shown in Table VI, most of the legislators agreed with the statement that the budget director was more effective than the system in use from 1951-1959 employing the controller. An average of the

replies made by members of each session showed that 83 percent of the legislators agreed that the present system of state budgeting adopted through the Budget Act of 1959 is more effective than the system in use from 1951-1959 employing the controller.

The figures and percentages show conclusively that of the replies received the legislators of the 1957 and 1961 Legislative Assemblies believed that the present system of budgeting adopted through the Budget Act of 1959 creating the budget director was more effective than the system in use from 1951-1959 employing the controller in the preparation of the budget. They felt that the figures contained in the controller's budget for the 1957-1959 biennium were of limited value or useless to the 1957 Legislative Assembly in passing appropriations bills. They also felt that the figures contained in the budget director's budget for the 1961-1963 biennium were very useful or moderately useful to the 1961 Legislative Assembly in passing appropriations bills.

Chapter IV

THE 1958 REORGANIZATION PHASE

In 1959 the Montana Legislative Council proposed the transfer of the budget making powers to the executive from the office of controller. The legislature enacted this recommendation into law. The governor, as head of the executive branch, is responsible for carrying out the policies of the legislature. He administers the affairs of Montana. He must have the facilities to administer the finances of the state. It is essential that the governor have a reasonable measure of control over state fiscal agencies. In theory the executive is the governmental branch which prepares the budget.

The legislative council began in June 1958 to study the Controller Law with the primary purpose of making a revision to eliminate the budget making function of that office. The council knew that the idea of an executive budget in Montana was not a new one. In 1933 a constitutional amendment was proposed to enact the executive budget plan. It did not pass. The council also noted with interest the 1941 Griffenhagen Study on the financial administration of Montana in which Griffenhagen and Associates strongly recommended the adoption of an executive budget.¹

¹Montana Legislative Council, General Report To The Thirty-Sixth Legislative Assembly, General Report No. 1, December 1958, p. 6.

In this study the need for continuous budgeting and allotment of appropriations was noted. This was stressed in this paragraph:

Continuous budgeting is a prime essential of effective financial management. Continuous budgeting involves frequent reviewing of revenue estimates and realizations, re-estimating revenue yields, considering the condition of the treasury, and reviewing expenditures. Upon the basis of such reviews, the spending program of the state should be retarded or accelerated as the condition and estimated future condition of the treasury may warrant. Obviously it is neither good policy nor good management to continue on a spending program involving capital outlays or extraordinary expenditures, when it is clear that the state is headed for, or has already incurred, a cash deficit.

Assuming that the budget was balanced on a sound basis as of the beginning of the fiscal period, it should be possible for the administration to control expenditures to the extent necessary to bring the total within the available resources. Neither the Legislative Assembly nor the administration can control revenues so as to provide any given amount of cash at any time. Only through periodic review of the progress of collections, adjustments of the revenue estimates on the basis of the latest available data, and the authorization of future condition of the treasury, can cash deficits be avoided.²

Eugene C. Tidball, the executive director of the Montana Legislative Council, wrote to Winfield E. Page asking for information concerning the Controller Law. Mr. Page replied that the primary objectives of the Controller Law were (1) to help eliminate the increasing amount of deficit spending in state government, (2) to cut out

²Montana, Griffenhagen And Associates, Report of the Governor's Committee on Economy and Efficiency, Financial Administration Report No. 48, December 12, 1941, p. 27.

duplication which existed in the various boards, bureaus and offices, and (3) to coordinate in one office the responsibility of seeing that these various offices stayed within their budgets. In combining the accountant and the purchasing agent under the controller, it was thought that deficit spending would be reduced. This would be accomplished because all requisitions for purchases would first have to be cleared by the accountant as to sufficiency of funds before purchases could be made. Regarding the independence of the controller, Page's letter stated:

It was also pointed out that the State Controller's office, being independently created by the Legislature and after appointment by the Governor and confirmation by the Senate, is responsible to no one. It was the intention of the author and of the many advisors he consulted, that it is vitally important to have the Controller's office independent so that the Legislature can put complete confidence in the figures submitted to them being free of any political influence. This thought was adopted from the Comptroller General of the U. S. Congress and he cannot succeed himself. It was the intention that the Controller was to be primarily helpful to the Legislature but can also be helpful to all other phases of State government.³

Mr. Tidball, after receiving the reply from Mr. Page, prepared a memorandum which included references to Mr. Page's letter. It was stated in this memorandum that "apparently the whole area of budgeting was accidentally included in the controller law." Mr. Tidball determined that the primary objective of the group who worked for the

³Letter written by Winfield E. Page to Eugene C. Tidball on January 14, 1958, p. 2.

passage of the Controller Law was to combine the accounts and control function with the purchasing department. This was to attain efficiency and to avoid duplication. It appeared to the executive director that the budget making function of the state was left in the controller's office simply because it had been a function of the accountant, whose office was placed under the controller by the 1951 Law. The idea of the controller being free from any political influence, as stated in Mr. Page's letter, was taken from the Comptroller General of the United States, who is appointed for 15 years and cannot succeed himself. Mr. Tidball felt that this was an incorrect example as he expressed below:

However, one important fact was apparently overlooked or disregarded: The Comptroller General of the United States is not responsible for budget preparation. Mr. Page also points out 'That the State Controller's Office, being independently created by the legislature and after appointment by the governor and confirmation by the senate, is responsible to no one.' Whether or not this degree of independence is desirable is questionable. Mr. Page does not specifically defend the assignment of 'budget making' to the State Controller's Office.⁴

The executive director made several suggested changes in the Controller Law in his report. He felt that if the changes and the deletions were made, the controller would be able to still continue to function effectively as the

⁴Eugene C. Tidball, "General Background of Controller Law and Necessary Revision to Eliminate the Budget Making Function from that Office," June 10, 1958, p. 2.

administrator of (1) purchasing and (2) accounts and controls. It was stated by the executive director that "probably 95% of the work in that office (the controller's office) is presently devoted to those two areas."⁵

The December 1958 General Report No. 1

In 1958 the Montana Legislative Council recommended to the legislature that the responsibility for the preparation of the budget be vested in the governor. The responsibility for recommending any revenue measures which would be needed to balance the budget would also be vested in the governor. A program establishing a legislative review of the budget was also recommended.⁶

In 1958 it became apparent that the members of the legislature were not satisfied with budget requests. They were handicapped in evaluating the state's financial needs mainly because of a lack of reliable budget information. It was felt by the council that the legislature had lost much of its practical control over state expenditures. They believed this was due to ineffective or antiquated budgetary practices.⁷

The budget was useless. It was during 1958 that the legislative council realized that (1) the budget had to be

⁵Montana Legislative Council, op. cit., p. 5.

⁶Ibid., p. 4.

⁷Ibid.

political and (2) the budget was not of any use to the legislature because the figures were so out of context. The legislative council could recommend to the legislature that a complete reorganization was needed.⁸

An alternative to this procedure by the council would be (1) to increase the staff of the controller to improve budget features or (2) to remove the budgeting function since it was not working properly and set it up in a new office and show new responsibility. The purpose of the second phase would be to make the budget function an important purpose of one single agency. The council felt that the inadequate budget preparation had left the Legislative Assembly and its various finance committees the problem of analyzing the budget during brief hearings. This was done with little pre-session analysis. It was the general conclusion of the council that the direct result of this was that legislators had the task of evaluating the financial needs of Montana from many and various sources.⁹

⁸Interview with Eugene C. Tidball, October 3, 1962.

⁹Ibid.

The fiscal picture for the state is presented below.

TABLE VII¹⁰

Fiscal Year	Departmental Requests	Controller's Recommendation	Actual Appropriations
1953-1954	\$26,247,201.38	\$19,452,775.00	\$19,727,935.47
1954-1955	\$24,501,447.37	\$19,752,976.50	\$20,214,521.45
1955-1956	\$32,140,216.55	\$20,572,041.20	\$24,349,973.35
1956-1957	\$28,803,538.54	\$20,544,406.42	\$23,906,405.60
1957-1958	\$40,169,484.59	\$24,215,528.52	\$32,576,161.00
1958-1959	\$41,599,233.74	\$24,567,655.69	\$31,608,141.00

As may be noted by these figures, the requests by the various state agencies have been much higher than the controller's recommendations to the Legislative Assembly. However, a comparison of appropriations recommended by the controller for the 1953-1955 biennium shows that in total the legislature deviated from such recommendations less than two percent. The controller's recommendation for all agencies which received general fund allowances during this biennium came to \$39,205,751.50. The legislature allowed \$39,942,456.92 for the same purposes, which was an increase of \$736,705.42.¹¹

Between 1955 and 1959, however, the controller's recommendations were frequently disregarded by members of the legislature in granting actual appropriations since the controller's recommendations were often unrealistically low. The controller had presented a budget

¹⁰Montana Legislative Council, op. cit., p. 4.

¹¹Interview with Eugene C. Tidball, October 3, 1962.

essentially based on compiled figures showing past appropriations, requests by departments, and his recommendations. As may be noted from the figures presented, the controller's recommendation for the 1955-1956 fiscal year was similar to the actual appropriations figure for the 1953-1954 period. The 1956-1957 recommendation was similar to the actual appropriations figure for the 1954-1955 fiscal year. The 1957-1958 recommendation by the controller was similar to the actual appropriations figure of the 1955-1956 fiscal year, etc. These figures show that the controller's budgets were based on the previous two years actual appropriations. Therefore, it may be concluded the controller actually did no budget analysis. The basic problem was the actual law itself, which limited the controller's recommendation to the legislature.¹² The law as it was written stated:

It shall be the duty of the controller to examine said budgets, and in the event the total of the proposed expenditures set forth in any thereof shall exceed the total of the revenues and appropriations available to meet such expenditures in said year, then the state controller shall reduce the amount of the items of expenditure in each such budget to an amount no greater than the total of the revenues and appropriations available to pay the same.¹³

The controller was required by law to budget within the state's tax structure. The law required the controller

¹²Ibid.

¹³R.C.M., c.1, sec. 82-109.

to prepare a budget "within the limits of the anticipated revenue of the state." This has been interpreted as "within the present tax structure of the state." This section of the 1951 Law does not allow an anticipation of increased revenue by an adjusted tax program. This law further did not permit an evaluation of departmental requests based upon the need of each department. The proposed budget by the controller was restricted to anticipated revenue under the existing tax structure. Thus quite often cuts were made by the controller in budget requests which were not a result of analysis to determine need, but merely to satisfy the legal requirement. Cutting budget requests arbitrarily, which was the method used by the controller from 1951 to 1959, is referred to as the "meat ax" approach.¹⁴

As of December 1958, there were 42 states that made use of the executive budget in which the budget-making authority was vested in the governor. Montana was at that time the only state which had vested the budget-making authority in a controller. While the controller was appointed by the governor, he was not responsible to the governor. He could not be removed by the governor. The controller served for an eight year term with the provision that he could not succeed himself. The change to the executive

¹⁴Montana Legislative Council, op. cit., p. 4.

budgeting system was recommended by the council mainly for two primary reasons: (1) to vest budget responsibility in an official responsible to the people and (2) to insure better technical budget preparation.¹⁵

The budget-making authority should be a responsibility of the governor simply because budgets are statements of intention and aim in government. The voter may approve or disapprove the governor's policy when he votes at the polls. Unless the governor can exercise his leadership over the apportionment of the state's finances among the executive departments, he cannot be the leader of these departments. The council advocated that budget-making should be separate from the other administrative financial activities of government. Budget-making is policy-making. Accounting and purchasing are entirely different functions and relate to the maintenance of records and control systems. These two functions are necessary for proper administration by the executive department.¹⁶

The executive council recommended that a law be passed which would establish an executive budget in Montana that would divest the controller of all budget-making responsibility. The council assumed that this would not result in an upset of administrative practices since it was felt

¹⁵Ibid., p. 5.

¹⁶Ibid.

the controller devoted little of his time to budget preparation. It was believed that the controller would continue to be responsible for accounts and controls and purchasing. The controller's personnel spent 95 percent of their time in these two areas. This change could occur without displacement of personnel or equipment simply because the budget preparation function could be easily disjoined from the office of controller.¹⁷

The legislative council believed that the cost of an executive budget program would be increased \$7,500 a year as compared to the cost of the controller as the state budget officer. However, the council believed that this expenditure would be more than absorbed by the economy that would result from the improved and thorough budget analysis that would be made by the executive department.¹⁸

Adoption of the 1959 Budget Act

On January 5, 1959, Paul Cannon, lieutenant governor, called the senate of the Thirty-Sixth Legislative Assembly to order. On the third legislative day, Senate Bill 1 was introduced as "An act to make the Governor the chief budget officer of the state. . . ." The bill was introduced by William R. Mackay, Hugh C. Cumming, A. S. Hagenston, Bertha E. Streeter, Richard Nixon, Robert A. Durkee,

¹⁷Ibid., p. 6.

¹⁸Ibid.

Walter G. Sagunsky, Webster Keller, Kenneth Cole, David F. James, and William A. Groff. The bill was referred to the committee on state boards, offices, and buildings.¹⁹

On January 19th, upon motion by Senator Nixon, Senate Bill 1 was referred to the committee on finance and claims. This committee recommended 10 days later that Senate Bill 1 pass after several minor revisions were made in the wording of the bill. Committee of the whole approval went to Senate Bill 1 on February 2, 1959. After the bill had been correctly engrossed, the bill was read for the third time. Senate Bill 1 was passed after this reading by the following roll call vote: 44 ayes, 6 noes, 2 absent and not voting and 4 excused.²⁰ Senate Bill 1 was then sent to the house for concurrency by Alfred R. Anderson, secretary of state.²¹

The house committee on appropriations recommended that Senate Bill 1 be concurred in by the house. While the house was in the committee of the whole, it was decided by the representatives that Senate Bill 1 be amended in

¹⁹Montana, Senate Journal of the Thirty-Sixth Legislative Assembly of the State of Montana, (Helena, Montana: State Publishing Co., 1959), p. 10.

²⁰Ibid., pp. 181-182.

²¹Montana, House Journal of the Thirty-Sixth Legislative Assembly of the State of Montana, (Helena, Montana: State Publishing Co., 1959), p. 286.

the title by deleting the figures "79-1007."²² This section of the Montana law dealt with the right of state officers to appear before either the house or the senate during considerations of budget matters. State agency officers could therefore appear and be heard with respect to any budget bill during the time the bill was being considered and to answer any inquiries made that were relevant to the bill.²³ The house concurred in Senate Bill 1 by the following vote on February 28, 1959; 57 ayes, 16 noes, 13 absent and not voting and 6 excused.²⁴

Senate Bill 1 was then returned to the senate for concurrence in the house amendments. Upon the motion of Senator David F. James, duly seconded and carried, the senate resolved itself into a committee of the whole for consideration of business on general file. One of the bills considered was Senate Bill 1. The house amendments to Senate Bill 1, which were read three times, were concurred in by the following roll call vote: 33 ayes, 1 no, 16 absent and not voting and 6 excused.²⁵ On March 5, 1959,

²²Ibid., p. 674.

²³R.C.M., c. 10, sec. 79-1007.

²⁴Montana, House Journal of the Thirty-Sixth Legislative Assembly of the State of Montana, (Helena, Montana: State Publishing Co., 1959), pp. 703-704.

²⁵Montana, Senate Journal of the Thirty-Sixth Legislative Assembly of the State of Montana, (Helena, Montana: State Publishing Co., 1959), p. 530.

Paul Cannon, president of the senate, signed in open session Senate Bill 1. On that same day, John J. MacDonald, house speaker, signed the same bill.

The 1959 Legislative Assembly passed the legislation proposed by the legislative council and Governor J. Hugo Aronson approved the bill. The law provided that the governor would be the chief budget officer of the state. A director of the budget would be appointed by the governor and would serve at his pleasure. The law contained a provision that all state agencies would submit estimates of their expenditure requirements together with income estimates to the director of the budget on or before the 15th day of September in the year preceding the convening of the Legislative Assembly. If this information is not received by the budget director on the specified date, the director may enter a budget for the non-cooperating department. The budget then is based upon his studies of the operations, plans, and needs of the specific department as determined by the director. The budget director is required to submit to the governor his estimates of all revenues and the estimates of the amounts required for appropriations for each department of the state after he has examined the departmental requests. The law also provided that the director of the budget has the authority to make inquiries and investigations as to any item included in the reports of expenditures or budget estimates

reported by the various departments. Every governmental department head has the duty of furnishing adequate information to the director of the budget. There was an additional legal provision which required the director of the budget to appear at any session of the legislature's appropriations or finance and claims committees if requested to do so.²⁶

The governor prepares a budget document for the ensuing biennium which is presented to the legislature based upon the preliminary budget from the director of the budget. This document contains a budget message by the governor outlining the financial policy of the state. There is also a statement showing the financial condition of the government. Presented in the budget are detailed budget estimates, both the expenditures and revenues of each department, institution, and agency of the state. The amount of money needed for the continuation of the work of each department is estimated and listed by the governor. The budget also contains, if so requested by the governor-elect, such estimates, comments, and recommendations as the governor-elect may wish to make. It is his duty in recommending changes to show a balance between proposed expenditures and anticipated revenue.

²⁶R.C.M., c. 1, secs. 82-106, 82-107, 82-109, 82-110, 82-112.

The budget document has complete drafts of the appropriation bills. It also contains if necessary the complete drafts of bills to provide new sources of revenue that would be necessary to balance and to finance the budget.²⁷

The passage of the 1959 Budget Act was an important legislative step which was necessary to place the budget-making function in the executive. The budget director is the budget officer of the governor. Thus the budget function was placed in the realm of politics. The controller, who was placed in the executive department, retained all of his appointed authority except the function of budget preparation.

²⁷Ibid.

CHAPTER V
CONCLUSION

At the present time there are four basic steps in the fiscal administration of Montana's government. They are (1) budgeting, (2) appropriating, (3) spending, and (4) auditing. This is the same fiscal administration technique which is found in practically every other state.¹

A prime essential of effective financial management is a continuous budgeting system by the executive branch. An independent nonpolitical budget authority has not been effective in Montana as was the experience with the state controller from 1951 to 1959. Continuous budgeting by the executive branch involves frequent reviewing of revenue estimates and expenditures. The condition of the treasury must also be considered. The spending program of the state may be accelerated or retarded; however, it must be based upon such reviews that show the condition and estimated future condition of the treasury. Obviously, it is not good financial administration to continue on a spending program involving capital outlays or extraordinary expenditures, when it is clear that the state is approaching or

¹Montana Legislative Council, The Organization and Administration of State Government, A Report To The Thirty-Seventh Legislative Assembly, Report No. 3, November 1960, p. 29.

already has a cash deficit. Continuous budgeting is most effective through the use of the allotment system. Through the use of such a system appropriations do not become available for expenditure by the department or agency until they are allotted to the spending department or agency. The use of the allotment system was legally provided for in both House Bill 137 and in the 1959 Budget Law. The lump sum appropriation system was used in practice by the controller. Since 1959 the controller must receive authorization from the governor to require a quarterly allotment system of expenditure for any office, department, bureau, commission, institution or agency.²

Administration and finance are an important part of state government and are inseparable. The control of finance represents in a large measure the control of administration. In the nineteenth century, legislative control of the spending process was exclusive. It was hardly effective however. Departments and agencies made up their appropriation requests without consulting each other. The appropriation committees of the legislatures did consider each request of the agencies but with little regard for any relationship between requests. Beginning in 1911 the states began to adopt systematic budget laws. By 1926 every American state had passed budget legislation.

²R.C.M., c. 1, sec. 82-109.

As the Council of State Governments Report stated:

One of the most significant institutional device of modern government is the budget. It offers an opportunity for the consideration of all programs and policies in one consistent frame where they may be compared, their interrelationships examined, and rational choices made. In addition to its role as a policy coordinator, the budget is also emerging as an important device for administrative control. The processes of program analysis and forecast of needs offer an opportunity for the budgetmaking authority to learn the inner details of organization and procedure of all administrative agencies and to establish performance standards. Within the past thirty years the budget has emerged as the principal control device of the American governor.³

The orthodox doctrine of budget preparation was the established practice of the executive budget for over half of the twentieth century. The department and agencies engaged in state government suggested expenditures. These proposals of expenditures must be brought into a single pattern and the only authority properly situated for this task was the chief executive or someone appointed by him.

This belief has been expressed at many meetings and conventions that have been held during this past half century. The consensus at a recent conference of representatives of some 20 state reorganization commissions was summarized as stated below:

In general it was felt that reorganization movements should result in strengthening the office of the governor; reducing the independent agencies and administrative boards and commissions and grouping them into major departments; extending the

³The Council of State Governments, Reorganizing State Government, 1950, p. 35.

gubernatorial power of appointment and removal of department heads; and strengthening executive controls over budgeting, accounting, purchasing, state property, etc. At the same time, it was pointed out, it is of the utmost necessity to revise legislative procedures in the direction of greater efficiency, and to provide the legislature with more effective reporting and auditing controls-- in order that the executive may be held to proper accountability.⁴

In more than 40 states the responsibility for the preparation of the budget is vested in the governor or in a staff subject to his authority. In many states the budget officer is in the immediate office of the governor. There is a growing number of instances whereby the budget director is placed in a department of finance or department of administration. Under the executive budget the governor is responsible for preparing the budget and presenting it to the legislature. In eight states--Delaware, Florida, Georgia, Idaho, Mississippi, Texas, Utah, and West Virginia--the governor sits at the head of an administrative board composed of several principal state officers which presents the budget. A joint legislative-executive committee prepares the budget in North Dakota and South Carolina. In Arkansas the budget is a legislative function.⁵

⁴"Summary of Conference on State Government Reorganization," Shoreland Hotel, Chicago, Illinois, September 29-30, 1949, (Mimeographed, Council of State Governments, 1949), p. 9.

⁵Frank Smothers (ed.), Book of the States, (Chicago: Council of State Governments, 1962) pp. 162-165.

In a majority of the states the governor is in a position to make good use of the budget in declaring policy. Seventeen states make use of a budget director such as is now used in Montana. An increasingly popular arrangement, now found in 24 states, places the budget function in a department of finance or of administration.⁶

Many states such as Montana in the past years have tended to underrate the importance of good budget review. They have had small staffs, often swamped with work in the critical two or three months before budget estimates were due. Such was the case in Montana before and during the state's use of the controller as the budget preparing officer of the state. More personnel could have been hired had the legislature appropriated more funds. This would have accomplished the budget preparation in classic form.

When the controller's office was established late in 1951, the appropriation also came late in the session. The legislature failed to provide the controller with enough funds to hire three accountants to analyze the budget to ascertain the usage of funds and in a fashion according to need. As was shown in an earlier chapter, the controller's office soon began to present a budget that was essentially based on compiled figures showing past appropriations. The controller's budgets were based on the previous two

⁶Ibid.

years actual appropriations. Thus there was no actual budget analysis. This procedure had two inherent dangers. They were: (1) the renewal of certain items in the expenditures for the coming year might be extravagant because they are unnecessary and (2) the loss of efficiency might occur by the failure to include new items for new services to meet changed conditions.⁷

Students of government generally agree that the governor should be vested with complete responsibility for the preparation of the budget. The people look to him for leadership. The governor's leadership in shaping the state's fiscal policy is especially important. In some states including Montana there was a trend before 1951 to place a board in charge of the budget. This was a result of the nineteenth century fear of gubernatorial authority that had not quite disappeared. The theory of checks and balances enters the picture here for if the governor has complete control over the budget he may use his power to suggest expenditures that are inimical to the common welfare. A weak-willed legislature may enact his proposals into law. Therefore, the only safe plan, according to those people who accept this theory, was to associate other officers with the governor at the time the state's fiscal plan was formed. This was done with the thought

⁷Charles W. Collins, The National Budget System And American Finance, (New York, 1917) p. 41.

that unwise suggestions would be detected and cast aside. Thus Montana developed the board of examiners as the state's budget preparing body.

This was the line of thought before the controller's office was proposed and established by law in 1951. State finance before 1951 lacked coordination of the processes of financial administration. The system needed better development concerning accounting, purchasing, pre-auditing, adequate budgeting, and fiscal reporting. The board of examiners was the financial power and authority of the state. Under this system the responsibility for development of the budget proposal was placed by the board with the state accountant. However, the budget function was the ultimate responsibility of the board of examiners but was compiled by the accountant.⁸

In 1951 the legislature passed and the governor signed the Controller Law. This law provided Montana with the unique experience in that Montana was the only state of the 48 which had a controller serving as the budget authority. The controller was the budget officer, purchasing agent, and administrator over the accountant. The controller was also unique in that he was politically independent once appointed by the governor and confirmed by the senate.

⁸Montana, Griffenhagen And Associates, Report of the Governor's Committee on Reorganization And Economy; Financial Administration Report No. 48, Dec. 12, 1941, pp. 3-24.

Up until the enactment of the Controller Law the state actually had no agency which was responsible for the active management of the financial affairs of the state. Many attempts were made by the Legislative Assembly to establish an agency for active management of financial affairs including such measures as the budget act, the act creating the purchasing department, and the legislation dealing with the fiscal functions of the board of examiners.

In 1951 expenditure control was among the important functions assigned to the controller. Additional duties were: (1) examining powers, (2) cooperation with the auditor and examiner, (3) budget control, and (4) legislative assistance. However, it soon became apparent that the controller did not have the necessary personnel to complete the assigned duties properly of which budget control was the most important. The controller began to rely upon past budgets. The controller lost his influence in actually preparing an accurate budget for the legislature. The controller accepted budget requests from the various departments and governmental agencies. These budget requests went to the Legislative Assembly without a recommendation. The controller actually just tabulated the requests and the available revenue of the state.

In 1959 it was deemed necessary to improve the system by making the budget more of an executive budget so the office of the director of the budget was created. The law

made the director responsible to the governor which was a great improvement over the nonpartisan and nonresponsible position that the controller held. The legislature realized that the budget official not only had to be appointed by the governor but also had to be in the executive department directly under the authority of the governor. The director of the budget would serve at the pleasure of the governor. Through this the governor obtained a budget officer who was able to make frequent reviews of revenue estimates, revenue yields, condition of the treasury, and expenditures. The budget became based upon the directors continuous studies of the operations, plans, and needs of each specific department as determined by the director. This continuous budgeting was and will continue to be a prime essential of effective financial management. A much more realistic budget has been prepared for the state since the controller was the budget officer.

When comparing the controller with the budget director, it is important to also consider the questionnaire replies by the members of the Legislative Assemblies of 1957 and 1961. The total replies to the questionnaire were 48 percent. Most of the questionnaire replies were returned from cities in Montana, but several were returned from out of the state. One was returned from as far away as Buenos Aires, Argentina. These replies indicated that the legislators of the 1957

and 1961 Legislative Assemblies believed that the present system of state budgeting adopted through the Budget Act of 1959 creating the budget director was more effective than the system in use from 1951-1959 employing the controller in the preparation of the budget. There was no distinct difference in the feelings on this matter between the two parties.

The director of the budget's recommendations to the 1961 Legislative Assembly were followed closely by the legislature. The director of the budget's recommendation was \$70,929,694. The actual appropriation was \$70,330,833. This was probably one of the main reasons why the members of the legislature felt that the present system of state budgeting adopted through the Budget Act of 1959 creating the budget director was more effective than the system in use from 1951-1959 employing the controller in the preparation of the budget.⁹

Careful students of government have come to the conclusion that the proper way to prevent abuses of the lump sum method of appropriation was to provide effective supervision and control of all state administrative activities by the governor. Therefore, they argued the adoption of a scheme that has now become generally known as the allotment system which has been adopted by Montana. This system

⁹Interview with Eugene C. Tidball, December 13, 1962.

is merely the lump sum appropriations system with the addition of direct control by the governor. In Montana the fiscal year can be divided into four quarters. A work program is then submitted by the department as to what is to be done during each quarter, and this becomes the basis of the allotments to the department. This was never used by the controller from 1953 to 1959. The controller is the present officer in charge of using the allotment system when authorized by the governor.

Appropriations are made by the legislature on a lump sum basis, usually for two years. The heads of departments may receive their funds in quarterly allotments according to their scheduled needs. The allotment method is preferable to the original lump sum method because it places squarely on the governor the responsibility for preventing the abuses that are likely to accompany unsupervised lump sum appropriations.

In other states as well as Montana there has been in general a trend to concentrate responsibility for budget formulation and execution in the chief executive. The Legislature and ultimately the people are able to hold the governor and his administration accountable for every tax dollar spent.

In recent years there have been some distinct trends in fiscal reorganization:

1. The budget function has been generally placed

in the office of the chief executive or governor. In some cases there has been an integrated department of finance or administration such as Montana has where a budget director is an appointee of the governor.

2. Accounting procedures and pre-audit duties have tended to become an administrative responsibility under the chief executive. This is true in Montana. The pre-auditing in the state is done at present by the controller's office which is responsible to the governor.
3. Post-audit review of expenditures has been made a legislative responsibility. This must be accomplished by an auditor responsible to the legislature and completely independent of the governor. This has been applied in Montana.
4. The duties of the budget office have included: review of estimates, formulating and recommending a budget to the governor. The director of the budget also supervises the budget execution. This has been the approved form in Montana.
5. Quarterly allotments under executive control were suggested for proper expenditure supervision. In Montana this applies to the controller who can recommend the use of an allotment system but

he has to have the governor's permission.¹⁰

The controller's office staff spent probably only 5 percent of their time preparing the budget for the state legislature. This time was not adequate to prepare a budget that would aid the Legislative Assembly in budget preparation and in granting the actual appropriations.¹¹

The trend toward vesting responsibility for budget formation and execution in the hands of the governor has been developing in the last quarter century throughout the United States. The desirability of a well-staffed central budget office with a director of the budget as its head is now firmly established in practically every state. In Montana as in the rest of the states, this provides the governor a means for translating suggested policies into a consistent financial frame. This also provides the governor a means for reviewing and controlling the expenditures of operating agencies. It was an important step that the 1959 Legislative Assembly took when the budget function was removed from the controller's office and was made a separate agency headed by the director of the

¹⁰Reorganizing State Government, A Report on Administrative Management in the States and a Review of Recent Trends in Reorganization, The Council of State Government, Chicago, Illinois, 1950, pp. 110-111.

¹¹Montana Legislative Council, General Report to the Thirty-Sixth Legislative Assembly, General Report No. 1, December 1958, p. 6.

budget who was appointed by and responsible to the governor. This improvement allowed an agency to devote its full time to preparation of the budget. Its sole aim and purpose was to aid the governor in budget preparation and to present a well prepared budget to the Legislative Assemblies.

Proposed Changes In Controller's Office

Executive reorganization plans in the state administration were proposed by the Montana Legislative Council in 1962. The proposed bill was titled "The Department of Administration Act." The 1963 Senate passed the bill, but the House eliminated the budget provision. The act creating the Department of Administration was signed by Governor Tim Babcock and became effective July 1, 1963. "The Department of Administration Act" contained duties and powers in the areas of accounting, purchasing, planning and construction of state buildings, records management, maintenance and custody of capitol buildings, and general services. The primary purpose of the act was to create a more coordinated, responsible, efficient and economical administrative organization. This was accomplished by centralizing and consolidating the general administrative and fiscal functions of state government into one department--The Department of Administration.¹²

¹²Montana Legislative Council, Executive Reorganization, A Report to the Thirty-Eight Legislative Assembly, Report No. 7, November, 1962, pp. 47-54.

The purpose of the law is to make the controller the chief executive officer of the department. The department consists of four divisions: (1) accounting, (2) purchasing, (3) architecture and engineering, and (4) general services.

Governor Tim Babcock believed that the current budget system of the director of the budget was an efficient and effective system. He therefore resisted the change that the original Senate Bill 10 proposed which would transfer the budgeting function from the director of the budget to the controller. The governor endorsed the present system and refused to revert to the somewhat similar system which was in effect under the controller from 1951 to 1959. The House deleted the budget function from "The Department of Administration Act" and the governor signed the revised act into law.¹³

Thus the controller assumed the duties of accounting and purchasing which had been granted to him by the legislature and the governor. The budget director continued to be the budget officer of the state. The legislature improved the system of budgeting greatly with the passage of the Budget Act of 1959. A more effective budget has been prepared for the legislature than was prepared in the past. The budget director has become a very important part of the budget system of Montana in this changing world of public administration.

¹³Interview with Eugene C. Tidball, May 24, 1963

With the passage of the 1959 Budget Act, Montana joined with more than 40 other states in placing the responsibility for budget preparation in the governor or in a staff subject to his authority. The budget for Montana has become a decisive and more accurate tool for the governor and the legislature to use to determine an estimate of expected income and expenses for each biennium. With the enactment of the 1959 Budget Act, two primary beneficial factors have resulted: (1) budget responsibility has been placed in an official responsible to the people and (2) better technical budget preparation has been accomplished. Since 1959 a more realistic budget has been prepared by the director of the budget than was prepared under the controller. The budget director has greatly improved the preparation of the budget in the State of Montana.

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- Montana Standard
- The Daily Missoulian
- The Spokesman Review

OTHER SOURCES

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- Fenton, E. E. and Page, Winfield E. "Answer To Memorandum In Opposition To House Bill No. 137."
- Interview with Dr. Vernon O. Sletten, October 5, 1962.
- Interview with Eugene C. Tidball, October 3, 1962.
- Interview with Eugene C. Tidball, December 13, 1962.
- Interview with Eugene C. Tidball, May 24, 1963.
- Interview with Winfield E. Page, September 27, 1962.
- Letter from R. Lowell Watkins, president of the Montana Taxpayer's Association, to Winfield E. Page, February 15, 1951.
- Letter written by Winfield E. Page to Eugene C. Tidball on January 14, 1958.
- Letter written to The Commission On Reorganization of State Government of the State of Montana by John R. Marchi, January 3, 1953.
- "Senate Roll Call," February 26, 1951.
- Tidball, Eugene C. "General Background of Controller Law and Necessary Revision to Eliminate the Budget Making Function from that Office," June 10, 1958.
- Wilson, J. T. and Wilson Jr., D. N. "Memorandum In Opposition To House Bill 137."

APPENDIX

QUESTIONNAIRE USED TO ASCERTAIN OPINIONS OF THE LEGISLATORS

Oct. 19, 1962

Dear Legislator:

I am a student at Montana State University where I am currently working towards my Master's Degree in Political Science. I am working on my thesis on the office of the State Controller. If you would answer the following questionnaire it would greatly help me on this project. Please return this questionnaire to the sender. Your name will not be mentioned in the final analysis however the return card must be signed. Thank you for your cooperation.

Sincerely yours,

Larry Stevens

LARRY STEVENS

2825 FIFTH AVENUE NORTH

GREAT FALLS, MONTANA

THE OPPOSITE SIDE OF THE QUESTIONNAIRE IS SHOWN BELOW

LARRY STEVENS
2825 FIFTH AVE. NORTH
GREAT FALLS, MONTANA

QUESTIONNAIRE FORM

1. WHICH OF THE FOLLOWING RESPONSES MOST ACCURATELY INDICATES THE DEGREE TO WHICH THE FIGURES CONTAINED IN THE STATE CONTROLLER'S BUDGET FOR THE 1957-59 BIENNIUM WERE USEFUL TO THE 1957 LEGISLATIVE ASSEMBLY IN PASSING APPROPRIATION BILLS?
 VERY USEFUL MODERATELY USEFUL NO OPINION OF LIMITED VALUE USELESS
2. WHICH OF THE FOLLOWING RESPONSES MOST ACCURATELY INDICATES THE DEGREE TO WHICH THE FIGURES CONTAINED IN THE STATE BUDGET DIRECTOR'S BUDGET FOR THE 1961-1963 BIENNIUM WERE USEFUL TO THE 1961 LEGISLATIVE ASSEMBLY IN PASSING APPROPRIATIONS BILLS?
 VERY USEFUL MODERATELY USEFUL NO OPINION OF LIMITED VALUE USELESS
3. PLEASE CHECK THE RESPONSES BELOW WHICH MOST NEARLY INDICATES YOUR FEELINGS ABOUT THE FOLLOWING STATEMENT: THE PRESENT SYSTEM OF STATE BUDGETING ADOPTED THROUGH THE BUDGET ACT OF 1959 CREATING THE STATE BUDGET DIRECTOR IS MORE EFFECTIVE THAN THE SYSTEM IN USE FROM 1951-1959 EMPLOYING THE STATE CONTROLLER IN THE PREPARATION OF THE BUDGET.
 STRONGLY AGREE AGREE NO OPINION DISAGREE STRONGLY DISAGREE

SIGNATURE