



**For Immediate Release – October 31, 2006
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STATE AUDIT FINDS MISUSED TAX DOLLARS IN CHILDREN'S PROGRAMS; CAL-TAX WARNS OF MORE THREATS OF WASTE AND ABUSE IN BALLOT ISSUES PENDING BEFORE CALIFORNIA VOTERS

SACRAMENTO – In a development that should underscore that taxpayers could be ripped off again by tax-hike initiatives pending on next Tuesday's statewide ballot, the California State Auditor today issued a scathing report on misused tax dollars by a commission created by an earlier tobacco tax initiative.

Cal-Tax President Larry McCarthy said: "This audit confirms what many have been saying all along about tax initiatives creating reckless, out-of-control spending of tax dollars through unaccountable government agencies. This 'ballot box budgeting' puts many millions of tax dollars at risk. Voters will decide tax increase initiatives in next Tuesday's General Election that include Proposition 86, the tobacco tax initiative; Proposition 87, the oil tax initiative, and Proposition 89, the public financing of campaigns tax initiative."

The Bureau of State Audits was requested by the Legislature to probe complaints of waste and abuse of Proposition 10 tobacco tax dollars. Allegations surfaced in the news media that the commission was using revenue from the 1998 initiative to finance a media blitz on behalf of preschool programs while Rob Reiner, the leader of the Proposition 10 effort, was pursuing another tax measure for last June's ballot. Voters rejected this universal preschool initiative, Proposition 82, but activities of the Reiner-led organization remain under review by the Sacramento County district attorney.

Cal-Tax's McCarthy: "This report by the Bureau of State Audits comes as California voters prepare to decide yet another tobacco tax initiative, Proposition 86, "with massive new government spending by state bureaucrats and no oversight from the California Legislature. This type of ballot-box budgeting, without the traditional spending controls and adequate, real-time oversight, is a recipe for waste and abuse."

He added that "Proposition 86 is particularly concerning because of its similarities to Proposition 10, the last tobacco tax measure. It would allow the state to enter into contracts without adhering to state laws regarding competitive bidding for such things as public relations and advertising campaigns.

"This initiative would repeat mistakes that have cost this state's taxpayers tens of million of dollars in misspending," McCarthy said. "This kind of off-budget, unaccountable state spending is a formula for waste and abuse. It undermines the public's faith in the

credibility of government's ability to manage our resources. Manipulators who sponsor these kinds of initiatives are doing real damage to our system of public finance for all Californians.”

Like Proposition 10, Proposition 86 would establish a new commission of unelected political appointees, and they would represent some of the same constituencies that receive the funding. Proposition 86 also would funnel \$180 million into the Proposition 10 bureaucracy.

In the audit of the Proposition 10-created California Children and Families Commission, also known as the First Five Commission, State Auditor Elaine Howle concluded:

- The commission used inconsistent practices that led to violations of conflict-of-interest and competitive-bidding law and policies.
- Poor management resulted in questionable and inappropriate payments to contractors.
- The commission did not justify the awarding of contracts with noncompetitive bidding, one for \$3 million and six amendments totaling \$27.6 million using the noncompetitive process.
- The commission also did not always follow state policy when it used a competitive process to award contracts worth more than \$47.7 million.
- The commission paid a media contractor \$673,000 for “fees and expenses,” padding the contract that was supposed to be based solely on commissions.
- Failing to follow state policy limiting administrative overhead, the commission paid \$1.2 million more than was justified.
- The commission, by failing to fully comply with laws and policies designed to promote competition, fairness and value, “cannot ensure that the state is receiving the best value for its money or that the state’s interests are being protected,” the auditor said.