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## BIENNIAL REPORT

OF THE

## Treasurer of State of Iowa

FOR THE

BIENNIAL PERIOD ENDING JUNE 30, 1899

JOHN HERRIOTT

TREASURER OF THE STATE OF IOWA

DES MOINES  
F. R. CONAWAY, STATE PRINTER  
1899

# NAMES AND TERMS OF SERVICE OF THE TREASURERS OF IOWA FROM 1840 TO JULY 1, 1899.

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MORGAN RENO, Johnson County, Territorial Treasurer.....	1840 to 1847
MORGAN RENO, Johnson County, State Treasurer .....	1847 to 1851
ISRAEL KISTER, Davis County .....	1851 to 1853
MARTIN L. MORRIS, Polk County.....	1853 to 1859
JOHN W. JONES, Hardin County.....	1859 to 1863
WM. H. HOLMES, Jones County.....	1863 to 1867
SAMUEL E. RANKIN, Washington County.....	1867 to 1873
WM. CHRISTY, Clarke County.....	1873 to 1877
GEO. W. BEMIS, Buchanan County.....	1877 to 1881
E. H. CONGER, Dallas County.....	1881 to 1885
V. P. TWOMBLY, Van Buren County.....	1885 to 1891
BYRON A. BEESON, Marshall County.....	1891 to 1895
JOHN HERRIOTT, Guthrie County.....	1895 to —*

\*Term expires January, 1901.

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## FINANCIAL REPORT.

STATE OF IOWA.  
TREASURY DEPARTMENT,  
DES MOINES.

To Governor L. M. Shaw:

I have the honor to make this, my third Biennial Report of the transactions of the Treasury Department of the State of Iowa for the biennial period beginning July 1, 1897, and ending June 30, 1899. The nature and amount of the work of the various divisions of the Department are exhibited in detail in the tabulated statements.

In the period just closed the work of the Treasury Department has greatly increased, not only in volume but in the diversity of the duties and responsibilities. The statute imposing a tax on collateral inheritances in this State was variously amended by the Twenty-seventh General Assembly and the duties of the Treasurer of State, with respect to the collection of the tax, were increased many fold. The Department was thereby brought into direct relations with all the Clerks of Court of the ninety-nine counties of the State, with all the County Attorneys, and with other officers of our District Courts. The greatest increase in the departmental work, however, took place upon the change effected in the administration of the affairs of our numerous State institutions by the law creating the Board of Control. By that act the local treasurers of the fourteen charitable, penal and reformatory institutions were relieved of their duties and their work of receiving, handling, and disbursing the moneys appropriated for the institutions transferred to this Department. The Treasurer of State now handles all their funds and pays all their bills, be they only a few cents in amount or up in the thousands of dollars. When the fact is considered that the expenditures for such institutions aggregate much more than half the State's budget, the increase in the responsibilities of the Treasury will be appreciated to some extent. With truth it



may be said that since my first report as Treasurer of State in 1895, the increase in the operations of the Treasury has been such that it is no longer a cashier's office merely, but it is a Treasury Department comprising several distinct divisions of work.

## SUMMARY OF TRANSACTIONS.

The condition of the Treasury at the beginning and at the end of the biennial period and the nature and volume of the transactions in all divisions are briefly summarized as follows:

## GENERAL REVENUE.

Treasury cash balance July 1, 1897.....	\$ 36,672.96
Warrants outstanding July 1, 1897.....	447,500.73
Treasury deficit July 1, 1897.....	410,827.77
Revenue receipts, July 1, 1897, to June 30, 1899—	
County taxes.....	\$ 4,055,737.75
Corporation taxes.....	375,596.57
State officers' fees.....	204,064.89
Oil inspections.....	18,334.35
Collateral inheritance tax.....	52,799.52
U. S. government.....	192,828.62
State institutions.....	133,503.95
Miscellaneous.....	46,507.64
Revenue disbursements July 1, 1897, to June 30, 1899....	\$ 5,079,403.29
	4,671,073.88
Warrants issued for appropriations July 1, 1897, to June 30, 1899—	
Civil list—	
Judiciary.....	\$ 342,839.36
Legislature.....	120,516.50
Executive.....	184,718.67
State institutions—	
Educational.....	327,862.57
Charitable.....	1,933,200.38
Penal.....	396,140.09
Reformatory.....	167,061.93
Miscellaneous.....	252,139.91
Incidental expenses.....	475,515.52
Warrants outstanding June 30, 1899.....	\$ 4,199,994.93
Treasury cash balance June 30, 1899.....	30,708.35
	445,002.37

## STATE UNIVERSITY SPECIAL TAX.

Cash balance in Treasury July 1, 1897.....	\$ 11,083.72
Collections July 1, 1897, to June 30, 1899.....	111,494.47
Disbursements.....	72,400.00
Cash balance in Treasury June 30, 1899.....	50,178.19

## IOWA STATE COLLEGE FUNDS.

## Endowment Fund.

Cash balance July 1, 1897.....	\$ 5,322.87
Mortgage fund bonds on deposit July 1, 1897.....	509,583.63
Additions to endowment fund July 1, 1897, to June 30, 1899.....	\$ 514,906.50
Endowment fund cash June 30, 1899.....	67,695.39
Mortgage bonds on deposit June 30, 1899.....	88,621.96
	482,838.57
	\$ 571,480.53

## Merrill Endowment.

Receipts from U. S. Government July 1, 1897, to June 30, 1899.....	\$ 47,000.00
Disbursements.....	47,000.00

## Interest Fund.

Cash balance July 1, 1897.....	943.48
Collections July 1, 1897, to June 30, 1899.....	75,775.10
Disbursements July 1, 1897, to June 30, 1899.....	63,639.36
Cash balance June 30, 1899.....	13,079.22

## INSTITUTIONS UNDER BOARD OF CONTROL.

Receipts of revenue from institutions July 1, 1898, to June 30, 1899.....	124,828.95
Warrants issued to Treasurer of State therefor, July 1, 1898, to June 30, 1899.....	1,124,308.71
Disbursements by treasurer of state therefor, July 1, 1898, to June 30, 1899.....	1,124,308.71
Net cost of said institutions for year ending June 30, 1899.....	999,479.76

## THE PROSPEROUS CONDITION OF THE TREASURY.

The condition of the Treasury at the close of the period is highly satisfactory compared with its condition two years ago. July 1, 1897, the Treasury was embarrassed to the extent of \$410,827.77, and July 1, 1899, the State of Iowa had a cash balance in its Treasury of \$445,002.37. This amount does not include the \$51,000 still due from the National Government on account of expenditures in equipping Iowa's regiments for the Spanish-American war. If the latter were included, Iowa's Treasury balance July 1, 1899, was the largest that the State has had at the close of a biennial fiscal period in the past quarter of a century.

This large balance has been much more than enough to enable the Treasury to meet all demands during the present period of small receipts of revenue from the counties. With the October collections, the Treasury will have such a large cash balance by the time the Legislature next convenes as to justify a considerable reduction in the State tax levy next year. In fact, it will be demanded, as none of the State institutions, with possibly one or two exceptions, are in need of increased appropriations.

## DECREASE OF EXPENSES AND INCREASE OF REVENUE.

Such a favorable state of affairs has been brought about as a result of measures instituted by the Twenty-sixth and Twenty-seventh General Assemblies. Many economies were enforced by the former at its special session in 1897, numerous expenditures being reduced or cut off entirely. The latter assembly cut down appropriations materially and created the



Board of Control for State institutions, which has applied economical and uniform business methods that have resulted in considerable savings to the State. Besides these economies, the last Legislature authorized increased taxes in order to abolish the then existing Treasury deficit as soon as possible.

The revenue receipts increased from \$4,101,379.84 for 1895-97 to \$5,079,403.29 for 1897-99, an increase of \$978,023.45, while the amount of warrants issued against the Treasury to meet appropriations fell off from \$4,731,591.33 for 1895-97 to \$4,199,994.93 for 1897-99, a decrease of \$535,269.40 in appropriations. The falling off in State expenditures was even more, since we may exclude the disbursements on account of the late war (\$141,532.43). Taking this item out, the expenditures of the State of Iowa decreased \$676,801.83, a decrease of 14 per cent this last biennium, compared with those for 1895-1897.

I desire here to direct your attention to matters of chief interest concerning each division, and to offer such recommendations respecting changes in existing laws as seem to me to be needed. I shall deal with them in the following order: First, the division relating to "General Revenue" and the late "Treasury Deficit;" second, the "Collateral Inheritance Tax and Its Collection;" third, the "State Institutions under the Board of Control;" fourth, the "Endowment and Interest Funds of the Iowa State College of Agriculture and Mechanic Arts" at Ames; fifth, the "Special University Tax," and sixth, "Changes in Methods of Conducting Business."

## DIVISION—GENERAL REVENUE.

### I. RECEIPTS OF REVENUE.

Between July 1, 1897, and June 30, 1899, the receipts of general revenue at the Treasury from all sources amounted to \$5,079,403.29, which, with the cash balances on hand at the beginning of \$36,672.96, made the total revenue available for appropriations during the period \$5,116,076.25. This sum does not include the collections of the special levy for the State University at Iowa City, hereafter dealt with.

The receipts of revenue are conveniently classified under six general heads: (1) County taxes, (2) corporation taxes, (3) fees of State officers, (4) collateral inheritance taxes, (5) State institution receipts, and (6) miscellaneous taxes and receipts.

The total receipts from the county levies of all kinds during the last period were \$4,055,767.75, an increase of 13.1 per cent over the collections for 1895-97. From corporations, viz., insurance, telephone, express and telegraph companies, were received \$375,596.57, an increase of 30.6 per cent over the receipts from such companies for the period preceding. A very decided increase took place in the receipts of fees from State officers, in consequence of measures enacted by the last two general assemblies. For the last period, the fees paid into the Treasury amounted to \$222,399.24, an increase of \$100,649.87 over the receipts for 1895-97, amounting to 82.6 per cent. From the United States Government was received \$192,828.62, and from the State institutions in refunds and earnings \$133,503.95. From miscellaneous sources was received \$99,307.16.

For purposes of comparison, the following table showing the receipts of the treasury for the past five biennial periods is given:

REVENUE RECEIPTS JULY 1, 1889 TO JUNE 30, 1899.

FISCAL PERIODS.	State levy.	Total county levies.	Insurance tax.	Telegraph and telephone tax.	Fees.	Miscellaneous.	Total taxes.
1889-91.....	\$ 2,536,791	\$ 3,120,287	\$ 174,610	\$ 39,680	\$ 78,760	\$ 76,178	\$ 3,508,822
1891-93.....	2,177,792	2,829,087	224,308	40,404	95,746	490,248	3,679,790
1893-95.....	2,303,403	3,014,631	241,123	39,984	101,155	122,042	3,519,517
1895-97.....	2,787,709	3,587,540	246,565	41,026	121,749	130,590	4,127,480
1897-99.....	3,245,713	4,055,767	304,468	58,948	222,399	437,819	5,079,403

#### 1. COUNTY TAXES.

##### (a) State Levy.

The receipts of revenue from the regular "State levy" imposed upon the property of citizens within the counties by the Executive Council amounted, during the last biennial period, to \$3,245,713.85, as against \$2,787,709.66 for the period 1895-97, an increase of 16.3 per cent. The State levy for the



past period was obtained from three different mill levies. From July 1, 1897, to December 30, 1897, the State tax paid into the Treasury was at the rate of 2.7 mills. The rate during 1898 was 2.8 mills, and the rate during the first six months of 1899 was at the rate of 3.2 mills. (See tables 2-101.)

These increases in the mill levies were made by the Executive Council, partly because of a falling off in the assessed valuation of the taxable property of the State reported by the county auditors, and partly because the Legislature increased the amount to be raised. Thus the Twenty-sixth General Assembly ordered raised \$1,400,000 in 1897 and the same sum in 1898, and the Twenty-seventh General Assembly directed that the Council make a levy so as to raise \$1,600,000 in 1899 and \$1,500,000 in 1900. The rate of levy for this year is 2.9 mills, or 3 mills including the University tax—three-tenths of a mill less than last year. This rate of tax for State purposes is upon a one-fourth valuation of assessable property. The burden of taxation imposed upon the people of Iowa for the conduct of their State Government and the maintenance of their numerous State institutions will be, therefore, but three-fourths of a mill on the full valuation of taxable property.

Estimating the population of Iowa this year to be 2,200,000, which probably is somewhat under, the per capita tax of the people is 73 cents, measured upon the basis of the State levy. One can hardly say that the expense of Iowa's State Government is oppressive. Very few States can make a better showing than Iowa in this respect, or even equal it. This satisfactory condition of affairs, however, does not of itself warrant any considerable increase in the State Expense Account. On the other hand, if the budget can be reduced without seriously hampering the performance of any legitimate duty of the State, such reduction should be made and is of right demanded. People do not pay taxes, even though relatively light, for the mere love of the thing.

(b) *Special Levies for Charitable Institutions.*

Besides the general State levy, there were received sundry special levies of taxes from many counties to defray the expense of keeping persons in some of the State asylums, charged against the counties by the superintendents of the institutions caring for them. The receipts from these special levies were as follows: On account of insane, \$727,550.11; on account of

inmates in the Institution for the Blind, \$1,299.21; on account of pupils at the School for the Deaf, \$5,094.39; for inmates of the Feeble-Minded Institution, \$19,275.67, and on account of the Orphans' Home, \$56,834.52. Receipts from the special levies increased somewhat for the insane, feeble-minded and orphaned children, and fell off some for the other institutions, compared with the former period. (See tables 2-101.) These levies, it should be kept in mind, do not represent what is expended for the unfortunate of the State. The actual amounts expended for the institutions of Iowa are exhibited in detail later on.

THE INCONVENIENCES OF SEMI-ANNUAL PAYMENTS OF COUNTY TAXES INTO THE STATE TREASURY.

Here I desire to point out again the embarrassment to the Treasury inherent in our present method of obtaining the proceeds of the State levies from the counties. Practically one-half of the year's collections are paid in April and in October, the receipts in the intervening months being very light. The consequence is that there is an immense amount paid in those two months which must of necessity lie idle for a long time in the depositories at Des Moines, or during the months of light receipts the Treasury may be seriously embarrassed, as has occurred numerous times in the past decade. In a word, while the demands of the State Government come in regularly and steadily, the revenue with which to meet them comes in very unevenly. The regularity of the demands is much more pronounced now under the Board of Control, because all the bills of the institutions are paid each month instead of quarterly, as was the case under the old law governing the institutions.

The following table will exhibit this steadiness of demand on the Treasury and the irregularity in receipts of revenue:



YEAR.	REVENUE COLLECTIONS	WARRANTS ISSUED.	WARRANTS REDEEMED.	WARRANTS ENDORS'D.
<b>1897.</b>				
July.....	\$ 64,223.31	\$ 148,328.12	\$ 57,309.69	\$101,250.99
August.....	64,404.33	211,397.51	44,070.97	178,294.31
September.....	74,043.51	150,561.61	74,985.12	75,571.54
Quarter.....	\$ 202,671.15	\$ 510,287.24	\$ 176,365.78	\$354,915.84
October.....	488,591.93	125,471.02	416,599.73	112,191.15
November.....	188,859.24	254,182.74	85,035.53	158,793.50
December.....	71,157.29	105,169.98	196,625.06	.....
Quarter.....	\$ 748,608.46	\$ 484,814.74	\$ 698,261.32	\$370,964.05
<b>1898.</b>				
January.....	148,196.10	265,691.21	130,559.96	307,364.50
February.....	181,441.26	262,645.15	147,099.37	112,955.23
March.....	193,101.82	196,258.46	217,747.28	43,149.46
Quarter.....	\$ 492,741.18	\$ 724,594.82	\$ 495,376.59	\$163,362.22
April.....	674,192.73	134,641.74	567,767.32	73,861.05
May.....	167,440.71	249,121.62	89,277.12	178,514.24
June.....	98,843.67	243,620.67	302,115.40	172,561.62
Quarter.....	\$ 910,477.11	\$ 628,784.03	\$ 959,159.84	\$422,936.61
July.....	45,421.53	108,813.01	60,639.95	47,118.48
August.....	132,638.99	115,384.17	34,947.54	67,715.96
September.....	87,114.81	137,784.81	128,476.16	117,165.69
Quarter.....	\$ 265,195.33	\$ 361,981.99	\$ 224,063.65	\$332,000.13
October.....	542,283.81	138,060.41	375,385.87	56,051.38
November.....	170,138.19	132,048.66	249,850.61	.....
December.....	94,053.58	191,587.76	87,899.58	130,071.72
Quarter.....	\$ 806,475.58	\$ 461,698.83	\$ 713,136.06	\$186,123.10
<b>1899.</b>				
January.....	165,478.17	279,410.12	238,633.19	33,569.80
February.....	192,218.35	156,013.19	163,000.81	.....
March.....	224,165.72	153,970.86	152,962.95	.....
Quarter.....	\$ 581,862.24	\$ 589,394.17	\$ 554,526.95	\$ 33,569.80
April.....	712,081.06	123,338.16	536,191.96	.....
May.....	276,569.61	162,235.07	161,746.89	.....
June.....	97,774.62	150,973.28	149,574.84	.....
Quarter.....	\$ 1,086,374.29	\$ 438,551.61	\$ 850,503.69	.....
Grand total.....	\$5,079,403.29	\$4,199,994.93	\$4,671,073.85	\$1,863,861.35

## QUARTERLY PAYMENTS RECOMMENDED.

The existing statutes should be so amended that the revenue from the counties would come more evenly into the Treasury. In general the receipts should exceed but little the demands, but this is, of course, not practicable for each month. It is practicable, however, to have the counties make the bulk of their remittances quarterly instead of semi-annually as at present. This does not necessarily mean that there must be any change in the times at which citizens must pay their taxes or incur a penalty, but I can see as many advantages to the

private citizen in such a change as accrued to him when the change from annual to semi-annual payments was ordered. The change can be made so as to affect alone the remittances of State revenue from the counties, even though collected as at present.

If the change here urged is made, very material benefits will result. In times when the assets exceed the liabilities of the Treasury, there would not be the excessively large balances piled up in April and October which now occur, and the money lying idle in the Treasury for several months. The money would remain in the local treasuries of the counties, in the local banks and out among the people of the counties, where it can be used. It will be paid into the State Treasury more nearly as it is needed. In times when funds are short, the State will not be embarrassed so much during the summer months as has recently happened.

## 2. CORPORATION TAXES.

## (a) Insurance Companies.

In 1897 a schedule of differential taxes on insurance companies doing business in Iowa was inaugurated by the new Code (section 1333). The rate on Iowa or local companies was placed at 1 per cent of the premiums received for the calendar year, less losses paid and premiums returned. On stipulated premium or assessment associations outside of Iowa doing business in the State the rate was the same. United States companies were assessed at the old rate of 2½ per cent of their premium receipts. Foreign companies were to sustain a tax of 3½ per cent. Under the old law, Iowa companies were exempt from taxation (except locally on their realty), and all other companies were assessed at the uniform rate of 2½ per cent of the premiums.

The new schedule produced \$147,541.02 in 1898 and \$156,927.07 in 1899, or a total of \$304,468.09 for the last biennium as against \$246,565.84 collected under the old law during the period of 1895-97. Of this increase of \$57,902.25 in the taxes from this source \$36,720.62 came from Iowa companies and assessment associations never before taxed, and \$10,578.85 was obtained from the added 1 per cent imposed on foreign companies.

The taxes paid represent some \$14,000,000 of insurance written in Iowa for the years 1897 and 1898. In fact, it was more



than that amount, for the Iowa companies and stipulated premium associations deducted their losses and returned premiums before paying the tax. Iowa companies paid on \$3,358,535.69 of premiums, assessment associations on \$318,896.48, United States companies on \$9,249,740.08, and foreign insurance companies on \$1,057,885.79 received in premiums.

The tax collections in 1899 were slightly in excess of those for 1898 for all classes except foreign companies. The taxes collected from the different classes of companies during the period were as follows:

CLASS.	1898.	1899.	TOTAL.
Iowa companies.....	\$ 15,639.18	\$ 17,892.48	\$ 33,531 66
Stipulated assessment associations.....	1,419.91	1,769.05	3,188.96
United States companies... ..	112,213.72	119,207.05	231,420 77
Foreign companies.....	18,268 21	18,058 49	36,326.70
Grand total.....	\$147,541 02	\$156,927 07	\$304,468 09

(For other particulars, see tables No. 102-110.)

#### THE RIGHT AND POLICY OF DISCRIMINATION.

The Iowa law imposing discriminating or differential taxes on insurance companies immediately achieved considerable notoriety throughout the country. Following close upon its enactment in 1897, similar measures were introduced in the Legislatures of other States. Marked opposition was naturally manifested against the Iowa act by foreign companies—not so much because the discriminations were excessive, but because of the precedent established, and measures were early taken to test the validity of the law.

In August, 1897, a Swiss company, through their Minister to this country, protested to the Secretary of State at Washington against the law, alleging that it was in contravention of treaty stipulations guaranteeing to Swiss companies the privileges enjoyed by domestic companies. The Washington officials forwarded the protest to Gov. F. M. Drake. But an opinion of Hon. Milton Remley, Attorney-General for Iowa, held that the present law did not offend the treaty agreements of the National Government. The matter in this particular instance was not brought to bar for settlement. (See Opinions of Attorney-General for 1898, p. 331-333.)

In January of 1898, when it became necessary to pay the tax in order to do business in Iowa, all the foreign companies, with

but one or two exceptions, filed formal protests declaring that they paid the  $3\frac{1}{2}$  per cent tax to the Treasurer of State under duress, and that the same was illegal, etc. Many Iowa companies did likewise when paying their tax. Soon thereafter notice was served on me, both as an individual and as Treasurer of the State of Iowa, notifying me of the commencement of an action by the Scottish Union and National Insurance Company, of Edinburgh and London, to recover the tax which that company had paid into the Treasury. The matter came on for hearing before Judge C. P. Holmes, of the Polk county District Court, April 6th, the plaintiff in his petition alleging that the Iowa act was in violation of article 8, section 2, of the State Constitution, of the fourteenth amendment of the Federal Constitution, and Federal laws and sundry treaty rights secured to subjects of Great Britain. On the Attorney-General's demurrer, the Court, May 19th, ruled that the Treasurer of State was acting within the law in retaining the tax paid, and that the companies were under no duress in paying the tax. The matter is now before the Supreme Court of Iowa on appeal. (See *Scottish Union and National Ins. Co. v. John Herriott, Treasurer of State.*)

The constitutionality of the Iowa act was confirmed most emphatically in a decision by Judge O. P. Shiras of the Federal Court, rendered at Des Moines, January 12, 1899, in the case of *Manchester Fire Ins. Co. et al. v. John Herriott, Treasurer of State of Iowa*, wherein said company sought to enjoin me, as Treasurer, from collecting the tax for 1899. In the course of his opinion, Judge Shiras observed (Fed. Rep., vol. 91, p. 711-720):

"This burden is in form and in substance a tax, but it is not a tax imposed upon the tangible property of the companies. It is a burden in the form of a tax, imposed as a condition upon the right of the companies to continue in business in Iowa. It cannot be denied that the State has the right to prescribe the terms, conditions, and burdens subject to which a foreign corporation can obtain the right of admission into the State, and it is beyond question that, so long as the provisions of section 1333 remain in force, no foreign corporation can secure the privilege of admission into the state except upon a compliance with its requirements. But it is said that, after a foreign corporation has once rightfully entered the State, and engaged in business therein, no additional burden or restrictions can be imposed as a condition to the exercise of the right to continue in business. The power and right of the State to exclude foreign corporations, not engaged in interstate commerce, or in the furtherance of the business of the United States, from entering the State, includes the right to preclude such



foreign corporations from continuing in business, and also includes the right to impose conditions upon such continuances." (p. 718.)

"In the adoption of section 1333 the State was not exercising its right to subject property or persons within the State to a proper burden of taxation, in which event it would have been subject to the provisions of the State Constitution requiring equality in the burdens imposed; but the State was exercising its undoubted right to prescribe the terms upon which foreign corporations may be allowed to continue in the business of insurance within the State, and, as the right to impose terms is possessed by the State, it is not for the courts to question the expediency or justice of the conditions enacted by the State." (p. 720.)

What the Supreme Court of Iowa will hold in the Scottish Union and National case now before it one cannot, of course, say, but with two favorable decisions, one by a State Court and the other by a Federal Court, it is not very presumptuous to anticipate that the differential taxes imposed on insurance companies by Iowa will be found to be within the constitutional rights of the State.

But, granting that it is within the power of the State to discriminate in placing tax burdens upon corporations doing business within our borders, is it a wise policy for Iowa to pursue? Does it promote the best interests of the people? Such discriminations against foreign corporations I do not believe are beneficial. They inevitably engender retaliations against our State companies in other States that may seriously embarrass their operations and progress outside of Iowa, and they tend to produce a condition of things within our own borders that may work great detriment to our home companies. The insurance of business, property or life, if it is a good thing, and no one nowadays doubts it, should be encouraged and promoted by the State by all proper means, and discriminations such as Iowa has inaugurated do not, in my opinion, promote the best interests either of our home companies or of the insuring public. Iowa should emulate the broader policy of New York and Massachusetts, and treat all companies, as nearly as may be, alike.

The present statute with its discrimination against foreign companies was passed for the purpose of obtaining increased revenues from such companies—not to "make war" on them or to drive them out of the state, as generally charged by the eastern press. As such, the act only passed the senate by one vote. There was no local ill feeling against such companies. The home companies opposed the passage of the act as vigorously as the foreign companies. But while passed as a revenue

measure, the additional taxes received are insignificant compared with the great harm that may come from such discrimination. I urge the restoration of the old uniform rate on United States and foreign companies or the assessment of the same rate on other state companies now imposed on foreign.

#### *State Versus Local Taxation.*

The constitutionality of section 1333 has been attacked from another direction, and if the Supreme Court does not reverse a recent decision of the District Court of Polk county, it will be exceedingly difficult, if not impossible, with the Constitution as it is, to tax corporations in Iowa exclusively for State purposes according to the best methods of assessment in vogue in the majority of States.

The law taxing insurance companies declares that the taxes paid thereunder "shall be in full of all taxes, State and local, against such corporations or associations, except taxes on real estate and special assessments." Notwithstanding this exemption, the city of Des Moines and county of Polk proceeded to assess the stock of the twenty-seven companies located in Des Moines for county and municipal purposes. The companies sought to enjoin the assessment of the tax, but the court held, in the case of *The Hawkeye Insurance Company v. French* (assessor), that the exemption from local taxes was in violation of article 8, section 2, which provides that "the property of all corporations for pecuniary profit shall be subject to taxation the same as that of individuals." Judge S. F. Prouty so ruled for the reason that all the taxes paid by insurance companies were paid into the State Treasury and not distributed in any measure among the counties and cities, thus exempting corporations from local assessments. The requirement of the Constitution that corporations be taxed "the same" as individuals the court held to mean that corporations should be subject to taxation to the same extent, at the same rate and for the same purposes as private persons. In a word, they must each bear the same taxes.

The importance of this decision can scarcely be overestimated. If it prevails, it jeopardizes the State tax on telegraph, telephone and express companies as well as on insurance companies; and it puts almost insurmountable obstacles in the way of progress in corporate taxation in this State and the separation of State and local taxes. The uneven and uncertain



assessments of corporations doing a State-wide business by local authorities will be substituted for the present uniform and definite tax now imposed by the State if this decision should be upheld.

Insurance and telephone companies do what may be called a State business as distinguished from a local business. Their operations extend far beyond the boundary of the city and county wherein they may chance to be located, and their income, or the great bulk of it, comes from without their local community. Thus, insurance companies do a State business; nine-tenths of their operations are outside of the county wherein located, and nine-tenths of their funds are held subject to the payment of losses outside of such county. It is, therefore, peculiarly fitting that the State assesses such companies rather than this and that local authority, each one assessing upon different bases and ratios, and being influenced by varying motives and conditions and considerations. If the companies which the authorities of Des Moines and Polk county are attempting to assess do not pay their share of taxes compared with other corporations and private persons in the State, the corrective that could easily be applied is an increase in the rate assessed by the State.

I am not here particularly concerned with the "basis" for assessing insurance companies and similar corporations. Whether they shall be taxed upon the basis of the par or market value of their stocks and bonds or upon the amount of their gross income or earnings, although a subject of great interest, is a matter that I do not consider here. The point of chief interest and importance to the state in the suit now pending, as I view it, and which I desire to emphasize, is whether or not we shall abandon the present method of a uniform state assessment of corporations doing a state business and return to the mode of local assessments of such companies in vogue in the fifties—a mode almost universally abandoned by American states.

A matter not presented in the case now before the Supreme Court, but which may have a very important effect upon the taxation of local insurance companies if the lower Court is sustained, is the deduction of debts and liabilities by insurance companies in arriving at their taxable valuation. Under the former statute and the ruling of the court in *Equitable Life Insurance Company v. Board of Equalization* (74 Iowa, 178), and

*Hawkeye Insurance Company v. Board of Equalization* (75-770), insurance companies were entitled to deduct outstanding policies in force, which practically reduced their assessable property to zero. The present law, while considerably altered with respect to the assessment of corporations generally, excepts insurance, telegraph and telephone companies from taxation under such sections. It would appear to be a fair conclusion, therefore, that the ruling of the Court, under the old law, would continue to govern under the new law. Should this be the case, local insurance companies would go untaxed by either State or local authorities if section 1333 is declared unconstitutional.

The interest of the State Treasury in the outcome of the pending suit is so great that the attention of the Attorney-General was directed to the case. Mr. Remley immediately asked for permission to appear in argument on behalf of the State. He has submitted an extended argument, and the opinion of the Court is awaited with no little interest.

(b) *Telephone Companies.*

The receipts from telephone taxes show a decided increase for the past period over the period of 1895-97. In 1898 forty-eight companies paid \$7,626.04 and in 1899 sixty-eight companies paid \$11,108.84, making a total of \$18,734.88 for 1897-99, an increase of \$8,246.88 over the collections from telephones for the period of 1895-97. The percentage of increase amounts to 78.6 per cent. The rate of tax was 3½ per cent for each year and was determined by the Executive Council. (See tables 111-112.)

Some delay and more or less difficulty was experienced by the Department in collecting the tax from telephone companies. In 1898, notwithstanding various notices sent out from both the Auditor's and Treasurer's offices, almost half the companies delayed payment until March and many much later. The code, in section 1331, declares that such tax "shall become due and payable at the State Treasury on the first day of February following the levy thereof, and if not so paid the State Treasurer shall collect the same by distress and sale of any property belonging to such company in the State in the same manner as is required of county treasurers in like cases \* \* \*." In pursuance of this provision the county attorneys of several counties were instructed by me to take the necessary measures to collect the taxes assessed by the Executive Council. The results were but partially satisfactory.

Various amendments to the above section are urgently needed in order to make the collection of taxes, due from telephone companies, prompt and definite. I strongly recommend that a penalty, sufficient to make it to the decided interest of the companies to pay their tax on or before the date it is due, be imposed for delinquency. Further, I urge that in cases where it is necessary to collect the tax by suit that county attorneys be given a suitable fee therefor, which fee shall also be paid by the delinquent company



in the way of penalty. If section 1331 is so amended I venture the assertion that very few companies will permit the tax to become delinquent.

(c) *Telegraph and Express Companies.*

The revenues obtained from telegraph companies increased 31 per cent during the last fiscal period over the one just preceding. On the assessment of 1897 the Postal Telegraph Cable Company paid \$2,274.37 and the Western Union \$17,990.50, or a total of \$20,264.87. On the assessment of 1898 the same companies paid \$19,949.02. The total tax received from telegraph companies in the two years amounted to \$40,213.89, the amount paid in the period of 1895-97 being \$30,558.39. The rate of the levy was 3½ per cent upon the assessment made by the Executive Council. (See table 113.)

Express companies pay taxes upon the amount of business done in the State for the year ending February 28th. During the first fiscal year of the period the rate was 1 per cent. The Twenty-seventh General Assembly increased the rate to 2 per cent. In 1898 the five companies operating in the State paid \$3,925.80 upon \$392,579.84 of business done in or relating to Iowa. The taxes paid for 1899 more than double as the business reported was larger, the amount of tax being \$8,253.91. There was some question as to whether the new act increasing the rate, not taking effect until July 4, 1898, was applicable to the business done between March 1st and July 4th, of 1898, but a ruling of the Attorney-General held the companies liable for 2 per cent for those four months and the tax was paid without contest. (See tables 114-115.)

In this connection the foregoing recommendation respecting penalties for delinquency may be reiterated, although it is but fair to say that no serious delays in the payment of the tax by express and telegraph companies was experienced as in the case of telephone companies.

### 3. FEES RECEIVED FROM STATE OFFICIALS.

In the recodification of the laws by the Twenty-sixth General Assembly at its extra session in 1897, many changes were made in the various provisions relating to the charging of fees by State officers for services they may render to the private citizen. In most instances the changes resulted in an increase of the amount of the fees to be charged, in some cases the amount being doubled and trebled. The most marked changes will be found in the fees received from the Secretary of State, which increased 210 per cent, from \$28,216.70 for the period of 1895-97 to \$89,742.74 for the last period. Besides the increase of the amount of fees that can be charged, the new code created some new fees, namely, those imposed on itinerant physicians. The last Legislature in 1898 created the new office of State Entomologist, who has also paid a considerable sum into the state treasury. The returns show an increase in the fees received by all of the State offices.

(a) *Auditor of State.*

The certified statements of the Auditor of State which accompany his monthly payments of fees into the State Treasury show that insurance companies doing business within the State of Iowa paid fees aggregating \$83,897.25. Of this amount \$16,886 was paid in connection with the filing of the annual statements made to the Auditor, \$63,154.50 was paid for the issuance of certificates of authority to agents representing such companies,

\$324 for general agents, \$1,224 for general certificates, \$1,349.50 for publication of certificates, and \$959.25 was fees of a miscellaneous character. There was received from the Auditor on account of fees paid by building and loan associations \$150 for certificates of authority issued, \$1,435 fees paid when filing their annual statements and \$11.50 of a miscellaneous character, making a total of \$1,595.50 for the biennial period.

The total amount of fees received from the Auditor's office during the past biennium from all sources amounted to \$85,493.75 as against \$72,456 for the biennial period of 1895-97. The increase over the last period was \$23,037.75 or 31.7 per cent. (See tables 116-117.)

(b) *Clerk of the Supreme Court.*

The Clerk of the Supreme Court paid into the State Treasury between July 1, 1897, and June 30, 1899, fees collected by him to the amount of \$6,095.40. These fees were received on account of filing appeals, entering judgments, continuances, executions, satisfactions, and issuing writs or orders. The amount turned in was an increase of 21.8 per cent over the receipts for 1895-97, which were \$5,002.60. (See table 118.)

(c) *Dairy Commissioner.*

The Dairy Commissioner turned into the Treasury \$1,869 fees paid by milk dealers for their annual licenses to sell milk in cities. The fees paid cover the three years of 1897, 1898 and 1899, and this fact accounts for the marked increase over the fees of the preceding biennial period. (See table 119.)

(d) *State Entomologist.*

The Twenty-seventh General Assembly created the office of State Entomologist (see ch. 53, acts 27th G. A.) and imposed upon him the duty of preventing or suppressing the San Jose scale evil among nursery stock. For his inspections he charges fees ranging from \$5 to \$15. From this source the Treasury received \$807.50. (See table 120.)

(e) *Pharmacy Commissioners.*

The fees covered into the Treasury by the Commissioners of Pharmacy aggregated the largest amount ever paid in by the Commission, the increase over the last fiscal period being 161 per cent. The fees paid in 1898, \$9,500, were greater than the total for all the previous years put together. The Spaulding defalcation, however, in part accounts for the small amount turned in prior to 1898. For the past biennial period the Secretary and Treasurer paid into the Treasury \$17,700 received from itinerant vendors of drugs for State licenses issued by the commission. This amount, it should be observed, is in excess of such fees remaining after the deduction of the \$2,000 annually allowed the commission for its expenses. (See table 121.)

(f) *Secretary of State.*

The greatest increase in fee collections in consequence of changes in the laws relating to fees is shown in the returns of the Secretary of State's office, the gross amount increasing 210 per cent. The fee for notarial commissions was increased from \$1.25 to \$5 by the new code. The filing fee for articles of incorporation was increased from \$5.10 per hundred words for recording



to \$25, and for companies, the stock of which exceeded \$10,000, an additional fee of \$1 per thousand, the maximum fee being placed at \$350. The last General Assembly increased the maximum corporation fee to \$2,000.

The fees received by the Secretary of State for commissions issued to notaries public amounted to \$29,995, of which sum \$22,190 was received during June and July, 1897. The fees from this source alone exceeds the entire amount of fees from all sources paid into the treasury by the Secretary of State for the preceding period. The fees charged for recording original articles of incorporation foot up \$50,537.57, and for amending articles \$7,505. The collections for other services rendered were about the average receipts. For certified copies of instruments in the Land Office was received \$238.50; for copies of instruments in the Secretary's office, \$633.95; for rendition warrants, \$112; for trade-marks, registered \$52; for State commissions issued, \$433, and for miscellaneous papers and services, \$274.32. The total fees paid in by the Secretary of State between July 1, 1897, and June 30, 1899, amounted to \$89,742.74. (See table 122.)

(g) *Superintendent of Public Instruction.*

As with the returns from other State officials, the fees received by the Superintendent of Public Instruction show an increase. The total amount paid for 1897-99 was \$2,456.50 against \$1,800.50 for the period of 1895-97. The sum received represented \$210 for diplomas issued to teachers, \$2,127 for certificates given by the state board of educational examiners, and \$119.50 fees retained on account of failures to pass the examinations. (See table 123.)

(h) *Oil Inspectors.*

From oil inspections the State received \$18,334.35 during the last biennium. For purposes of comparison, however, it should be noted that some of the fees received in the past period, amounting to \$1,901.60, properly belong to the preceding period. After deducting this amount the oil fees increased nearly three times for 1897-99 over 1895-97.

The Code of 1897 (chapter 11, title xii), abolished the office of State Oil Inspector and placed the work of inspection entirely in the hands of the State Board of Health and the several district inspectors, the latter filing their monthly reports with the Secretary of State and paying the fees due the State direct into the State Treasury. The new arrangement took effect July 1, 1898. The fees covered into the Treasury by the State Inspector for the year ending June 30, 1898, amounted to \$7,306.36. The fees paid for the year concluded June 30, 1899, under the new law, amounted to \$9,126.39. The increase does not quite equal the salary of the State Inspector. The reports of inspectors, on file in the Treasury, show that \$36,607.10 was the sum total of fees collected for inspections of petroleum products during the past year; that there was retained by such inspectors \$14,097.48 for salaries and \$13,438.83 for expenses; the balance remaining being paid into the treasury. (See tables 126-139.)

There is serious need of an amendment to section 2507 of the Code, relating to the compensation of inspectors. They are allowed to take out their salaries and expenses from the fee collections. Now and then the fees received are not sufficient to cover all the expenses reported. In one or

two instances an inspector has had a deficiency for three or four months consecutively. The Code says: (Section 2507.)

"Should any inspector pay out more money, in any one month, for necessary expenses incurred for prosecutions for the violation of the provisions of this chapter, or for necessary help in branding barrels, than fees collected, such excess shall be refunded to him on his filing a sworn itemized statement with the Governor, showing fees collected and expenses paid or incurred, which statement must be approved by the Governor."

The purpose of this is obvious enough, but it contains no appropriation clause with authority for the issuance of a warrant on the State Treasury to reimburse the inspector. The department was appealed to in one or two cases, but not having jurisdiction, could take no action. Under the old law it was the custom for inspectors to reimburse themselves out of the collections of subsequent months. This has been done to some extent during the past year, but it is clearly without warrant of law. The section should be so amended that an inspector would be reimbursed at once out of the Treasury. It is not good policy to permit one month's business to be carried on into succeeding months for adjustment.

4. MISCELLANEOUS RECEIPTS.

*Various State Officers.*

From the Attorney-General was received \$1,043.50, of which \$1,003.50 has been recovered by him from the estate of one George Rüdinger. The Custodian turned in \$30.39, sales of paper, old iron, etc. From the Assistant State Geologist was received \$59.98 from sales of reports of his department, and from the State Librarian \$21.50 in refunds. (See tables 143, 144, 145 and 146.)

*Itinerant Physicians' Fees.*

By the provisions of the code of 1897 (section 2531), itinerant physicians were required to pay a fee of \$250 into the State Treasury each year. The amount of fees paid in has not fulfilled the anticipations of the framers of the act. Two licenses were taken out in 1897, only five in 1898, and four in the first half of 1899. There was but one renewal. The payment of the fee by physicians has been avoided chiefly by the ruse of announcing in the press of the city or town to which they migrate that they propose to take up or establish a "permanent residence." (See table 147.)

*Federal Aid to the Soldiers' Home.*

There was received from the United States Government on account of the Soldiers' Home at Marshalltown, \$101,344.84. This money is allotted to the Iowa home in accordance with the provisions of the act of Congress, 1888 (chapter 914, statutes at large, vol. 25), the allotment being upon the basis of the amount appropriated by the State of Iowa for the maintenance of the Home and the per capita attendance. (See table 143.)

*Refunds of the Spanish War Fund.*

Various refunds have been made of the expenditures of the State of Iowa in equipping her regiments for service in the late Spanish war. From the Acting Paymaster-General of the Iowa Militia was received \$430.98 and from the Adjutant-General \$455.56. On May 15th there was received from



the United States a warrant to the amount of \$91,483.78, in repayment of the Iowa claims which had been audited and allowed by the War Department at Washington. There was disbursed from the Iowa Treasury for the Federal Government over \$141,000 during the war, and of the balance not yet repaid the bulk will probably be refunded in due time. (See table 149.)

#### *Miscellaneous Receipts.*

Among the miscellaneous receipts may be noted the \$15,000 paid in as the purchase price of the arsenal site sold to the city of Des Moines for the erection of a city library building, the \$18,249.18 received from the Auditor of State on account of the payment of the mortgage on certain lands sold to Roach & Wold, the \$2,110 paid in by the Secretary of State as the proceeds of the sales of Codes of 1897, and the \$3,000 refund of the Trans-Mississippi International Exposition Commission. The total miscellaneous receipts amounted to \$49,022.16. (See table 150.)

#### *Swamp Land Indemnity.*

For the first time in eight years the State Treasury has received "swamp land indemnity" from the United States Government. The General Land Office of the National Government allowed sundry claims of Marshall, Dallas, Benton, Buchanan, Hardin and Howard counties for swamp lands originally given said counties by the State of Iowa under grant of Congress of 1850, but subsequently sold by the General Government. The purchase price paid the latter was refunded to the State and thence to the counties under the provisions of an act of 1855. The total amount refunded amounted to \$3,373.61. (See table 210.)

The swamp land indemnity money is received at the Treasury and disbursed to the several counties entitled thereto in accordance with the provisions of section 9 of chapter 160, acts Ninth General Assembly (1862). That act requires the State Treasurer, on the receipt of any indemnity money, to notify the supervisors of each county, who shall appoint an agent to come to Des Moines, to whom the State Treasurer shall pay over the indemnity upon the presentation of the proper vouchers. Such a procedure, while it was necessary perhaps in the sixties, is no longer required. Nowadays the appointment of an agent to come to Des Moines is not only needless, but it involves a considerable expense to counties, which may easily be done away with. As there are numerous claims now in the process of adjustment at Washington that will be allowed in the course of time, I urge the amendment of section 9 of the act above mentioned so as to permit the Treasurer of State to disburse swamp land money direct to the county authorities.

#### *Permanent School Fund.*

During the last biennial period the permanent school fund of the State was benefited by the escheat of three estates to the State for lack of heirs. December 3, 1897, there was received \$428.52 from the Attorney-General, the proceeds of the interest of one Blake in the estate of one Coakley. On March 19, 1898, there was paid into the Treasury \$40, escheat of the estate of one Joseph Lehmail and \$169 of the estate of one Mary Brown. On orders of the Auditor of State these amounts were transferred to the treasurer of Carroll county under date of December 14, 1897, and April 11, 1898. (See table 212.)

#### *The Need of Regular Reports and Statements.*

The experience of the Department leads me to recommend one or two amendments to the law governing officials receiving funds which must be turned into the State Treasury. The law, although it requires officers in general terms to pay money into the State Treasury, makes no one in particular responsible for seeing that such officers do actually pay in the monies owing the State. An officer may neglect to pay fees into the Treasury for months, or he may hold them back for his own use and no one in authority be aware of the fact. They may go out of office and no one audit their accounts to see if they have paid all monies into the State Treasury. The Treasurer of State cannot know what money is owing the State unless the facts are officially reported to him; and, unless he is given authentic information, or power to acquire it, the State may suffer losses or be deprived of revenue for a considerable time. Not to compel officers receiving State monies to make, at least, quarterly reports to some responsible office, and to pay to the State money due it, affords not only a temptation but an opportunity to make private use of State funds.

It should be made obligatory upon all officers who regularly receive fees to make a certified statement to the Treasurer of State at least once every three months, showing what fees have been collected, what have been paid out, and what amount, if any, was due the State. Such report should be made, even if no money is to be paid into the Treasury. Authority should be given the Treasurer of State to call upon officers for such reports if they fail to make them.

Further, I urge the passage of an act giving the Treasurer of State authority to insist upon written statements accompanying each payment of money into the Treasury, such statements to show the date the money is paid, the purpose and period for which paid and other essential facts, so that the matter may be properly accounted for. It has been one of the rules of the Department to insist upon such statements, but, strange as it may seem, persons, and even officers, frequently make objections to rendering statements. It ought to be made a statutory requirement, for it is a necessary safeguard, both to the party paying and the officer receipting for money.

#### *The Need of Systematic Examinations.*

Besides the regulations just urged, there is need for more definite and systematic inspections of the accounts and financial



transactions of State officers regularly receiving, handling and disbursing funds, all or a part of which should be paid into the State Treasury, than exists at present. There is now no provision for regular examinations. Now and then they may be made, but it is but rarely. One officer reports to the Auditor of State, another to the Governor, another to the Executive Council, another to the Secretary of State, and many need report to no one at all. They may make their reports in due form, but they may not promptly pay the funds due the State into the Treasury. Moreover, none of the officers to whom reports are made (with the exception of the Governor) can go back and inspect the accounts of the official rendering the report and ascertain if a full and proper accounting has been made.

Now, sound business principles demand that there should be regular and systematic examinations of the accounts of officials. These examinations should be made by inspectors of the Treasury at least once every six months, and the reports should be made direct to the head of the Department, so that the Treasurer of State can know definitely what is due the State Treasury. If some other Department is responsible for the inspection, the examinations may be made, but the officer examined even then may neglect to pay the fees into the Treasury, and the State Treasurer be unaware of the facts for months and even years. Every corporation that does a large volume of business in various departments, for example a railroad company, has its examiners who devote their time to inspecting the accounts of heads of departments who handle or are responsible for funds of the corporation. The United States Treasury Department has its corps of examiners, who inspect at any and all times the books and transactions of Federal revenue collectors and disbursing officers. The State of Iowa does a volume of business throughout its various offices and departments that makes similar examinations necessary. Provision for such examinations would have many beneficial effects, not only in the prevention of losses or in the more speedy discovery of them, but in compelling a better accounting for State funds. The wisdom of such examinations must be apparent. The Spaulding defalcation a few years ago is an illustration in point. It never would have happened, probably, if he had been subject to critical examination as is here urged. At the least, his shortage would have been discovered long before it was found out.

The State should, it seems to me, extend the field of these inspections so as to include the County Treasurers' offices. The State of Iowa has a very large interest in the collections of revenue received by the treasurers of the counties, and there is no supervision or inspection whatever of their accounts by the State. In the past four or five years half a dozen very serious defalcations and embezzlements have taken place. These might have been prevented had the State a treasury examiner to inspect the books regularly. It would be profitable and advisable to make provision for the regular examination of such accounts by State inspectors.

## II. DISBURSEMENTS AND APPROPRIATIONS.

The disbursements from the Treasury of the general revenue funds for the past two fiscal years amounted to \$4,671,073.88. Of this sum \$447,500.73 was paid out for warrants outstanding at the beginning of the period.

As already pointed out, the sum total of appropriations, as shown by warrants drawn on the Treasury, decreased from \$4,731,591.33 for the period of 1895-97 to \$4,199,994.93 for the last biennium, a decrease of \$531,769.40. A decrease is shown in the disbursements for nearly all classes of public expenditures with but three exceptions. There is an increase of 4.4 per cent in the warrants issued for the judiciary, the total being \$342,839.36. The amount drawn on account of the Legislature was \$120,516.50, 57.4 per cent less than was expended during the preceding period in which two sessions were held. The expenses of the General Assembly, however, was less this last year than for any year since 1890. The expenses of the Executive Departments increased some 11.3 per cent, their cost being \$188,615.28. The total amount expended for the Judicial, Legislative and Executive Departments during the past two years was \$651,971.14.

The total amount drawn for State Institutions aggregated \$3,141,908.27. I include here the \$72,400 of warrants drawn on the Special University fund. This amount was 89 per cent less than during the period of 1895-97. For Educational Institutions the appropriations drawn footed up \$400,262.57; for the Charitable Institutions, \$1,933,200.38; for Penal Institutions, \$396,140; for the Reformatories, \$167,061.93, and for some eleven miscellaneous institutions, including the expense of the Board of Control, \$245,243.30. With the exception of the outlays for



Educational Institutions and for the miscellaneous institutions there was a decrease in the amount of warrants drawn for the institutions, as may be seen in the following table for the past five periods.

BIENNIAL PERIOD.	Educational.	Charitable.	Penal.	Reformatory.	Miscellaneous.	Total.
1889-91.....	\$242,720.00	\$1,452,991.00	\$188,532.79	\$133,714.18	\$151,095.48	\$2,169,053.45
1891-93.....	315,283.36	1,605,439.68	225,035.19	146,905.87	146,798.16	2,439,462.26
1893-95.....	323,985.65	1,651,185.76	297,755.51	143,156.16	152,023.95	2,568,107.03
1895-97.....	386,186.05	2,269,125.32	417,502.04	176,222.37	218,219.78	3,450,755.56
1897-99.....	400,262.57	1,933,200.38	396,140.09	167,061.93	245,243.30	3,141,908.27

Those wishing for other details see division relative to State Institutions under the Board of Control, pages lv-lxv and tables 167-203.

Concerning the incidental expenses of the State Government during the past biennial period there was a general decrease in the total compared with the preceding period. The expenditures have been roughly classified under three heads, "Printing and Binding," "Custodian's Expenses and Capitol Repairs," and "Sundries." But it is impossible to do more than classify the incidental expenses approximately under these heads with the appropriation acts as they are. A warrant may be issued for supplies that can be classified more or less under all or any of these heads. This is particularly true of miscellaneous supplies purchased for the capitol, some of which are stationery and some used by the custodian in and about the capitol building, yet the bill for the same may be drawn in one warrant under some act. Again, during the last period there were five or six various acts and sections of the Code under which warrants were issued for incidental expenses. This makes classification difficult. These facts should be considered in noting the expenditures on these accounts.

The cost of printing and binding fell off some 15.5 per cent this last period compared with the preceding, the total outlay being \$131,750.47. The custodian's expenses decreased very markedly compared with those of 1895-97. The decrease was 45.5 per cent, the expenditure being \$56,561.74. This falling off was due to the reduction of wages paid janitors by the

Twenty-sixth General Assembly, and to the fact that repairs in and about the capitol were comparatively unimportant during the past two years. The expenditures classed as Sundries increased somewhat, but if we take out the disbursements on account of the Spanish war they would have amounted to only \$148,670.88. Included, also, in this latter amount are the New Orleans and Trans-Mississippi Exposition expenditures, amounting to \$46,000.

The appropriations for all purposes classified under the three heads of "Civil List," "State Institutions" and "Incidental Expenses" for the past ten years are given in the following summary:

WARRANTS DRAWN ON THE TREASURY JULY 1, 1889—JUNE 30, 1899.

FISCAL PERIOD.	Civil list.	Per cent.	State Institutions.	Per cent.	Incidental expenses.	Per cent.	Grand total.	Per cent.
1889-91.....	\$ 566,419	3.9	\$ 2,169,053	10.8	\$ 308,564	4.4	\$ 3,044,036	7.7
1891-93.....	269,112	.4	2,439,462	12.5	759,849	141.2	3,768,424	23.8
1893-95.....	605,927	6.4	2,568,107	5.3	503,013	-33.8	3,337,047	-24.0
1895-97.....	780,878	28.8	3,467,255	35.0	500,129	- .5	4,748,264	29.1
1897-99.....	651,971	-16.5	3,141,908	-8.9	478,515	- 4.3	4,272,394	-10.0

### III. THE TREASURY DEFICIT AND ITS MANAGEMENT.

At the beginning of the biennial period, on July 1, 1897, there was, as already stated, a Treasury deficit of \$410,827.77. This deficit was represented by outstanding unpaid Auditor's warrants. Of the outstanding warrants some \$363,834.84 had been presented at the Treasury for redemption, but had been endorsed and made interest-bearing. The Treasury of Iowa continued to be embarrassed until April 20, 1899, when all outstanding endorsed warrants were called in and redeemed.

During this time, however, outstanding warrants were called in as the condition of the Treasury would permit, and new issues of warrants endorsed and made interest-bearing as necessity compelled. The amount of warrants endorsed during the past biennium totaled \$1,863,861.35, the warrants called in and redeemed amounted to \$2,219,715.09, and the interest paid on the same \$57,685.16. The transactions of the Department in this respect may be briefly shown in the following table:



QUARTER.	WARRANTS ENDORSED.	WARRANTS REDEEMED.	INTEREST PAID.
1897.			
July-September.....	\$ 854,915.84		
October-December.....	270,954.65	\$ 449,651.03	\$ 14,767.05
1898.			
January-March.....	363,367.22	167,538.14	5,113.53
April-June.....	422,934.61	730,781.83	19,606.38
July-September.....	221,000.15	83,003.51	2,438.82
October-December.....	186,125.10	400,197.94	7,973.38
1899.			
January-March.....	33,568.80		
April-June.....		404,573.55	7,780.50
Total.....	\$1,863,861.35	\$2,219,715.09	\$ 37,985.16

All of the interest-bearing warrants were called in and paid April 20, 1899, the principal and interest amounting to some \$412,000. Between that date and July 1st the Treasury not only met all current demands but closed the biennial period with a cash balance in the general revenue account of \$445,002.37. This prosperous condition was just the reverse of that at the commencement of the period, and was contrary to the expectations of practically all parties.

The warrant calls and the interest paid on each call during the past three years, covering the entire period of the recent embarrassment, are presented in the following statement:

## INTEREST-BEARING WARRANTS REDEEMED.

Call No.	DATE INTEREST CEASED.	NUMBERS CALLED.	WARRANTS	Interest.
1	October 31, 1890.....	9,040 to 9,785	\$156,428.33	\$ 2,866.71
2	December 13, 1890.....	9,786 to 10,318	87,610.85	1,110.07
3	March 20, 1891.....	10,319 to 10,455	79,157.00	3,169.62
4	May 7, 1891.....	10,456 to 11,531	434,041.61	13,311.45
5	October 25, 1891.....	11,532 to 15,382	376,938.04	12,914.19
6	December 9, 1891.....	15,383 to 15,772	72,718.09	1,852.88
7	January 15, 1892.....	15,773 to 16,118	78,562.06	2,156.93
8	March 13, 1892.....	16,119 to 16,207	82,079.08	2,656.90
9	June 4, 1892.....	16,208 to 16,280	494,073.67	14,589.10
10	September 12, 1892.....	16,281 to 17,810	236,708.15	4,717.28
11	November 13, 1892.....	17,811 to 18,000	83,003.51	2,438.82
12	October 29, 1893.....	1,429 to 4,110	400,197.94	7,973.38
13	April 20, 1899.....	4,111 to 7,177	404,573.55	7,780.50

Comparisons with the Treasury deficit during the eighties are interesting. The recent embarrassment continued less than three years, from July, 1896, to April, 1899. In July, 1883, the Treasury ran short of funds, and for eight years there was a deficit in the revenues, the last interest payments being made in the first quarter of 1891. The interest paid on endorsed warrants between July, 1896, and April, 1899, amounted to \$77,032.60. The disbursements from the Treasury on account of interest, between 1883 and 1891, amounted to \$210,102.76. During the period of 1885-87 alone, \$107,565.23 was paid out for

interest on State warrants. Comparison with former periods shows that there was scarcely a period, prior to 1891, when some interest was not paid on State warrants owing to the lack of revenue to meet the current demands.

The rather considerable disturbance which the recent floating debt seemed to produce over the State is an interesting commentary upon the habits of thrift and economy of the people of Iowa, which have always prevailed in their conduct of our State Government. The Treasury was short of funds less than three years, and the deficit did not average more than \$450,000 during that time. It was produced in large measure by extraordinary causes. The deficit probably would not have amounted to \$200,000 but for the recodification of the laws and the extra session of the Legislature and the destruction of the buildings at the Glenwood Asylum for the Feeble-Minded, which absorbed some \$300,000 of the revenue. The entire debt was represented by unpaid warrants, and was really insignificant alongside the debts of other States in the Union. The interest on the bonded debt of many a State exceeds the average amount of the principal of Iowa's late debt. Further, it is to be noted that just as soon as the fiscal machinery of the State could be got to work provision was made for the paying off of the floating debt. The Legislature did not allow the debt to drag along and increase. It was wiped out in short order.

Few States can equal Iowa's financial record. Aside from certain debts contracted in the fifties and the war-and-defense bonds issued during the Civil War, Iowa has never been burdened with a bonded indebtedness. At no time has her bonded indebtedness amounted to a million; since 1870 it has never exceeded \$550,000. Now and then her Treasury has been temporarily embarrassed, as recently, but a big funded debt with a large annual interest charge, such as the large majority of States have had and continue to have, Iowa never has had. Considered in the light of the extravagant use of the people's money and of the bonding power in other States, Iowa has a financial history of which her citizens may be proud.

## THE DISPOSAL OF ENDORSED WARRANTS.

In my last report (pages 35-43) I pointed out with some detail the very uneconomical method pursued by the State in obtaining funds when the Treasury was embarrassed. The State at that time could take no advantage of its standing in



the money markets and secure funds at the cheapest rates; it simply permitted investors to enjoy higher rates of interest on its paper than was necessary. When funds were deficient, warrants were endorsed for their holders on presentation and drew 6 per cent until paid. I urged that the Treasurer of State be given power to take charge of such of the State's obligations as could not be met and dispose of them to the highest bidders, and substantial proof was offered to show that a large amount could be saved in the way of lessened interest charges.

The recommendations made by me two years ago met with considerable approval. Gov. F. M. Drake, in his message to the Twenty-seventh General Assembly, commended them (Ia. Doc., Vol. I, 1898, pp. 6-7), and the Healey committee, in their report of their investigations of the State institutions, strongly endorsed them and urged their adoption (House Journal, 1898, pp. 137 and 175). As a result of the discussion the Legislature reduced the rate of interest on endorsed warrants from 6 to 5 per cent (chapter 3, acts Twenty-seventh General Assembly), and in addition passed an act empowering the Executive Council, when the current revenue was deficient, to issue and negotiate warrants in anticipation of the receipts of revenue (chapter 8, acts Twenty-seventh General Assembly), and in this manner provide revenue to pay ordinary warrants as they might be issued. The old law, however, governing the endorsement of warrants when there is a Treasury deficit was left unchanged.

Until July 1, 1898, the old method of stamping warrants for their holders on presentation continued. On that date the financial responsibilities of the local treasurers of the institutions under the Board of Control were transferred to the Treasury Department. The Treasurer of State became responsible for obtaining the funds necessary to carry on the work of the several institutions. If funds were not in the Treasury, he had to go out into the market and obtain the money, or the affairs of the institutions would come to a standstill or experience intolerable embarrassment. The State Treasury continuing to be embarrassed, and perceiving the necessity for obtaining money elsewhere to meet the demands of the State institutions, I called the matter up before the Executive Council in June and asked if any action would be taken under chapter 8, acts Twenty-seventh General Assembly, authorizing the issue of warrants in anticipation of revenues. After some informal consideration, the Council decided not to take any action, as the

Attorney-General intimated that in his opinion the act was unconstitutional.

(a) *Circular to Investors Asking for Bids on Warrants.*

Acting in accordance with the plan outlined in my report for 1895-97, I then decided to advertise for bids on warrants. July 9th I notified the Council that I should ask to open the bids in their presence, and also to have them recorded on the record of the Council's proceedings, together with the award. (See record of the Executive Council for 1898, page 113.) On July 17th I sent out to Iowa banks and investors, and to bankers and brokers in Omaha, Minneapolis, St. Paul, St. Louis, Chicago and New York, the following circular asking for bids on Iowa warrants, and the accompanying contract:

STATE OF IOWA.  
TREASURY DEPARTMENT,  
DES MOINES.

GENTLEMEN—Owing to a deficiency of current revenues a portion of Iowa's State warrants to be issued to meet legislative appropriations, between August 1, 1898, and January 1, 1899, will be stamped or endorsed on presentation at the Treasury. During such period warrants approximating \$300,000 will probably have to be stamped for lack of funds, the amount depending upon the condition of the Treasury. Such State warrants when so endorsed will bear interest at a rate to be fixed by agreement, not exceeding 5 per cent. Under the new law creating the Board of Control, the bulk of the warrants issued for State institutions are drawn to the Treasurer of State, and in order to obtain the necessary funds to meet their demands at the cheapest rate for the State, the Treasurer will dispose of endorsed warrants to the party or parties offering to take them at the lowest rate of interest.

The Treasurer of the State of Iowa, therefore, invites bids for the purchase of Iowa warrants upon the following terms:

Iowa warrants endorsed for lack of funds between August 1, 1898, and January 1, 1899, will be redeemed on or about May 1, 1899. Parties wishing to purchase such warrants must submit sealed bids to the Treasurer of State of Iowa, at Des Moines, on or before 12 o'clock noon, Monday, August 1, 1898. Each bid must contain an express agreement on the part of the person or corporation bidding to take State warrants to the amount of at least ten thousand dollars (\$10,000) at a stipulated rate of interest not to exceed 5 per cent. Said person or corporation must further agree to have ready in Des Moines current funds to pay for warrants, as may be endorsed in the period stated, in case bid is accepted. Such sealed bids will be received at the Treasury Department between July 20th and August 1st, and on Tuesday, August 2d, at 10 o'clock A. M., in the presence of the Executive Council, such bids will be opened and the award made to the party or parties agreeing to take warrants at the lowest rate of interest. The right to reject any or all bids is reserved. A full and complete record of all bids submitted



will be kept by the Treasurer of State, the bids themselves kept on file in his office and the award itself will be entered upon the record of the minutes of the Executive Council of the State of Iowa.

Respectfully,

JOHN HERRIOTT,  
Treasurer of State of Iowa.

N. B. Parties submitting bids will please fill out the enclosed blank form and send it sealed in the accompanying envelope.

#### CONTRACT WITH TREASURER OF STATE OF IOWA.

To John Herriott, Treasurer of State of Iowa, Des Moines:

The undersigned does hereby agree to take Iowa State warrants that may be endorsed and made interest-bearing between August 1, 1898, and January 1, 1899, to the amount of ..... dollars, (\$.....) at ..... per cent (.....%) interest thereon from date of endorsement by the treasurer of State until called in by him for redemption. The undersigned contracting party further agrees to have ready in Des Moines, Iowa, current funds with which to pay par value for such warrants as they are endorsed, upon ten days' notice from the Treasurer of State of Iowa, provided that the foregoing offer is accepted. (Issues of August excepted from notice.)

Dated this ..... day of July, 1898.

At.....

#### (b) The Bids and Awards.

The time allowed was very short, but the results of the circular amply justified the resort to public bids for the disposal of the warrants that had to be endorsed and made interest-bearing. The bids were opened by me in the Treasurer's office, in the presence of Gov. L. M. Shaw, Auditor of State C. G. McCarthy and Secretary of State G. L. Dobson, August 2d, and forty-one regular bids were considered, three-fourths of which were from Iowa financial institutions. The following were the bids:

Number.	BIDDER.	ADDRESS.	Amount.	Rate.
1	Jacob Strauss & Co.	Cleveland, Ohio.	\$300,000	4
2	Citizens National bank	Des Moines.	25,000	5
3	Valley National bank.	Des Moines.	20,000	3 1/2
4	Valley National bank.	Des Moines.	10,000	3 1/2
5	Peoples Savings bank.	Des Moines.	10,000	3 1/2
6	Sweet, Buckman & Co.	Council Bluffs.	300,000	4 1/2
7	Chas. Stratton & Co.	Cincinnati, Ohio.	100,000	4 1/2
8	Dows & Wiley.	Boston, Mass.	300,000	4 1/2
9	Citizens State bank.	Council Bluffs.	100,000	5
10	Lee County Savings bank.	Ft. Madison.	10,000	5
11	Red Oak National bank.	Red Oak.	20,000	4 1/2
12	E. H. Fudge.	Chicago, Ill.	50,000	4 1/2
13	First National bank.	Independence.	50,000	4 1/2
14	Iowa State National bank.	Sioux City.	100,000	4
15	Cedar Rapids Savings bank.	Denison.	10,000	4 1/2
16	Sears McHenry.	Denison.	10,000	4 1/2
17	Peoples Trust and Savings bank.	Pella.	10,000	4 1/2
18	Cedar Falls National bank.	Clinton.	10,000	5
19	Henry County Savings bank.	Cedar Falls.	10,000	5
20	Iowa National bank.	Mt. Pleasant.	25,000	5
21	Omaha National bank.	Des Moines.	20,000	5
22	Second National bank.	Omaha, Neb.	50,000	5
23	First National bank.	Dubuque.	100,000	4
24	G. L. Tremaine.	Omaha.	50,000	5
25	Payette County Savings bank.	Humboldt.	10,000	5
26	Security Loan and Trust Co.	West Union.	10,000	5
27	Iowa State Savings bank.	Sioux City.	25,000	5
28	Council Bluffs Savings bank.	Burlington.	10,000	5
29	German-American Savings bank.	Burlington.	10,000	4
30	German-American Savings bank.	Burlington.	10,000	4 1/2
31	First National bank.	Burlington.	10,000	5
32	Iowa Loan and Trust Co.	McGregor.	10,000	4 1/2
33	Home Savings bank.	Des Moines.	300,000	4 1/2
34	Home Savings bank.	Des Moines.	20,000	4 1/2
35	Home Savings bank.	Des Moines.	10,000	4 1/2
36	First National bank.	Des Moines.	10,000	3 1/2
37	German Trust and Savings bank.	Mt. Pleasant.	15,000	4
38	American Savings bank.	Dubuque.	20,000	4
39	Merchants National bank.	Des Moines.	20,000	5
40	Cherokee State bank.	Burlington.	10,000	5
41	American Trust and Savings bank.	Cherokee.	10,000	5
42	W. J. Hayes & Sons.	Cedar Rapids.	10,000	5
43	C. H. White & Co.	Cleveland, Ohio.	300,000	3 1/4
		New York, N. Y.	300,000	4

Two bids were received which could not be considered, because not in compliance with the conditions of the circular; one that of C. H. White & Co., of New York, for \$300,000, sent by telegram, but arriving August 2d, and that of W. J. Hayes & Sons, of Cleveland, Ohio, offering to take \$300,000 at 3 1/2 per cent, but asking for a commission of 1/4 per cent and failing to sign the contract.

The award was made to the following parties:

Valley National Bank, Des Moines, \$10,000 at 3.89 per cent, \$10,000 at 3.94 per cent, \$10,000 at 3.99 per cent; Home Savings Bank, Des Moines, \$10,000 at 3.99 per cent; First National Bank, Mt. Pleasant, \$15,000 at 4 per cent; German-American Savings Bank, Burlington, \$10,000 at 4 per cent; Second



National Bank, Dubuque; Iowa State National Bank, Sioux City; Jacob Strauss & Co., Cleveland, Ohio, pro rata share of balance of warrants endorsed up to the amount of their bid.

I am confident that had there been more time for getting the matter before the investing public that all of the State's warrants could have been disposed of at  $3\frac{1}{2}$  to  $3\frac{3}{4}$  per cent. The bid of W. J. Hayes & Sons justifies this conclusion. As it was, the result of the bids confirmed the observations of my previous report in a gratifying manner. Nearly \$4,000 was saved to the State in the reduction of interest charges for the short time the warrants were outstanding. If all the warrants endorsed during the past three years could have been handled in the same manner, the State Treasury would be almost \$30,000 better off than it is.

(c) *Refunding at 4 Per Cent.*

As soon as practicable after August 2d, I brought about what I may properly call a conversion of Iowa's floating debt, refunding the outstanding warrants drawing interest at 6 and 5 per cent with warrants at 4 and less under the award of August 2d. A call for warrants numbered 179 to 1428, series "D," amounting to \$83,003.51, was issued August 10th, and again September 26th another was issued calling in all warrants endorsed for lack of funds prior to August 2d. Meantime, as necessity required, new issues of warrants were stamped and assigned to the successful bidders in accordance with agreement of August 2d. On and after October 29th all warrants outstanding bore interest at 4 per cent or less until called in and redeemed April 20, 1899.

Each party allotted warrants under the award of August 2d received practically the full amount of their bid. It was found that it was necessary to endorse \$400,000, instead of \$300,000 as estimated. Some \$33,000 had to be endorsed in January of this year, but they were taken at 4 per cent by Strauss & Co. (For the assignment of warrants, see table No. 158.)

## DIVISION—THE COLLATERAL INHERITANCE TAX.

The collection of Collateral Inheritance Tax has been a prominent part of the work of the Treasury since my last report. New legislation affecting its collection resulted in a large increase in the returns and increased greatly the labors and responsibilities of the Department. The county attorneys of the State and the clerks of the court have been brought into official relations with the Treasurer of State, and experience has developed a number of problems that demand the attention of the Legislature.

During the first year the law was in force, from July 4, 1896, to July 1, 1897, only five estates were reported to the Department as liable for the tax. Not a dollar of tax was paid into the Treasury in that time. Some additional estates were reported or discovered during the second year; yet by April 6, 1898, the total number recorded on the books of the Treasury Department was but fifty. The total amount of tax paid in almost two years amounted to only \$3,567.08. In my last report I pointed out at some length the defects of the law from the standpoint of its administration. Everybody was directed to see to the law's enforcement, but nobody in particular was given the sole responsibility and held accountable for attending to the collection of the tax. The Treasurer of State was directed to take action to compel the payment of the tax in certain contingencies, but the law gave him no power to obtain information as to the whereabouts of estates or means of enforcing collection. Two courses were recommended for amending the law; one that the Treasurer of State be given more power and assistance in the execution of the law, or that the whole matter be turned over to the authorities of the counties. The criticisms offered were later confirmed by the Attorney-General in his report for 1898 (pages 6-7), and supported by Governor Drake in his message to the Legislature.

### I. The Amendments to Chapter IV, Title VII, of the Code.

In consequence of the recommendations Chapter IV, Title VII, of the Code was variously amended by the Twenty-seventh



General Assembly, the Act taking effect April 8, 1898. By its provisions certain alleged defects regarding notice to parties in interest and "due process of law" were corrected, and corporations were made liable for reporting stocks and securities in their possession subject to the tax; but the most important changes affected by the act related to the administration of the law. Section 6 directed that uniform rules should be devised to regulate the assessment and collection of the tax throughout the counties of the state. The fifth section required clerks of court to report lists of heirs and real estate to the Treasury Department of Des Moines, and the seventh section of the Act imposed upon county attorneys the duty of reporting estates and legacies liable for the tax to the Treasurer of State, and, under his direction, of assisting in its collection. The results of this amendatory act were immediate, marked, and of wide beneficial effect.

## II. The New Rules and Regulations.

Pursuant to the authority conferred in the amendatory act, Judge H. E. Deemer, then Chief Justice of the Supreme Court, directed Judges S. M. Weaver, of the Eleventh Judicial District, L. E. Fellows, of the Thirteenth, H. M. Towner, of the Third, Z. M. Church, of the Sixteenth and M. J. Wade, of the Eighth Judicial District of Iowa, to meet with him in Des Moines in June, to assist in devising uniform rules for governing the courts and court officials, through the State, in assessing and collecting the Inheritance Tax. On June 11th, a body of "Rules and Regulations" were adopted to take effect July 4, 1898. They relate to and direct the actions of judges, clerks of court, county attorneys, appraisers of property subject to tax, and the making of books, forms, etc.

The new rules make a considerable addition to the probate law of the State, and they will in time materially alter the probate proceedings of our courts. Rule 2 requires all executors and administrators of estates, no matter how the estates may pass, to file a list of heirs and beneficiaries, and of the parcels of real estate. Complete uniformity in the forms and books used in the counties is secured by Rule 10, which requires that all books and blanks shall be sent out from the Treasury Department, subject to the approval of the Chief Justice of the Supreme Court. Under this rule the Department devised some four different blank forms: A "Collateral Inheritance

Tax and Lien Book," a blank form for the reports of "Lists of Heirs and Beneficiaries and Real Property" to be made by all administrators and executors in all estates entered for probate; an "Appraisement Bill," containing commission and return; a "Notice of Appraisement." A form of notice devised by Judge M. J. Wade, where service cannot be obtained, was also sent out. These forms are now in general use throughout the State.

## APPRAISEMENT OF PROPERTY.

One of the most valuable of the provisions of the new rules and regulations is the appointment by the judges of the district courts, under Rule 4, of regular Collateral Inheritance Tax Appraisers who appraise all property subject to the tax. This rule has achieved good results. Excellent appointments have uniformly been made so far as the Treasurer of State has been able to observe; lawyers, merchants, real estate men, farmers and bankers of high standing in their several counties nearly always being given the commissions.

Personal property, under the rules, is appraised by the regular appraisers as well as real estate. There has been considerable misunderstanding over the matter, in some cases marked opposition to the appraisement of personalty. The original act gave no direction respecting the matter, assuming that the courts would see to it that all property was listed and assessed. The new rules, however, provide that "all property" subject to the tax shall be appraised by the Collateral Inheritance Tax Appraisers, and the Lien Book and Appraisement Bill provide for entries of intangible or personal property.

It is especially desirable that the regular appraisers inspect the inventories of personal property and pass upon them. This kind of property most easily escapes from taxation, and unless representatives of estates and the beneficiaries are subjected to a sharp scrutiny and compelled to make a complete exhibit for the inspection of Boards of Appraisers, a great amount of property will escape paying the Inheritance Tax.

## AMENDMENTS TO RULES RECOMMENDED.

Some amendments should, perhaps, be made to the rules to overcome certain objections. Thus, it is not always practicable, or possible even, to list all personal property within the ten days allowed an administrator. Indeed a considerable time may elapse before all the intangible property can be discovered.



This delay must either cause the postponement of the appraisal of the realty, or two appraisements become necessary, which means a doubling of costs. There has been some complaint about a double set of appraisements; one made under the ordinary statutes for the apportionment of the property among the heirs, and the other for the assessment of the Inheritance Tax. But one appraisalment is needed if it is properly made.

There should be also some modification of the rules respecting the appraisalment of personal property. Very often estates consist solely of notes and mortgages, stocks and other securities. In most instances, where such is the case, the executors or administrators are willing to charge themselves with the full face value of the notes and securities, plus accrued interest. A formal appraisalment in these cases is a needless expense and might very properly be waived. Any amendment of the rules in this regard, however, should contain safeguards to enable the State to benefit where the market value of stocks happens to be above par or face value.

Provision should also be made for uniform procedure in the appraisalment of estates given for life or term of years. Whether certain matters should be considered by the courts or not, as, for instance, the deduction of taxes, repairs, the physical condition of a beneficiary, etc., in computing the taxable value of such an estate, should be determined. Some definite method should be prescribed for the guidance of courts as well as of appraisers, so that the computation of the tax would be uniform throughout the State.

There should be a definite fee established for the compensation of the appraisers of property subject to the Inheritance tax. There appears to be no uniform amount allowed. In some counties \$2 will be given, while \$2.50, \$3, \$3.50, \$4 and \$5 are the amounts allowed in other counties. Some uniformity, it seems to me, ought to be established. Furthermore, the fees should be graded according to the character of the estate appraised. Some estates consist entirely of real and tangible property, easily accessible and readily valued. Other estates are complicated, the inventories exhibiting many kinds of intangible property which require large business experience and knowledge to appraise. The latter require expert ability, and the service should receive higher remuneration than is given in the former class of estates. A fee of \$2.50 to \$3 is probably adequate compensation for appraising the former

class of estates, while \$5 is a fair compensation for the appraisalment of the more complicated estates. Unless the state allows such compensation our courts will not be able to secure the services of first-class men as Collateral Inheritance tax appraisers.

### III. The Returns Under the New Law and Rules.

The beneficial effects of the amendments and new rules are exhibited in the returns since their enactment. As stated, in almost two years only fifty estates were reported to the Department as liable for the tax, and only \$3,500 was collected in that time. Between April 8, 1898, and the close of the biennial period the number of estates recorded on the books increased to 633, and the amount of tax collected totaled \$52,799.52. (For estates see Tables 160-166.) There is now due from one estate in Jones county \$16,000, the payment of which has been delayed awaiting the decision of the Supreme Court upon a suit now pending. A number of estates have been booked, the inventories of which show valuations approaching and exceeding \$100,000. The Collateral Inheritance tax was paid on 179 estates passing entirely to collateral heirs. From twenty-two other estates tax was received, it being paid on legacies and bequests. The gross valuation of the estates which passed entirely or mostly to collateral heirs was, in round numbers, \$1,500,000. The taxable valuation of these same estates after the payment of the debts of the decedents, the expenses in probate and the deduction of the exemption amounted to \$963,741.23.

During the period the largest number of estates reported as liable for the Inheritance tax from any county was thirty-eight from Dubuque county. Scott was next, thirty-three being credited on the books. In the amount of tax paid Scott county leads all others, some twenty-two estates paying taxes amounting to \$7,363.50. From Des Moines county was received \$4,359.03; from Clayton county, \$1,585.54; from Dubuque county, \$2,954.55; from Johnson county, \$2,963.66; from Mahaska county, \$3,041.52; and from Polk, \$3,906.50. (For the receipts from other counties see Table 166.)

There are several counties in the State from which no estates or legacies liable for the tax have been reported during the last three years. There are a considerable number of counties from which only one or two estates have been reported. The



fee allowed county attorneys for reporting them has been apparently no inducement to some to investigate the probate records. I am confident that a large number of estates and legacies liable for the tax have not been reported. This opinion was confirmed not long since by an expert accountant who had been examining the records of county offices in southwestern Iowa. He told me that he had discovered many estates that had not been reported and he desired to enter into an arrangement with the department whereby he could obtain a fee for reporting them. This proposal could not be considered, since the law does not permit such arrangements with private citizens.

#### TREASURY INSPECTORS OF PROBATE RECORDS NEEDED.

This condition of things should not be permitted to continue. In many instances the beneficiaries of estates do not know of the law taxing collateral benefits, and it is overlooked by attorneys and courts. Estates have been settled without the tax being paid and many are in the process of settlement in those counties. The tax is a lien against the property until paid and it is to be collected whenever the liability of the estate is discovered. In two counties the department discovered estates that had been settled and the tax overlooked and we had to proceed against the administrators. Great annoyance and considerable expense will be unnecessarily inflicted upon persons if estates liable for the inheritance tax are not promptly reported and looked after.

The Treasury Department should be given authority and adequate means for thoroughly investigating the probate records of our counties. It should have one or two inspectors who would devote their entire time to inspecting the probate inventories, and the records of the County Recorders' offices and who would be subject immediately to the directions of the head of the Department and report to him direct. Two years' experience convinces me that this is the only effective way of obtaining the necessary information from counties where the local authorities are averse to reporting estates or indifferent about the matter.

The Inheritance tax is a matter in which the State Government is especially interested. Its entire proceeds are paid into the State Treasury for the exclusive use of the State. The State should not therefore be wholly dependent upon local

authorities who may be indifferent about reporting estates subject to the tax. At present the State is helpless if the Clerk of Court and County Attorney are both unwilling to make report and the Court and the attorneys for the estates fail to attend to the tax. The Treasurer of State should have authority to send an inspector of probate records into any county where he has reason to believe estates are not reported, just as is done by the United States Treasury Department in the collection of similar taxes. Later, in another connection, I shall indicate how such inspectors may also perform the duties of attorneys or solicitors for the Treasury in the enforcement of the law.

#### IV. County Attorneys and the Collection of the Collateral Inheritance Tax.

Section 6 of chapter 37 of the Acts of the last Legislature makes it the particular duty of county attorneys to report to the Treasurer of State all estates in their several counties which are liable for the Inheritance tax, and when directed by the Treasurer to perform other legal services in the collection of the tax. As an inducement to keep a keen lookout for estates so liable, and as a compensation for the expenditure of time and effort in rendering such services, a fee of 10 per cent of the amount of tax collected is allowed up to \$20 for reporting estates, and 3 per cent of the tax up to \$150 for legal services. The purpose of the clause was to afford the Treasury Department definite sources of information and assistance in the enforcement of the law. The results, as we have seen, have amply justified its enactment. The workings of the present statute, however, have not been wholly satisfactory, and some additional legislation is needed. The law relating to the compensation of county attorneys for their services in the collection of the Collateral Inheritance tax is the following:

For reporting such estates or property the county attorney shall receive a compensation of ten (10) per cent of the tax payable to the State, but not to exceed the sum of twenty dollars (\$20) in any one estate; and for additional legal services performed under the direction of the Treasurer of State, he shall be paid a compensation of three (3) per cent on the amount of all taxes collected from estates so reported by him, but in no event shall the amount thereof exceed the sum of one hundred and fifty dollars (\$150) from any one estate. When the Treasurer of State is satisfied that an estate reported by the County Attorney is liable to the tax, he shall so certify to the Auditor of State, who shall issue his warrant on the Treasurer



of State in favor of said county attorney for the sum due for reporting said estate as herein provided, and all other compensation shall be paid said county attorney in like manner when the tax is collected and paid into the State Treasury.—[Sec. 7, Ch. 37, Acts 27th G. A.]

#### FEES PAID COUNTY ATTORNEYS.

For the assistance rendered by the county attorneys in collecting the Inheritance tax there was authorized paid out the sum of \$1,519.21 in fees. Of this amount \$1,405.23 was paid in fees for reporting estates, and \$113.98 for legal services. The amount of tax collected on account of which these fees were ordered paid was \$34,313.16. (For details see Tables 164-165.)

#### RULES GOVERNING COMPENSATION OF COUNTY ATTORNEYS.

Experience under this section soon demonstrated that the Department would be involved in endless complications if a definite set of rules for allowing fees were not adopted and strictly adhered to. The law leaves a number of matters indefinite, and the Department had to place a construction upon the section. Thus County Attorneys have been required to report estates personally over their own signatures, and no arrangements with appraisers and other court officials for reporting estates to the Department are recognized in the allowance of fees. It was found further that if the Treasurer was to be held responsible for the legal measures instituted to compel administrators and executors to comply with the law, he should issue the instructions to initiate the necessary proceedings. Hence the regulation of the Department that no fee for legal services is allowed unless definite and formal instructions are sent out. (See pages 231-238 for the general instructions issued to County Attorneys.)

##### (a) *The Reporting Fee, when Allowed.*

Two complications were soon encountered in allowing fees for reporting estates. One arises when the Treasurer of State learns of estates liable for the tax from sources other than the County Attorney. The second relates to the time for allowing the reporting fee.

From the outset it has been a rule of the Department that no fee will be allowed a County Attorney for reporting an estate concerning which knowledge had previously been received from other sources. The chief object sought in the enactment of the provision was to get information to the

Treasurer of State concerning the liability of estates. As an incentive to County Attorneys to be alert in looking out for such estates a fee is offered. But the Treasury Department is not dependent on this source alone. Information comes from Clerks of Court, representatives of estates, appraisers' notices, banks and corporations, and from private citizens; and if the Treasurer of State hears of estates from these sources he needs no subsequent notice. He can proceed to take the necessary steps to enforce payment of the tax. For this first and original notice only the State offers to pay County Attorneys. Such, at least, has been the construction followed, and we were confirmed in so construing the law by an opinion rendered by Attorney-General Remley, from which the following extract is taken:

\* \* \* It cannot be said that the law contemplates that the estates shall be reported more than once to the Treasurer. The purpose is to give information to the Treasurer as to what estates are liable for the tax, for which the State, under the new law, expects to pay; but it should not be expected to pay for information which it already has. There is no more reason for saying that the present County Attorney should receive compensation for reporting an estate which had been reported by other parties before the law was passed, than there is for saying that the County Attorney who goes into office say next January, shall receive compensation for reporting all the unsettled estates which have been reported by his predecessor. (See page 201)

The rule has worked somewhat hardly in several instances, and some material objection can be made to it. Thus, there may be but a few days intervene between the time we learn of an estate from an outside source and the receipt of the notification of the County Attorney, and the latter may have used due diligence. Again, an estate may have lands in several counties, and several attorneys report the estate at about the same time. Further, it may now and then occur that personal enmity will exist between a County Attorney and a Clerk of Court, and the latter may take advantage of his position to transmit early reports to the Treasury Department of estates liable for the tax, and thus, under the rule now in force, maliciously thwart a County Attorney out of the reporting fees.

On the other hand, in cases where County Attorneys are indifferent about reporting estates promptly—and there are several counties from which we have not been able to get any reports at all—it is manifestly contrary to the purpose of the



Act to pay a fee for knowledge long in the possession of the Department. To allow a reporting fee to County Attorneys regardless of previous information would take away the incentive to promptness in reporting them which the fee is supposed to be. It would encourage indifference. It is not practicable apparently to make a time limit within which County Attorneys may report estates and get the fee even though previously reported by other parties. With the law as it is the present rule must be adhered to. The law, however, should be amended. To what extent I shall outline shortly.

A second complication arose over the time for paying the reporting fee. The fee is a percentage of the tax up to a certain amount and is payable when the Treasurer of State is "satisfied" that an estate reported is liable. The language is not satisfactory and gives good grounds for confusion and complaint. The rule that the fee is not paid until the tax, or a portion sufficient to allow the maximum reporting fee, is paid has been adopted for the reason that it is impossible to know definitely and exactly what the fee should be until the tax is paid. Estates almost invariably shrink in value, assets being less or debts and expenses greater than anticipated at the time an estate is first entered in the records. This regulation means a long postponement, usually, in the allowance of the fees for reporting and serious objection has now and then been raised. But if any other rule should be followed the Treasurer of State would render himself liable for excessive fees paid out where the tax collected from estates falls below the first sanguine anticipations of an attorney. It is not unlikely that the Auditor of State could, and would properly, refuse to draw the warrant if the Treasurer of State should issue a requisition for the fee before the tax was paid into the Treasury.

#### THE FEE FOR LEGAL SERVICES.

The fee allowed by the Statute for legal services has not proven an adequate compensation in the majority of cases for the services generally required in the successful conduct of cases. So far the reporting fees have, with but one or two exceptions, ranged higher than the fees for legal services. A number of successful suits have been ably and skillfully conducted by County Attorneys in behalf of the State in cases involving important features of law, and of large financial importance to the State Treasury, and the fee has been far from commensurate with services rendered.

#### RECOMMENDATION RESPECTING FEES.

Judging from the experience of the past year I believe better results will be attained if the reporting fee and legal service fees are combined in one general fee and the amount increased; and I urge that the law be so amended as to allow County Attorneys a fee of 5 per cent of the amount of tax collected up to \$150, the maximum now authorized. For this increased fee County Attorneys would be expected not only to report estates, but to take entire charge of the collection of the tax from estates probated in their several counties so far as concerns compelling administrators to file their inventories, having Clerks of Court issue commissions to the regular appraisers, and seeing that appraisements are properly made and the tax assessed is paid into the State Treasury.

In addition, where estates involve litigation, where a serious contest arises and issues are joined in a regular suit, or a matter is formally presented to a court and arguments are made to the judge, I recommend that the fee be 10 per cent of the amount collected up to \$150. It should also provide that a County Attorney who first assumes charge of the assessment of the tax against any estate shall continue in charge until the tax is paid, even though his term of office may have expired. He will be able to look after such estates more successfully, having had charge of them, than his successor; and this arrangement will prevent any confusion over the allowance of fees. Proper safeguards should, of course, be inserted for such contingencies as the refusal or neglect of County Attorneys to look after estates.

The increased fee here recommended is about the same as that received by attorneys, banks and similar agencies that make a business of collections in current commercial life, and I think that it will be profitable for the State to allow such a fee for the collection of the Collateral Inheritance Tax. As may be seen from the resume of the matters in litigation during the past two years, there have been many difficult and very important questions coming before the courts in consequence of the assessment of the Inheritance Tax which must be looked after by the County Attorneys. It is, therefore, expedient and wise that their compensation be sufficient to induce them to put forth their best efforts to protect the State's interest. With the present fee such is not the case.



### V. Matters in Litigation.

The collection of the Collateral Inheritance Tax has involved considerable litigation. The Treasurer of State has been enjoined in a number of instances by parties seeking to avoid payment of the tax, and he has ordered county attorneys to initiate proceedings in their district courts to secure the interests of the State. There were some fifty-three estates in which such action was taken or ordered. In some cases action was ordered simply to compel the responsible parties to comply with the law. A number, however, involve important questions of law and are of vital interest to the State, in which issues were joined and arguments made and submitted. (For cases and details see pages 241-263)

#### (a) *Injunctions and Efforts to Overturn Law.*

Injunction proceedings were instituted against me as Treasurer of State in five counties, namely, Pottawattamie, Jefferson, Jones, Van Buren and Muscatine counties, representatives or beneficiaries of estates seeking to prevent the collection of the Inheritance Tax. The petitions in each case allege the unconstitutionality of the statute, claiming that it violates the Fourteenth Amendment to the Constitution of the United States, which declares that no man's property shall be taken from him without due process of law. The contention of the complainants is that the parties in interest are not, under the original act imposing the tax, given due notice of the assessment of the tax and an opportunity to appear and protect their rights. In the first case that of *Ferry et al. (heirs of the Stewart estate) v. Campbell, Executor, and John Herriott, Treasurer of State*, the District Court of Pottawattamie county decided the law unconstitutional. An appeal was taken by the State and the argument of the latter has been submitted. The Supreme Court is now awaiting the submission of the appellee's argument. As soon as the latter is made an early decision is expected. The courts of the country have so uniformly sustained the principle and method of succession taxes that little doubt is entertained as to the outcome of the pending suit. The delay in getting this case decided has caused many to hold back in paying the tax.

The Legislature, as already stated, amended the law so as to remedy any possible defect in the matter of due notice and right of judicial review of the appraisement, and incorporated a retroactive clause to afford a rehearing in unsettled estates.

In a suit to enjoin me, brought in Jefferson county, where the representatives of the estate of J. S. Dole set up the unconstitutionality of the tax as ground for their petition, the court held that the retroactive clause was sufficient remedy for their complaint. The court in this instance avoided deciding the point at issue in the Pottawattamie case.

An additional ground is set out in the suit in Muscatine county on the part of the representatives of the Margery Busbee estate, namely, that the law taxing collateral inheritances violates Section 6 of Article 1 of the Constitution of Iowa, which declares that all laws shall have a uniform effect and treat each citizen equally. The complainants further allege that the property had previous to the death of the testatrix been assessed and taxed and the Collateral Inheritance Tax is therefore a double tax.

The Department was successful in a suit brought in the District Court of Des Moines county by the heirs of the Virginia Shelton estate, wherein the claim was made that the original act (viz.: Chapter 28, Acts Twenty-sixth General Assembly) was not properly passed by the General Assembly and hence was void. The ground of the claim was that the House Journal showed the intervention of other business during the roll call, which rendered the procedure defective. The Department was able to show by the testimony of the Chief Clerk of the House that the apparent defect was simply a clerical error in copying the Journal and that the passage of the bill was entirely regular and complete from beginning to end. No appeal was taken.

#### (b) *The Deduction of the Exemption.*

The application of the so-called exemption of \$1,000 to estates liable for the tax and the nature of the appraisement of such estates was determined by the Supreme Court in the case of *The McGhee Estate v. The State*, appealed from Scott county. The contention of the State that the exemption applied to the entire estate and not to the shares of each beneficiary was sustained, and also that the appraisement contemplated by the law was the "market value" of the estate and not its assessed value as given by local assessors. The opinion of the lower court was confirmed.

The matter of the exemption has been the subject of much contention. Whether it should be deducted from the entire



estate no matter how it passes, the collateral heirs simply enjoying their *pro rata* share, or whether it is deducted from the portion of an estate going to collateral heirs; whether it is deducted from specific legacies, and how it should be apportioned where part of an estate is situated outside of Iowa, these are some of the points in controversy. Following the instructions of the Attorney-General (see pages 206-208) the Treasury Department has insisted upon the application of the exemption to estates only, that collateral heirs enjoy simply their proportion and specific legacies pay upon the entire amount. The District Courts are not of one opinion respecting these questions. The Court of Wapello county decided against the state in its method of computing the tax where a portion of an estate went to the widow and a part to collateral heirs. An adverse decision in the matter of specific legacies was rendered in Johnson county. The latter, *John Herriott, Treasurer of State, v. Seldon Bacon, Executor*, has been appealed and will soon be argued before the Supreme Court.

In his argument in this case recently submitted to the Supreme Court, the Attorney-General contends for a construction of the law which will, if admitted by the court, not only reduce the difficulties pertaining to the exemption to a minimum, but increase considerably the receipts from the tax. He holds that where an estate exceeds \$1,000 in clear value, no exemption is allowed, but that the tax is assessed against the entire amount of the estate. He argues that the so-called exemption is simply descriptive of estates subject to the tax.

(c) *Liability of Life Insurance Policies.*

The liability of the proceeds of life insurance policies for the Collateral Inheritance Tax is a subject of considerable financial as well as legal interest. The subject was brought to bar in *In re McCammon Estate* in Polk county. The claim of the State to tax the proceeds of such policies where they are a part of the avails of an estate and distributed among the beneficiaries like other assets was sustained by the court. The heirs, however, have appealed, claiming that the State is to be regarded in the light of a creditor who is prevented from levying upon the proceeds of life insurance under the general statute exempting beneficiaries of policies from liability for the debts of a decedent policy holder.

(e) *Liability of Personal Property Temporarily Out of the State.*

One of the most important questions arising under the Inheritance tax is the assessment of personal property located outside the State but belonging to an estate in Iowa. This was squarely in issue *In re Weaver Estate* in Lee county, where at the time of decedent's death he had some 400 head of cattle grazing just across the state line in Missouri. The cattle were sold by the executors, and the money obtained from the sale deposited in a Keokuk bank for distribution with the remainder of the estate. I instructed the County Attorney to claim the tax against this property, for the reason that although outside of the jurisdiction of the State at the time of death, yet for all purposes of the transfer of the estate in probate it was a part of the estate in Iowa, and was so considered by the executors. The decision of the lower court was adverse. An appeal has been taken. If this decision is not reversed it will be exceedingly difficult to prevent evasion of the tax by parties owning large amounts of intangible property which can easily be sent out of the State when they feel death to be near at hand.

(f) *Liability of Personalty of Nonresident Decedents.*

Involving the same and other questions of jurisdiction, one of the most important cases coming before the Department during the last biennial period is the case of the Sheldon estate, of Rockford, Ill. The material facts relating to the estate and the steps taken by the Department to compel payment of the tax upon the intangible property of the estate relating to Iowa are given in my letter to Attorney-General Remley under date of April 24, 1899, asking for his opinion as to the liability of such property of nonresidents for the Iowa tax:

The Sheldon estate consists of large properties in Illinois and Iowa, and, we believe, other States. The decedent owned real estate in several counties of this State. We have information to the effect that he owned stock in at least one corporation in Iowa, namely, a bank, and that he died possessed of sundry notes of residents of Iowa, some, or the most, of which were secured by mortgages upon Iowa real estate.

Upon notification of the liability of this estate for the Collateral Inheritance tax, the attorney for the estate informed us that the parties in interest were willing to pay the tax on the real estate in Iowa but were not disposed to pay the tax upon the personal property, especially the notes and mortgages and other intangible property belonging to the decedent, claiming that such personal property is not properly within the jurisdiction of this State.



On April 4th we issued instructions to the County Attorney of Lyon county to make an application to his District Court for the appointment of a special administrator to look after the State's interests. At the same time we notified the attorney for the estate of our action, and that the special administrator would proceed to take all necessary measures to discover the amount and whereabouts of the personal property pertaining to Iowa, and that the expenses incurred would be charged against the real property.

The attorney for the estate called on us April 10th, and offered to pay the tax upon the real estate in Cherokee, Lyon, Osceola, Union and Woodbury counties. He further intimated the possible willingness of his clients, in view of Sections 3 and 4 of Chapter 37, Acts of the Twenty-seventh General Assembly, to file a statement of the amount of stock owned in Iowa corporations and to pay the tax thereon. He stated, however, that the beneficiaries maintained that the notes and mortgages before mentioned were not properly within the jurisdiction of this State, and could not be justly taxed, and he believed that our law could not be sustained in court.

To his offer to pay the tax on the real estate we declared that we would accept payment only with the express understanding that the real estate was to be held liable for the tax on the personal property that might be discovered.

Attorney-General Remley sustained the position taken by the Department respecting the Sheldon estate. At this writing it cannot be stated what action the executors of the estate will take. The questions involved are of fundamental importance, and should be passed upon by the court of highest resort, in this case the Federal Supreme Court. The courts of various States are not in complete accord in their opinions, and the points should be definitely settled.

(g) *Other Matters in Controversy.*

Other important and interesting questions have been considered to a greater or less extent in some of the cases which have been or are now in court. Among them may be mentioned the appraisement of personal property by the regular Collateral Inheritance Tax Appraisers, whether property should be appraised at the time of decedent's death or at the time of distributing the estate among the heirs or devisees; whether the stock of corporations outside of Iowa, but held in Iowa at the time of owner's death, was assessable.

THE NEED OF A TREASURY SOLICITOR.

Sufficient has been given to show the number and wide scope of the legal questions now constantly presenting themselves. The cases indicate the need of the appointment of a Treasury solicitor who shall look after the conduct of the many

suits in the District Courts now pending, and in which the Department will continue increasingly to be engaged. The Attorney-General does not have the time to give personal attention to cases in the District Court, except in rare instances where they are especially important. With his other duties he can only look after them in the Supreme Court. The Treasurer of State should have a legal assistant who can go into the counties and assist County Attorneys in the prosecution of cases, and at the same time advise the Department, Clerks of Court, County Attorneys, administrators and executors respecting the law taxing Collateral Inheritances. Not only in connection with the collection of the Inheritance Tax is the Department in need of a legal assistant, but frequently in other divisions of the work, as the suits brought against the Treasurer last year by the insurance companies demonstrated. The need for such a solicitor will increase as the responsibilities of the Department increase, and I recommend the passage of a law empowering the Treasurer of State to appoint a solicitor, such appointee to be a graduate of a law school and a lawyer of at least five or ten years' practice at the bar. Such solicitor could perform also the duties of inspector of probate records as before indicated. He could also render valuable assistance to the Attorney-General in the preparation of cases for the Supreme Court and help in the arguments before that body.

ALL ASSETS AND LIABILITIES OF ESTATES SHOULD BE REPORTED.

Besides the inability of the Department to obtain information as to the whereabouts of estates, much difficulty has been experienced in obtaining exact information as to the taxable value of estates. In one notable instance the court made a decree of final settlement and of the tax due the State. The attorneys for the estate forwarded the amount. We asked for the appraisement papers. An inspection of them showed that on the basis of the returns there was some \$90 more tax due the State. Further inquiry resulted in the discovery of more property. In all the attorneys for the estate sent three drafts, the aggregate of which was more than \$100 greater than was decreed by the court.

On the other hand, quite a number of cases might be mentioned where parties remitted more tax than due. One striking instance was that of a bank president, who sent a draft, stating



that he had made his final report to the District Court and wished his discharge. Writing him for the papers we found that there was no tax due at all. The estate was not taxable, as there was not sufficient property to make it liable. But for the rule of the Department in obtaining information relative to the nature and amount of estates, the beneficiaries of that estate would have been improperly taxed.

The fact appears to be that the bulk of the probate business passes through our Courts without severe scrutiny on the part of the Judges. It is only in contested cases or where objections are raised or matters of special interest to the Court exist that wills or inventories or reports of administrators are closely examined. In our large counties the Courts are so pushed with business that probate matters are transacted almost entirely by the attorneys for the estates. Such occurrences as given have not been infrequent during the past two years, and they reinforce the previous recommendation and demonstrate the need of central supervision of the collection of the Inheritance tax. The Department should receive information as to the nature and amount of each estate, not only that the State may know exactly what is due its treasury, but for use as statistical data.

#### RESTRICTION OF THE EXEMPTION TO BROTHERS AND SISTERS IN IOWA.

I strongly recommend the restriction of the so-called exemption of \$1,000 solely to brothers and sisters of a decedent resident in Iowa. As before indicated, its application has been a constant source of controversy where estates go to direct and collateral heirs, or are partly in Iowa and partly in other States, and little benefit is conferred. Restricting it to brothers and sisters in Iowa recognizes closeness of kinship and the intimate and somewhat dependent relations that now and then exist between them and a deceased brother. Where property goes to others, even to brothers outside the State, there seldom exists any personal intimacy or dependence that justifies the Iowa exemption. In the case of property going to people remotely connected, and especially where it goes to Canada and Europe, the allowance of a deduction of \$1,000 is not called for at all. I therefore recommend its discontinuance except as just indicated.

#### A GRADUATED TAX RECOMMENDED.

In this connection I suggest the advisability of increasing the rate of the tax upon property going to collateral heirs which may go outside the State and outside the National jurisdiction. This would be thoroughly in harmony with wise public policy and sound finance. The citizens of this State are taxed to support our Police and Courts and Government which protect a man in his life and property. If on his death his property goes entirely out of the State, goes to New England or to Germany, as numbers of estates do, it is not unjust or unwise to assess a larger tax against such property than is charged against estates going to persons resident in Iowa and constant contributors to our industries and State and local governments. A tax of 7 per cent upon estates or legacies going to collateral beneficiaries living outside of Iowa but citizens of other States of the United States, and a tax of 10 per cent upon property passing to heirs or devisees living in a foreign country, should be instituted. The same rates of assessment should prevail where estates probated outside of Iowa possessing lands and personalty in this State pass to collateral beneficiaries.

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#### DIVISION—STATE INSTITUTIONS UNDER BOARD OF CONTROL.

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By the provisions of Section 38 of Chapter 118 of the Acts of the Twenty-seventh General Assembly the local Treasurers of the Soldiers' Home, and of the charitable, penal and reformatory institutions of the State, fourteen in all, were directed to turn over to me as Treasurer of the State of Iowa all funds belonging to such institutions in their possession on July 1, 1898. By that act the office of local Treasurer for those institutions was abolished and all the duties transferred to the Treasurer of State, who henceforth was to be the financial officer of the institutions. By the provisions of Section 42 of that Act all bills of the same institutions, whether for supplies, services, or pay rolls, or any other expenses, were to be paid monthly by the Treasurer of State by means of his check, upon the certification of the bills to him by the Board of Control, under which the several institutions were placed.



The fourteen institutions affected by the Act were the four Hospitals for the Insane, located at Clarinda, Cherokee, Independence and Mt. Pleasant; the Institution for the Feeble-Minded at Glenwood, the two Penitentiaries at Anamosa and Ft. Madison, the Soldiers' Home at Marshalltown, the Industrial School for boys at Eldora and the same for Girls at Mitchellville, the School for the Deaf at Council Bluffs, the College for the Blind at Vinton and the Industrial School for the Blind at Knoxville, and the Soldiers' Orphans' Home at Davenport.

#### RECEIPTS OF REVENUE FROM INSTITUTIONS.

On July 1, 1898, or very soon thereafter, there was received from the local Treasurers of the institutions all funds in their possession. The total amount of refunds made was \$36,588.88. The credits given the institutions were, \$22,087.27 to the support fund, \$2,534.07 to the salary and wages funds, \$3,111.74 to unexpended appropriations for repairs and contingent expenses, \$809.58 to the account of new buildings, and \$8,195 to sundry miscellaneous funds.

During the year there was received from the fourteen institutions under the Board of Control \$124,828.62, chiefly the proceeds of sales of farm produce and manufacture at the institutions. About one-third of this amount was covered into the Treasury and credited as miscellaneous receipts of General Revenue of the State Government. The other two-thirds was credited as additions to the Legislative appropriations of the institutions.

The amount credited to the General Revenue Fund of the State, between July 1, 1898, and June 30, 1899, was \$32,511.47. From the Warden of the Penitentiary at Anamosa was received \$1,434.21, and from the Warden at Ft. Madison \$29,819.28. The receipts from the institutions at Independence, Eldora, Vinton and Glenwood, being refunds on account of board and traveling expenses of inmates, etc., amounted all told to \$1,057.98. (For details see tables 167-182.)

The receipts from the institutions which were credited as additions to the Legislative appropriations amounted to \$92,317.48, of which \$61,765.21 was credited to their support funds, \$2,559.07 to the appropriations for salaries, \$9,623.03 to contingent expenses and repairs, \$988.87 to buildings, and \$17,431.30 to various funds. The total received from each institution to the credit of their several appropriations was as follows:

INSTITUTION.	LOCATION.	AMOUNT.
College for Blind	Vinton	\$ 11,005.30
Industrial Home for Blind	Knoxville	9,834.87
Feeble-Minded	Glenwood	2,234.02
Industrial School, boys	Eldora	3,267.76
Industrial School, girls	Mitchellville	1,239.28
Hospital for Insane	Cherokee	494.97
Hospital for Insane	Clarinda	8,460.51
Hospital for Insane	Independence	10,436.19
Hospital for Insane	Mt. Pleasant	3,414.83
Penitentiary	Anamosa	7,703.59
Penitentiary	Ft. Madison	16,741.11
School for Deaf	Council Bluffs	3,835.63
Soldiers' Home	Marshalltown	12,124.01
Soldiers' Orphans' Home	Davenport	689.95
Total		\$ 92,317.48

The reason for the distribution of the receipts of revenue partly to institution appropriations and partly to the general revenue account of the State has been necessitated by the fact that prior to the passage of the present law the heads of institutions did not pay the moneys received from the sales of farm produce and manufacture into the State treasury, but expended them for their maintenance. This income of most of the institutions was reckoned with and assumed by the General Assembly in making their regular biennial appropriations. Hence, if such receipts were not so credited that they could be drawn as a part of the funds appropriated, some of the institutions would be seriously hampered. (See opinion of the Attorney-General, pages 218-219.)

The amounts credited to the general revenue fund of the State were receipts that were not essential parts of support funds. Thus, in the case of the Ft. Madison penitentiary, all the support fund allowed by law was credited to the institution and as much drawn as needed, and all the earnings of the convicts were turned into the general revenue fund. Otherwise the appropriation would be increased greatly beyond the intent of the General Assembly.

#### DISBURSEMENTS FOR INSTITUTIONS.

Between July 1, 1898, and June 30, 1899, there was disbursed by me for the institutions under the Board of Control the sum of \$1,124,308.71 for various purposes: For general support, \$773,917.03; for salaries and wages, \$117,930.88; for repairs and contingent expenses, \$28,542.80; for new buildings, \$145,242.11 (\$121,774.00 was on account of the Cherokee Hospital contracts entered into by the old Commission in 1896 and 1897) and \$58,675.88 for miscellaneous expenses of the institutions.



The disbursements of revenue from the State Treasury for each of the institutions during the past fiscal year were as follows:

INSTITUTION.	LOCATION.	AMOUNT.
College for Blind.....	Vinton.....	\$ 25,892.65
Industrial Home for Blind.....	Knoxville.....	15,773.77
Feeble-Minded.....	Glenwood.....	107,756.68
Industrial School, boys.....	Eldora.....	48,103.92
Industrial School, girls.....	Mitchellville.....	19,141.88
Hospital for Insane.....	Cherokee.....	122,205.79
Hospital for Insane.....	Clarinda.....	134,758.98
Hospital for Insane.....	Independence.....	141,713.77
Hospital for Insane.....	Mt. Pleasant.....	117,710.53
Penitentiary.....	Anamosa.....	131,213.75
Penitentiary.....	Ft. Madison.....	85,136.98
School for Deaf.....	Council Bluffs.....	45,409.77
Soldiers' Home.....	Marshalltown.....	84,273.10
Soldiers' Orphans' Home.....	Davenport.....	45,217.14
Total.....		\$1,124,308.71

For details respecting the purposes for which the foregoing disbursements were made see tables 183-197.

The disbursements shown above are simply the amounts actually checked out of the Treasury during the year. They do not exhibit the actual cost of the institutions to the State during such time. In June, 1898, the officers and trustees of several institutions made expenditures that were for their maintenance during July, owing to the fact that the Board of Control could not require estimates of expenses prior to July 1st. Moreover, each institution had on hand a greater or less amount of supplies that properly should be charged to the expenses of the past year. Further, none of the bills for June, 1899, were paid until July, after the close of the biennial period, and are not included in the above exhibit, and none of the earnings for June are shown, they being paid into the Treasury in July. Finally, all of the receipts of revenue from the institutions for the year and the amount of unexpended contingent funds in the hands of Superintendents should be deducted in order to obtain the net cost of the several institutions.

#### METHOD OF DISBURSING FUNDS.

These disbursements are made by Treasury checks, upon receipts of the abstract of the bills of each institution from the Board of Control and of Auditor's warrants to meet the amount of the bills audited and allowed. The Treasurer of State now performing all the duties previously imposed upon the local Treasurers, the warrants for the institution are all drawn to

my order. As soon as received from the Auditor their proceeds are deposited in the two depositories selected for the State Institutions. The banks selected by me were the Des Moines National Bank and the Valley National Bank, both of Des Moines. All disbursements for the Insane Hospitals and the School for the Deaf at Council Bluffs and the College for the Blind at Vinton are made through the Des Moines National Bank, and all payments on account of the State Penitentiaries, State Industrial Schools and the Soldiers' Home and Soldiers' Orphans' Home are made through the Valley National Bank, each being a depository for seven institutions.

Upon these depositories treasury checks are drawn and mailed to all parties mentioned in the Board of Control's abstract. The check is so designed as to show the authority for its issue and the institution on account of which it is issued. When returned to the Treasury at the end of each month by the depositories the checks are receipts for the payment of all bills contracted by the institutions and allowed by the Board of Control. They are filed away according to institutions, thus making easy any investigation of the condition of an account.

#### AUDITING THE INSTITUTION ACCOUNTS.

The Act creating the Board of Control and making the Treasurer of State the Treasurer for the institutions under its jurisdiction, increased the financial responsibilities of the Treasurer's office several millions of dollars in the course of a biennial period. But it made no provision whatever for auditing his accounts as Treasurer of the State Institutions. While the original bill was pending in the Legislature I called the attention of the framers of the measure to the oversight but it was not remedied.

The situation was extraordinary. I was given an immense authority and responsibility and no method was provided for official inspection and certification as to whether all moneys deposited with me as Treasurer of the institutions were fully accounted for and disbursed to the proper parties in accordance with law. I doubt if any officer was ever before clothed with such financial responsibilities with such freedom from supervision.

The present Treasurer, however, although the assumption of the framers of the Act that the Treasurer of State would faithfully perform the duties assigned him might be taken as flattering in the extreme, did not care to exercise the powers of his office free from inspections. He did not care to subject



himself to the suspicion that could easily and naturally would arise if no one officially audited his accounts. For the purpose of self-protection, therefore, and because he believed that every public officer handling public funds should have his accounts and financial transactions regularly inspected by some official outside his Department, he asked his colleagues in the Executive Council to appoint two accountants to inspect the institution accounts for the six months ending December 31, 1898, and to have the report of their findings spread upon the record of the proceedings of that body. My request was acceded to. (See Record of Council for 1899, pages 149-150). Perceiving that I should have to make such requests periodically unless the matter was formally ordered, I presented the following resolution to the Executive Council and moved its adoption:

A RESOLUTION: Whereas, the provisions of Chapter 118 of the Acts of the Twenty-seventh General Assembly, creating the Board of Control of State Institutions, makes the Treasurer of State the financial officer of the fourteen institutions affected by said act who shall receive, take charge of and disburse all moneys for such institutions in accordance with law (Sections 38, 39 and 42); and

Since said act designates no officer or persons, and provides no method or time for auditing the accounts and transactions of the Treasurer of State as the Treasurer of the several State institutions herein referred to; and

As it is the particular wish of the present Treasurer of State that his accounts and official acts as the financial officer of the aforesaid institutions be regularly audited and certified to by proper accounting officers designated for such purpose by the Executive Council; therefore be it

*Resolved*, That the Governor [Secretary of State] and Auditor of State shall regularly appoint two expert accountants, the two so designated to act as a committee to examine the books and vouchers of the Treasurer of State in so far as they relate to his duties and responsibilities as the financial officer of the State institutions under the Board of Control, and to make a written report of the result of their findings to the Executive Council, which report shall be spread upon the minutes of said Council. Such examinations by the aforesaid committee of accounts shall be made quarterly, between the first and seventh days of the months of January, April, July and October.

This resolution, with the addition of the Secretary of State's name, was unanimously adopted April 1, 1899. (See Record, pages 189-190.) Since then my accounts have been audited in accordance with the directions of the resolution by two accountants, one from the Governor's office and one from the Auditor's office. This regulation, however, should be made a statutory requirement.

COMPARISON OF COSTS OF THE INSTITUTIONS UNDER THE  
MANAGEMENT OF TRUSTEES AND UNDER  
THE BOARD OF CONTROL.

The relative or comparative cost to the State of the institutions under the Board of Control and under the Trustee system which prevailed during the first fiscal year of the last biennial period is a subject of considerable public interest at this time. So far as this report can afford comparisons of cost they necessarily relate to financial transactions as shown by the disbursements of revenue from the Treasury for the institutions.

In making a comparison of the disbursements of revenue during the last year of the biennial period under the Board of Control with the first year under the Trustees a number of facts, as previously indicated, must be taken into consideration. For instance, there appears among the disbursements authorized under the Board of Control the payment of \$121,774 in January of this year for the Cherokee Hospital. That amount was disbursed on account of contracts entered into by the original Cherokee Commissioners in 1897 with the firm of Butler-Ryan Company of St. Paul for the erection of the present buildings a year or so before the appropriations were available, which contracts the present law directed the Board of Control to honor. It was not a matter concerning which the Board of Control had any responsibility or discretion, and the amount disbursed properly should be charged against the disbursements made under the Trustees.

Again, in arriving at the actual or net cost of institutions various matters must be taken into consideration. Thus, on July 1, 1897, there was on hand at each institution varying amounts of supplies that were purchased prior to that date but were used during the fiscal year of 1897-98. The Trustees for some of the institutions made various expenditures just before going out of office that properly should be charged against the institutions for the second year. Again, at the close of the period, June 30, 1899, the heads of the institutions had, besides various amounts of unused "contingent" fund in their possession, sundry supplies on hand, all of which should be considered in arriving at the net cost of institutions. And finally, the expenses of June, 1899, were not paid nor the receipts for June received until July following, and thus cannot be included in the report of the financial transactions of the Treasury for the biennial period ending June 30, 1899. So far, however, as



fiscal years are concerned the comparison of the disbursements of one year with another will show the actual cost of these institutions to the taxpayers for the years considered, so far as can be shown by the transactions of the Treasury.

Another fact that should not be lost sight of in judging the results of the present law and the Board of Control's management is the shortness of the time the new law has been in force. The full effects of the new law can not be fully determined or appreciated from the showings of one year. Time and experience are required to tell us what all the advantages are of the new method of control, as well as what the defects of the law are.

Bearing these facts in mind the following tables showing the net cost of the institutions for the two fiscal years will be of interest. The net cost for the first year, ending June 30, 1898, is obtained by adding to the cash balances in the hands of the local Treasurers July 1, 1897, the warrants issued to them for the year succeeding that date and then deducting the amount by them refunded to the State Treasury, namely the balances in the local treasurer's hands on June 30, the close of the fiscal year 1897-98. For the year under the Board of Control the net cost is the amount disbursed from the Treasury less the receipts of revenue from the institutions:

COST OF INSTITUTIONS UNDER BOARDS OF TRUSTEES FOR YEAR ENDING JUNE 30, 1898.

INSTITUTION AT—	Local treasury balances July 1, 1897.	Warrants is- sued.	Refunds to State Treas- ury.	Net cost.
Vinton.....	\$ 6,835.64	\$ 39,607.51	\$ 10,937.88	\$ 35,505.27
Knoxville.....	3,136.90	11,012.10	1,195.31	12,953.69
Glenwood.....	18,144.49	180,147.63	1,240.58	197,051.54
Eldora.....	10,923.66	73,246.08	1,266.03	84,903.69
Mitchellville.....	1,294.44	24,570.07	.....	25,789.51
Cherokee.....	.....	139,734.42	.....	139,734.42
Clarinda.....	2,747.48	167,156.60	6,113.38	163,790.70
Independence.....	19,198.63	170,332.60	4,560.67	184,970.56
Mt. Pleasant.....	20,980.12	161,813.72	839.37	181,954.47
Anamosa.....	19,366.05	137,400.63	7,351.83	149,415.45
Ft. Madison.....	1,016.70	42,399.73	7,743.36	35,664.07
Council Bluffs.....	4,633.95	69,836.48	1,434.58	73,035.85
Davenport.....	2,646.59	61,675.08	197.00	64,124.67
Marshalltown.....	11,292.54	82,314.73	2,383.39	91,223.88
Total.....	\$122,142.79	\$1,363,238.36	\$15,263.38	\$1,440,117.77

COST OF INSTITUTIONS UNDER BOARD OF CONTROL FOR YEAR ENDING JUNE 30, 1899.

INSTITUTION AT—	Treasury dis- bursements.	Receipts from.	Net cost.
Vinton.....	\$ 25,892.65	\$ 1,297.42	\$ 24,595.23
Knoxville.....	15,773.77	8,661.56	7,112.21
Glenwood.....	107,756.68	1,015.19	106,741.49
Eldora.....	48,103.92	2,010.73	46,093.19
Mitchellville.....	19,141.88	1,239.28	17,902.60
Cherokee.....	122,205.79	494.97	121,710.82
Clarinda.....	134,758.98	2,347.13	132,411.85
Independence.....	141,713.77	6,702.22	135,011.55
Mt. Pleasant.....	117,710.53	2,575.45	115,135.08
Anamosa.....	131,213.75	6,316.34	124,897.41
Ft. Madison.....	85,136.98	42,941.63	42,195.32
Council Bluffs.....	45,409.77	2,501.05	42,908.72
Davenport.....	45,217.14	392.95	44,824.19
Marshalltown.....	84,273.10	9,744.62	74,528.48
Board of Control.....	.....	.....	24,558.90
Total.....	\$1,124,308.71	\$ 88,240.57	\$1,060,627.04

COMPARISON OF COSTS.

INSTITUTION AT—	Trustees.	Board of Con- trol.	Increase.	Decrease.	Per cent in- crease.	Per cent de- crease.	Cost for bienn- nial period.
Vinton.....	\$ 35,505.27	\$ 24,595.23	.....	\$10,910.04	.....	31	\$ 60,100.50
Knoxville.....	12,953.69	7,112.21	.....	5,841.48	.....	45	20,065.90
Glenwood.....	197,051.54	106,741.49	.....	90,310.05	.....	46	303,793.03
Eldora.....	84,903.69	46,093.19	.....	38,810.50	.....	46	130,996.88
Mitchellville.....	25,789.51	17,902.60	.....	7,886.91	.....	31	43,692.11
Cherokee.....	139,734.42	121,710.82	.....	18,023.60	.....	13	261,445.24
Clarinda.....	163,790.70	132,411.85	.....	31,378.85	.....	19	319,982.11
Independence.....	184,970.56	135,011.55	.....	49,959.01	.....	27	296,202.55
Mt. Pleasant.....	181,954.47	115,135.08	.....	66,819.39	.....	36	297,089.55
Anamosa.....	149,415.45	124,897.41	.....	24,518.04	.....	16	274,312.86
Ft. Madison.....	35,664.07	42,195.32	\$6,531.25	.....	.....	18	77,859.39
Council Bluffs.....	73,035.85	42,908.72	.....	30,127.13	.....	41	115,944.57
Davenport.....	64,124.67	44,824.19	.....	19,300.48	.....	30	108,948.86
Marshalltown.....	91,223.88	74,528.48	.....	16,695.40	.....	18	165,752.36
Total.....	\$1,440,117.77	\$1,036,068.14	\$6,531.25	\$410,550.88	.....	.....	2,476,185.91

The results just exhibited need no commentary. They speak for themselves. With but one exception there was a decrease of cost in every institution for the year under the Board of Control compared with the year preceding under Boards of Trustees. The total cost fell from \$1,440,117.77 to \$1,060,627.04, a decrease of \$379,490.73, or 26.9 per cent. If we take out the disbursement on account of the Cherokee contracts of \$121,774 and add it to the first year, the relative cost would be \$1,561,891.77 under the Trustees, and \$938,885.04 under the Board of Control, a decrease of \$323,006.73, or 39.9 per cent.



In considering these decreased expenditures under the Board of Control, it should be remembered that in 1898 the Twenty-seventh General Assembly, which created the Board, cut down very materially the appropriations for the institutions which were placed under their control. They were reduced some \$550,000 compared with the appropriations of the Legislature in 1896. The reductions were a part of the economies enforced to wipe out the then existing Treasury deficit.

The amount of unexpended balances to the credit of each institution under its jurisdiction is interesting as showing the economical management of the Board of Control. The following summary shows the amounts which might have been expended during the past year:

UNEXPENDED BALANCES OF APPROPRIATIONS, JUNE 30, 1899.

INSTITUTION AT—	Support.	Contingent and repair.	Buildings.	Miscellaneous.	Total.
Vinton .....	\$ 14,288.69	\$ 6,426.64			\$ 20,715.33
Knoxville .....	4,152.63	2,130.39		\$ 550.08	6,833.10
Glenwood .....	3,683.22	989.22		125.52	4,797.96
Eldora .....	3,803.73	2,423.96	\$ 2,057.28		8,284.97
Mitchellville .....	2,330.89	456.29	1,500.00	4.60	4,291.78
Cherokee .....	489.29	409.14	2,794.21		3,692.64
Clarinda .....	10,665.06	3,443.78	451.86	207.05	14,767.75
Independence .....	14,931.78	1,172.64			16,104.42
Mt. Pleasant .....	5,119.03	3,609.74		300.19	9,028.96
Anamosa .....	3,812.15	585.80	19,570.89	4,765.69	28,734.53
Ft. Madison .....	12,553.42	1,210.31	5,228.51	3,075.64	22,167.88
Council Bluffs .....	9,293.64	4,318.21		200.00	13,811.85
Davenport .....	7,483.19	4,661.97		175.62	12,320.78
Marshalltown .....	26,877.97		473.00		27,350.97
Total .....	\$119,384.69	\$ 31,838.09	\$ 32,075.75	\$9,404.39	\$ 192,702.92

The most significant part of the table of balances just given is the column showing the unexpended balances in the support funds. Notwithstanding a general increase in the level of market prices during the past year, the Board of Control, by means of its large purchases of supplies in the open market upon the basis of competitive bids, was able to save over \$100,000 to the taxpayers of the State. For the entire amount might have been expended if the Board had so chosen.

These savings, it is fair to presume, were not the result of unwise economies that were detrimental to the institutions. The character of the members of the Board of Control is a sufficient guarantee that such was not the case. They have been the fruits of the application of business principles and methods in the conduct of the fourteen institutions under the Board.

## DIVISION—COLLEGE ENDOWMENT AND INTEREST.

## ENDOWMENT AND INTEREST FUNDS OF THE IOWA STATE COLLEGE OF AGRICULTURE AND MECHANIC ARTS (AMES, IOWA).

(a) *Endowment Fund.*

The Endowment Fund of the Iowa State College of Agriculture and Mechanic Arts at Ames, in my possession as custodian of the college funds on July 1, 1897, amounted to \$514,805.50, which sum was made up of \$509,583.63 in mortgage bonds and \$5,322.87 in cash. During the biennial period there was received from Mr. Herman Knapp, Treasurer of the College, \$67,695.89, obtained from the proceeds of sales of lands given to the College by the National Government, which sum was added to the endowment fund. (See tables 204-207.)

During the period mortgage bonds were paid off in whole or in part to the amount of \$174,355.06. There was disbursed to the order of Mr. W. A. Helsell, Financial Agent of the College, the sum of \$153,428.99 to be by him loaned out again upon farm mortgages. Bonds aggregating \$13,683.63 were sent the Financial Agent for foreclosure proceedings. From Mr. Helsell were received new bonds, Nos. 640 to 703, for \$153,300 and old bonds sent for foreclosure returned to the amount of \$7,683.63. The College Endowment in the State Treasury at the close of business June 30, 1899, consisted of mortgage bonds to the amount of \$482,833.57, and cash \$88,621.96, or a sum total of \$571,460.53 endowment.

(b) *The Morrill Endowment.*

Besides this endowment the College received from the National Government in July, 1897, \$23,000 and in July, 1898, \$24,000, in accordance with the provisions of the Morrill Act, passed by Congress in 1890 for the promotion of education in the agricultural and mechanical arts. Beginning with 1899 the College at Ames will receive each year \$25,000 under the Morrill Act, it being the maximum amount appropriated by its provisions. By the terms of the act this Morrill Endowment is



devoted exclusively to instruction. The entire \$47,000 of Morrill Endowment received during the biennial period was disbursed to the Treasurer of the College in five different installments. (See table 208.)

(c) *Interest Receipts and Disbursements.*

The amount of interest collected from the borrowers of the Endowment Fund between July 1, 1897, and June 30, 1899, was \$75,775.10 as against \$70,756.03, the collections for the two years preceding. A considerable portion of the increase in the interest received was from the bonus or penalty of 2 per cent exacted from parties who paid off their mortgage notes prior to maturity or at other than the times allowed in the conditions of the bonds. Interest receipts were the largest during December, 1898, when they footed up \$10,510.40. On June 30, 1899, there were but twenty-seven bonds in my possession on which interest was delinquent and the most of those were only delinquent on coupons due October 1, 1898, and January 1, 1899. This is the best showing in this respect in many years past.

Of the interest receipts there was disbursed to the Treasurer of the College during the period \$63,639.36, leaving a cash balance in the State Treasury of \$13,079.24 June 30, 1899.

(d) *Uninvested College Funds.*

The investment of the Endowment Fund of the College has become a serious problem and it demands the immediate consideration of the Legislature. By the present law the Trustees are limited to investment of the fund in farm mortgages at not less than 6 per cent interest. (Code, section 2667.) During the past year the amount of endowment cash lying idle in the Treasury has increased from an average of \$3,000 and \$4,000 during July, August and September of 1897, up to approximately \$100,000 during the past six months. This means that the College at Ames has suffered the loss of the interest on this amount for that time, and the work of the College will have to be curtailed correspondingly. The immediate reason for this condition of the finances of the College at Ames has been the payment of the mortgage notes by the borrowers. During December, 1898, and January, 1899, over \$50,000 of mortgage bonds were paid off. How rapidly the amount of idle Endowment Fund increased in the Treasury will be appreciated from the following statement of the amount on hand on the first day of each month of the past fiscal year:

1898.		1899.	
July .....	\$ 18,226.32	January .....	\$ 78,239.95
August .....	18,866.32	February .....	96,169.95
September .....	7,571.32	March .....	106,702.95
October .....	19,891.32	April .....	9,473.96
November .....	36,381.32	May .....	92,057.96
December .....	40,881.32	June .....	85,189.96

The matter became so serious that the Board of Trustees of the College, at their meeting in January, voted to suspend the rule in force prior thereto, allowing parties to pay off their mortgage notes at other times than allowed in the bonds by paying a penalty of 2 per cent. The suspension has maintained ever since ordered.

The primary cause of the piling up of such an amount of uninvested funds has been the decline in the rate of interest in the last year. First class mortgages on farm lands, such as only the College authorities can take, cannot be easily obtained at 6 per cent since there is plenty of money in the market to be had at 5 per cent, and even at a less rate. There is every reason to expect that interest rates will not only go back to their former figure of a few years ago, but that they will remain below 6 per cent. The Legislature, therefore, if it would have the authorities of the College at Ames keep the Endowment Fund invested, should promptly reduce the minimum rate to 5, if not to 4½, per cent. If this is not done it is only a matter of a short time when the entire Endowment Fund of the College will be uninvested and lying idle in the State Treasury.

### THE SPECIAL UNIVERSITY TAX.

In 1896 the Twenty-sixth General Assembly appropriated (Chapter 114, Acts Twenty-sixth General Assembly) for the erection of buildings for the State University at Iowa City the proceeds of an annual levy of one-tenth of a mill upon the taxable property of the State for a period of five years. In case the levy produced more than \$55,000 in a year the excess was to be converted into the general revenue account of the Treasury. The gross collections from this levy by calendar years so far has been:



YEAR.	January 1st to June 30th.	July 1st to De- cember 31st.	Total.	Warrants is- sued.	Balance.
1897.....	\$ 27,583 72	\$ 25,516 74	\$ 53,100 46	\$ 50,500 00	\$ 2,600 46
1898.....	30,001 40	24,988 54	54,989 94	23,400 00	31,589 94
1899.....	30,987 79		30,987 79	15,000 00	15,987 79
Total.....			\$139,078 19	\$ 88,900 00	\$ 50,178 19

The above showing presents simply the receipts and disbursements of the University fund for each year. It does not show the exact amount to be credited to the levies for each year. Thus the receipts for January, 1898, belong to the levy of 1896 collected in 1897, and the receipts for January, 1899, belong to the levy of 1897 collected in 1898. Furthermore, in the collections of 1898 and 1899 there is a greater or less amount that is delinquent taxes of the levies of 1896 and 1897. The University is entitled only to the proceeds of the levy up to \$55,000. Should the tax not equal the maximum amount allowed its appropriation is by so much reduced. It will be observed that there was a large balance of \$50,178.19 to the credit of the University undrawn at the close of the biennial period.

#### LEVY EXTENDED ONE YEAR.

The last Legislature extended this Special Levy for another year (Chapter 75, Acts Twenty-seventh General Assembly) for the purpose of enabling the University to purchase books and restore their library building. The Act specifies that the Regents have authority to expend \$41,900 for books and \$13,100 for repairs, "and warrants shall be issued therefor, payable when the additional year's tax herein authorized is collected." The tax here authorized will be collected in 1902.

#### OUTSTANDING TIME WARRANTS PAYABLE IN 1902.

In pursuance of instructions from the Attorney-General, the Auditor of State has issued, upon the demand of the authorities of the University, warrants against the collections in 1902 to almost the entire amount. On September 16, 1898, warrants to the amount of \$20,000, payable July 10, 1902, were issued; on October 12, 1898, \$13,000 in warrants, payable November 1, 1902, were drawn; and on May 15, 1899, another warrant for \$16,000 was issued, payable December 31, 1902. This makes a total of \$49,000 of time warrants outstanding at the present time against the Special Levy to be collected in 1902.

Whether the language of Section 2 of Chapter 75 will bear the construction put upon it by the Attorney-General I will not presume to say. But I do not think that such a construction was contemplated by the members of the Legislature when the Act was passed. The Assembly in 1897 refused to give an additional one-tenth mill to the University at the one-day session on July 4, 1897, when the needs of the University were really urgent and worthy of immediate relief, and the next Assembly was generally adverse towards all appropriations for all institutions, in view of the then existing Treasury deficit. It is scarcely to be presumed that when the Assembly granted the extension of the appropriation for another year it was to be drawn nearly four years ahead of the time when its proceeds were specifically available. Such a method of obtaining State funds is not good financial policy for the State to pursue, and for many reasons should be discouraged if not absolutely prohibited. The authorities, in order to realize on such time warrants, probably had to discount them from 15 to 20 per cent on the three or four years' time they will run. This, of itself, means a very material reduction of the appropriation realized by the University. The State University should be the recipient of liberal appropriations, more so than it is at present, but its appropriations should be made outright and without subterfuge. If the State Treasury is unable to meet its demands on presentation, the money therefor should be obtained in the same manner now pursued in obtaining money on the State's warrants.

#### CHANGES IN METHODS OF ACCOUNTING.

Not the least important of the transactions of the Treasury Department during the last period were the changes wrought in the methods of accounting for, and preserving the records of, the operations of the Treasury. Experience and a large increase in the work of the department rendered apparent the inadequacy of some of the methods previously in force; and a system of accounts has been adopted which exhibits the financial transactions of the Treasurer of State more fully and clearly and more readily, at the same time permitting the performance of public business with greater dispatch.



Upon the taking effect of the act creating the Board of Control, the Treasurer of State, as the disbursing officer for the fourteen institutions affected, had to pay regularly every month all bills for goods purchased or for services rendered each institution. A Treasury check had to be mailed to each party to whom an institution was debtor, be the amount but a few cents or thousands of dollars. The only case where this requirement could be lessened was in case of the pay rolls of the institutions where the law permits one check for the entire amount to be sent to the head of the institution, who shall distribute the wages and salaries. It became necessary to devise a system for such disbursements and for accounting for them that would not only insure safety and reasonable dispatch in the transaction of the work but render all data relating to any account easy of access to any officer or citizen desirous of making an investigation.

(a) *Registers of Checks.*

In disbursing monies from the Treasury or the State Depositories in payment of Auditor's warrants, it had always been the custom to use check books, the checks being torn out and a stub left containing necessary references. The books of checks were furnished the Treasury and no two were alike in size or design. They were indifferently bound and the stubs, as a consequence, were unsightly; they were exceedingly difficult to file away so that they could be obtained easily for reference; and in the course of years the binding would generally loosen and rot and the leaves become more or less separated. In a word,—check stubs are the poorest kind of a public record for a department transacting a large volume of business. It was imperative that the records of the checks issued to pay the bills of the State Institutions be of a substantial and permanent character. The system adopted was the substitution of check registers for check stubs. Two registers were devised for the institution work. These registers were so designed as to show all the necessary data, such as the date drawn, the authority for issuing the check, the payee, and the deposits to meet the checks issued. These registers constitute in themselves complete records of all disbursements for the State Institutions under the Board of Control, and what is more, they are permanent record books. Into these registers the names of all parties to whom money is to be paid are entered as soon as the abstracts of bills are certified down by the Board of Control

and found to be correct. Not until such payees are so recorded are any checks made out. The checks are drawn from the registers and before mailed are compared with the abstracts.

The register of checks was adopted for all other accounts, namely, in disbursements of General Revenue, Agricultural College funds, and other funds. So that now instead of an unsightly collection of stubs of checks issued from the Treasury there are four registers that will record such transactions for a number of years, easily classified and put away and readily accessible whenever needed.

(b) *A Uniform Treasury Check.*

Prior to 1898 the checks issuing from Iowa's Treasury were of all sizes, designs and qualities of paper, the banks, as State Depositories, each furnishing such forms of checks as best suited their convenience. There have been eight depositories for a number of years and the assortment of checks was somewhat various. As the Treasury checks issued to pay the numerous bills of the State Institutions go all over the State and to the leading commercial centers of the country, it was determined to use but one check and to endeavor to have it of such a design and character that it would establish itself as a distinctively Iowa Treasury check. The check adopted has, I think, attained this end.

For convenience in classification, two differently tinted checks, each bearing a portrait of a noted Iowan, are in use. For the general business of the Treasury a check tinted steel brown is used and an excellent likeness of Gov. James W. Grimes distinguishes it. For disbursements on account of the institutions the check is tinted yellow over the design in black ink, while the portrait of Gov. Samuel J. Kirkwood adorns it. Each check shows the purpose of its issue and in case of the institution checks, reference to the institution, the number and item numbers of the abstract of the Board of Control appear. When the latter come in at the end of each month they are classified according to institutions and filed in the order of their issue. No receipts are asked for in paying institution claims, the Treasury check serving as such when indorsed and cashed by the payee. Thus, when the checks are returned and filed, it is possible, with the present scheme of recording and classifying the checks, to find all the vouchers relating to any bill or claim of any of the fourteen institutions, if the Board has allowed it, within a few minutes.



(c) *Registers of Receipts.*

Following close upon the changes in the methods and records of disbursing monies from the Treasury a complete change was effected in the system of records of receipts issued for revenue paid into the Treasury. Having occasion to rearrange the records in the Treasury vault, it was found that the receipt stubs were in a very unsatisfactory state. Going back ten or fifteen years, many receipt stubs were missing; the majority were in various stages of disintegration; and with the small vault room it was impossible to classify them separately; they had to be piled up one on top of the other, making their use for reference difficult.

To secure more desirable as well as more durable records of receipts issued "Registers of Receipts" were devised. These are to receipts what check registers are to checks. Each register is designed for a particular class of revenue receipts. Thus there is a register for receipts given for payment of county taxes, collateral inheritance taxes, insurance and telephone taxes, etc., etc. Each register is ruled so as to show all essential data.

This scheme of registers instead of stubs of receipts commended itself for various reasons. First, it does away with the unsightly stub books and instead there is a substantial record book. These books will register receipts for six or eight years and when filled can be placed on the shelves with the journals and ledgers, and easily obtained when desired by anyone who wishes to make a minute investigation. Second, such registers enable the accountants to ascertain easily the amount of income from various sources at a moment's notice. Each register is practically a journal of receipts, say from insurance companies, fees, etc. By means of ruled columns it has been possible to attain to a considerable degree of classification. Thus in the case of the collateral inheritance tax, the register shows the number of the receipt, the number of the estate in the general record, the name of the decedent, the administrator, the county wherein decedent lived, then under classification known as "Basis for Tax" there is shown upon what the tax is paid, whether on legacies, personal property or real property. Third, each page of a register records fifty receipts issued which would require from twenty-five to fifty pages of receipt stubs to give the same references contained in the register. This means a very material reduction of time in compiling

returns from any source of revenue as well as of space saved in storage.

The system of registers has been generally applied throughout the work of the department with successful results. A new register has been devised for keeping account of the mortgage bonds of the Iowa State College at Ames, that is a decided improvement over the former mode of recording them. On a page of this register can be exhibited every transaction relating to a bond for twenty years, or the period of its duration.

(d) *A Uniform Treasury Receipt.*

Suggested by the changes in methods of accounting just described, a uniform Treasury receipt has been adopted. As with checks, there had been a miscellaneous assortment of receipts in use, in their place has been substituted a uniform lithographed receipt. For convenience in classification different tints distinguish the forms for different classes of revenue paid into the Treasury.

## INCREASE IN THE ACCOUNTS AND BOOKKEEPING.

The great increase in the volume and variety of the business of the Department during the last period has necessitated a considerable increase in the bookkeeping and record work. Not only have more records been made necessary, but more elaborate records have been required in order to secure satisfactory accounting for the transactions of the Department. Thus, in the collection of the Collateral Inheritance Tax, it has been necessary to devise a Record of Estates Reported, a Register of Receipts of Taxes Paid, a Record of the Reports of County Attorneys and the Payment of Their Fees, a Record of Requisitions on the Auditor for their fees, a Record of Litigation. There will have to be devised a record for Life and Term Estates, Contingent and Deferred Estates subject to the Inheritance Tax. Along with these, many vouchers and forms, etc., have had to be adopted. It would be impossible to transact the business relating to this tax without such elaborate records.

The rulings of the Attorney-General upon the duties of the Treasurer of State respecting the accounts of the State Institutions under the Board of Control required the opening of journal and ledger accounts with all transactions for each institution. This alone has doubled the work of the bookkeeper.



Owing to the financial liability of the Treasurer of State in case appropriations are overdrawn (namely, should warrants in excess of the amount appropriated by law be issued), it has been found expedient and advisable to open ledger accounts with all appropriations. The Treasurer of State and his bondsmen are of course liable for the payment of warrants illegally issued, and it is essential that the Treasurer have complete accounts, so that he may know whether or not he should pay warrants presented to him for redemption. He cannot know whether an appropriation is overdrawn unless he maintains ledger accounts, and is able to check and stop an overissue by his balance books. The Treasurer of State cannot go back of a warrant and inquire into the vouchers certified to the Auditor upon which a warrant is issued, for the reason that it is not practicable, and for the further reason that the law places the duty of auditing and allowing claims upon the Auditor of State. But he can and should know what the Legislature has appropriated, and he should know when that appropriation has been exhausted for his own self-protection and the protection of his bondsmen.

Another substantial reason for opening such ledger accounts is that the Treasurer of State thereby will be able, not only to exhibit the condition of any account upon call, but that he will be able to classify the State's expenditures and set them out when required more easily and satisfactorily than he could do under the method of accounting heretofore in force in the Department. This means some additional work for the Department, but the advantages in the way of safeguards resulting amply justify the added labor.

#### RECOMMENDATIONS RESPECTING METHOD OF ISSUING WARRANTS.

In this connection I urge a slight change in the method of issuing State warrants, viz., that each warrant drawn by the Auditor of State against the Treasury shall show not only the section of the Code or Act authorizing its issuance, as is now the case, but shall also state in writing on the face of the warrant the purpose for which issued, for example, whether for salaries (and, if for salaries, for what office), expressage, coal, supplies, etc., etc. This plan is followed in the State of Illinois and to a greater or less extent by the Federal Government. It is already followed to some extent by the Auditor of

State in drawing warrants for the institutions under the Board of Control. It would be a wise safeguard to amend the law so that it would be obligatory in issuing all warrants.

#### SUMMARY OF RECOMMENDATIONS.

The references in brackets [ ] are to previous pages of the report where my reasons for urging the recommendations are given.

(1) An amendment to the statutes governing the remittances of State taxes by County Treasurers which would require the bulk of the county collections to be paid into the State Treasury quarterly instead of semi-annually in April and October as at present, so that the State's income would more nearly correspond with its expenditures. [See pp. xi-xiii.]

(2) The repeal of the discriminating tax on the gross income of foreign insurance companies and the restoration of the former uniform tax of  $2\frac{1}{2}$  per cent of their premiums or the imposition of the same tax on United States companies now assessed against foreign companies. [See pp. xiv-xviii.]

(3) Amendments to the statutes taxing telephone, telegraph and express companies which shall provide a penalty for failure to pay taxes due the State on or before the dates specified by law and which shall also provide for the compensation of County Attorneys in collecting any unpaid delinquent taxes. [See pp. xix-xx.]

(4) An amendment to section 2507 of the Code which shall make provisions for the reimbursement of Oil Inspectors when their receipts of fees for a month do not equal their salary and expenses as allowed by said section. [See pp. xxii-xxiii.]

(5) An amendment to section 9, chapter 160, acts Ninth General Assembly (1862), which shall permit the Treasurer of State to disburse swamp land indemnity fund received from the National government direct to the county authorities and thus relieve the counties of the expense of sending an agent to Des Moines to obtain such funds, as now required. [See p. xxiv.]

(6) An amendment to the statutes governing officers regularly receiving fees which must be paid into the State Treasury, which shall require such officers to make detailed reports to the Treasurer of State of the fees received and paid out by them and due the State at least quarterly, and which shall also give authority to the Treasurer of State to call upon such officials for such detailed reports, if they fail to make them; and further the



Treasurer of State to be given authority to require written statements of all persons paying money into the State Treasury, such statements to show the date, purpose and period covered, if any, of such payment. [See p. xxv.]

(7) Provision for the systematic examination of the accounts of State officers regularly receiving fees or moneys due the State by accountants or inspectors appointed by the Treasurer of State; said accountants to make reports which shall be placed on file in the Treasury department. [See pp. xxv-xxvii.]

(8) An amendment to the statutes and rules and regulations governing the assessment of the Collateral Inheritance Tax whereby discretion and authority would be given the courts to waive the appraisement of an estate where it consists of stocks, notes and securities, and the administrator is willing to charge himself with the face value thereof plus interest or earnings. [See pp. xxxix-xl.]

(9) The enactment of a definite and uniform procedure for appraising life and term estates subject to the Collateral Inheritance Tax. [See page xl.]

(10) The establishment of uniform fee or fees for the compensation of appraisers of property subject to the Collateral Inheritance Tax. [See p. xl.]

(11) The appointment of Probate Inspectors by the Treasurer of State, who shall, under the latter's direction, investigate the county records and report estates subject to the Collateral Inheritance Tax. [See p. xlii.]

(12) The substitution for the present fees allowed County Attorneys for services in the collection of the Collateral Inheritance Tax of one fee of 5 per cent of the tax collected from an estate up to \$150. And in cases where issues are joined in a suit in court and argument is made the fee to be 10 per cent up to \$150. [See p. xlvii.]

(13) An amendment to chapter 37, Acts Twenty-seventh General Assembly, which shall empower the Treasurer of State to appoint a solicitor who shall assist the Treasury Department as a legal adviser and as attorney in the conduct of suits in which the department is involved, more particularly in the collection of the Collateral Inheritance Tax, such appointee to be a graduate of a law school and a lawyer of five to ten years, practice before the Iowa bar. [See pp. lii-liii.]

(14) An amendment to chapter 4, title 7 of the Code making it obligatory upon administrators, executors and trustees to

file copies of their inventories and final reports of estates liable for the Inheritance Tax with the Treasurer of State. [See pp. liii-liv.]

(15) The restriction of the so-called exemption of \$1,000, allowed in computing the Collateral Inheritance Tax, exclusively to the brothers and sisters of a decedent, resident in Iowa. [See p. liv.]

(16) The establishment of a graduated tax upon Collateral Inheritances; the rate on residents of Iowa to remain the same as at present, viz., five (5) per cent; the rate on residents of other States of the United States to be seven (7) per cent, and the rate for foreign heirs receiving an estate to be ten (10) per cent. [See p. lv.]

(17) An amendment to section 42, chapter 118, Acts of the Twenty-seventh General Assembly which shall make the quarterly auditing of the accounts of the Treasurer of State, as the treasurer of the institutions under the Board of Control, a statutory requirement. [lix-lx.]

(18) The reduction of the rate of interest at which the Trustees of the Iowa State College of Agriculture and Mechanic Arts at Ames may loan the endowment fund from 6 to 4 per cent—at the least to 4½ per cent—in order to prevent the piling up of uninvested college funds in the State Treasury. [See pp. lxvi-lxvii.]

(19) The prohibition of the issuance of time warrants against special funds or special tax levies. [See pp. lxviii-lxix.]

(20) An amendment to paragraph 8 of section 89 of the Code, which shall provide that all warrants on the state Treasury, issued in consequence of legislative appropriations, shall show on the face thereof not only the section of the Code or Act authorizing the same, but shall state in writing the purpose for which it is issued. [lxxiv.]

All of the foregoing is respectfully submitted for your consideration and for the information of the members of the General Assembly.

JOHN HERRIOTT,  
*Treasurer of the State of Iowa.*

October 3, 1899.