

## BOARD OF CONTROL

ITEM 103 of the Budget Bill

Budget page 338  
Budget line No. 7*For Support of the Board of Control From the General Fund*

Amount requested -----	\$19,262
Estimated to be expended in 1950-51 Fiscal Year -----	16,780
<b>Increase (14.8 percent) -----</b>	<b>\$2,482</b>

## Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$2,045	\$2,045	---	338	51
Operating expense -----	10	10	---	338	63
Equipment -----	427	427	---	338	66
<b>Total increase -----</b>	<b>\$2,482</b>	<b>\$2,482</b>	<b>---</b>		

## RECOMMENDATIONS

Amount budgeted -----	\$19,262
Legislative Auditor's recommendation -----	19,262
<b>Reduction -----</b>	<b>None</b>

## ANALYSIS

The amount of \$19,262 requested for the Fiscal Year 1951-52 represents an increase of \$2,482 or 14.8 percent over estimated expenditures for 1950-51.

A net increase of \$2,045 in salaries and wages is the result of the addition of a proposed new position of intermediate stenographer-clerk at a cost of \$2,400 partially offset by a reduction in temporary help of \$355. We recommend approval of the additional position on a work load basis.

The amount of \$536 budgeted for equipment will provide furniture and equipment for the additional employee and one additional file. The amount requested is in order.

We recommend approval of this item as submitted.

Important changes have occurred in the field of public tort liability in recent years. The Federal Government in 1946 adopted the Federal Tort Claims Act to provide a satisfactory basis of governmental civil liability for wrongs inflicted on the citizen through the functioning of governmental agencies. In 1939 New York State adopted important changes in its approach to governmental immunity from suit. Within the last year California's procedures for filing claims against governmental agencies and the failure of the State to accept general tort liability have been the subject of articles in leading law journals of the State.

We recommend that the Legislature authorize a study by the Judicial Council or a legislative committee to consider the problems of public tort liability.

STATE CONTROLLER

ITEM 104 of the Budget Bill

Budget page 340  
Budget line No. 39

*For Support of the State Controller From the General Fund*

Amount requested .....	\$1,601,035
Estimated to be expended in 1950-51 Fiscal Year .....	1,618,962
Decrease (1.1 percent) .....	\$17,927

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$33,510	\$35,870	\$2,640	352	9
Operating expense .....	48,994	48,994	---	352	10
Equipment .....	2,496	2,496	---	352	11
Less:					
Net increase in reimburse- ments .....	9,939	9,939	---	352	16
Total increase .....	\$17,927	\$20,567	\$2,640		

RECOMMENDATIONS

Amount budgeted .....	\$1,601,035
Legislative Auditor's recommendation .....	1,596,355
Reduction .....	\$4,680

ANALYSIS

The recommended reduction of \$4,680 consists of the following positions:

<i>Salaries and Wages</i>	Amount	Budget page	Line No.
Administration			
1 Senior information clerk .....	\$2,640	342	61
Audits Division			
1 Junior clerk .....	2,040	345	23
Total reduction .....	\$4,680		

The senior information clerk is requested to perform the duties of receptionist in the new Capitol Annex. The justification states the physical arrangement of the new offices will require the receptionist to be separated from other staff members.

It appears that the consolidation of the various scattered offices should greatly simplify many problems such as this. If there is sufficient justification for the position, then savings gained in the elimination of messenger service, et cetera, between offices in different buildings should provide for this position from the existing staff. Also it might be arranged to designate an office near the point of entry for information inquiries. A secretary there could direct individuals where they wished to go.

The position of junior clerk is requested for the Audits Division to relieve the claim auditors of minor clerical duties in order that they may devote more time to the technical phases of their work.

Claim load increases are not anticipated for the 1951-52 Fiscal Year. The number of claim auditors has increased from eight in the 1945-46 Fiscal Year to 16 in the 1949-50 Fiscal Year. Also claims handled per auditor have decreased. The addition of three claim auditors in the district disbursing offices has relieved the regular staff of claim auditors from the audit of pay rolls, which are now handled by the centralized

pay roll system. As more agencies are absorbed, a corresponding reduction should result for the Audits Division Claim Audit Unit. For these reasons we do not believe the request for this new position is justified.

#### Disbursements Division

The request for support of this division for the 1951-52 Fiscal Year is \$3,388 less than for the 1950-51 Fiscal Year. This decrease is due primarily to move to the new Capitol Annex where no charge is made for light, heat and power, and rent which is estimated at \$14,543 for the 1950-51 Fiscal Year. Offsetting this decrease is an anticipated increase in salaries and wages due to normal salary adjustments, less certain unfilled positions in the 1951-52 Fiscal Year.

In the 1949-50 Fiscal Year a centralized pay roll system was established in this division to pay all state employees. Prior to that time state employees were paid from a revolving fund by the agency for which they worked or by the submission of a pay roll claim schedule to the Controller. No uniform pay day existed. Actual receipt of pay for service ranged from two days to two months after a month's work was completed. The criticism of not being paid regularly and the undue hardship caused to employees resulted in the creation of a committee to study the situation. This committee completed its survey and recommended the centralized pay roll system to be established in the Disbursements Division of the Office of the Controller.

This program was retarded due to the passage in 1948 of Article XXV of the Constitution, which placed the responsibility of security payments to the aged and the blind in the Disbursements Division. The repeal of Article XXV in 1949 eliminated this work load.

The Disbursements Division next undertook to take over progressively the payment of agency pay rolls. Due to the security payment function, the usual problems of conversion and the transfer of certain fiscal functions performed by agencies, the operation has not functioned as smoothly as was anticipated. As of this date only 16,753 state employees of an approximate total of 60,000 are being paid by the centralized pay roll system. The 1950-51 Budget request included funds for sufficient equipment to pay all state employees and staff to absorb an additional part of the remaining state employees. Extremely high unit costs have resulted. However, when considering these high unit costs, warrant operations other than pay roll should be taken into account.

Regarding the budget request for this program for the 1951-52 Fiscal Year, we are in agreement that it should remain the same as for the 1950-51 Fiscal Year, and that during the 1951-52 Fiscal Year a re-evaluation of the program will be made. It is understood that no augmentation of the appropriation will be made until actual performance indicates a savings in time to the State and a satisfactory service to state employees. We believe that when this is accomplished reductions corresponding to costs of functions absorbed by the Disbursements Division should be made in appropriations of other state agencies.

The basic function of a centralized pay roll has proven sound and economical both in private industry and governmental agencies. However, we believe that procedural changes and the elimination of functions not directly connected with basic pay roll operations probably should be made in the centralized pay roll system of the Disbursements Division.

**STATE CONTROLLER**

ITEM 105 of the Budget Bill

Budget page 349  
Budget line No. 2

**For Support of Tax Collection Division From the  
Motor Vehicle Transportation Tax Fund**

Amount requested .....	\$94,344
Estimated to be expended in 1950-51 Fiscal Year .....	90,067
 Increase (4.7 percent) .....	 \$4,277

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	---	---	---	349	30
Operating expense .....	-\$1,674	-\$1,674	---	349	47
Equipment .....	6,642	6,642	---	349	55
Less:					
Increase in reimburse- ment .....	-691	-691	---	339	15, 29
 Total increase .....	 \$4,277	 \$4,277	 ---		

**RECOMMENDATIONS**

Amount budgeted .....	\$94,344
Legislative Auditor's recommendation .....	94,344
 Reduction .....	 None

**ANALYSIS**

The principal function of this division is the collection of the Motor Vehicle Transportation Tax. Assessment of this tax is performed by the Board of Equalization, the chief tax collection agency of the State, and in the process of assessment and related administration by the board, practically all records and contracts are available which would permit the board to collect the tax with a minimum of duplication. *We recommend that the Legislature consider legislation at the 1951 Session which would transfer duties of collection of the Motor Vehicle Transportation Tax from the Controller to the Board of Equalization.*

A survey of requirements of the Board of Equalization, concurred in by the board, for assuming these functions of collecting the tax, indicates that an annual saving of approximately \$69,000 would result from the transfer.

A statement of reasons for this recommended transfer is as follows:

1. All functions of assessments are now made by the Motor Transportation License Tax Division, Board of Equalization.
2. Remittances are received with returns and processed through the Board of Equalization central cashier, then deposits are made to the credit of the Controller.
3. The Board of Equalization has authority to issue clearance certificates which complicates further collection efforts of the Controller's Office.
4. The Motor Transportation License Tax Division of the Board of Equalization has authority to request cash or surety bonds to be posted to secure accounts.
5. It has an original file of all assessments and keeps the status of accounts.

6. The Motor Transportation License Tax Division has personnel in the field that can perform collection functions.

7. That division must prepare, handle and forward to the controller and store extra copies of accounting forms.

8. It is necessary to write numerous letters to the Tax Collection Division of the Controller's Office to make information available for their collection purposes.

**STATE CONTROLLER**

ITEM 106 of the Budget Bill

Budget page 340  
Budget line No. 55

*For Audit of Aid to Local Government From the General Fund*

Amount requested -----	\$9,750
Estimated to be expended in 1950-51 Fiscal Year -----	19,500
Decrease (50.0 percent) -----	<u>\$9,750</u>

**RECOMMENDATIONS**

Amount budgeted -----	\$9,750
Legislative Auditor's recommendation -----	<u>9,750</u>
Reduction -----	None

**ANALYSIS**

The total amount of \$19,500 will be spent in the 1951-52 Fiscal Year for the audit of school building aid to impoverished school districts. The same amount is estimated to be expended in the 1950-51 Fiscal Year. Of this amount, \$9,750 is to be charged to the General Fund pursuant to Chapter 1575 of the Statutes of 1947 in connection with school building aid. The balance of \$9,750 is to be charged to the Public School Building Loan Fund, Chapter 1389, Statutes of 1949.

**STATE CONTROLLER**

ITEM 107 of the Budget Bill

Budget page 340  
Budget line No. 20

*For Additional Support of the State Controller Payable From the Public School Building Loan Fund*

Amount requested -----	\$15,412
Estimated to be expended in 1950-51 Fiscal Year -----	None
Increase -----	<u>\$15,412</u>

**RECOMMENDATIONS**

Amount budgeted -----	\$15,412
Legislative Auditor's recommendation -----	<u>15,412</u>
Reduction -----	None

**ANALYSIS**

The amount of \$9,750 is the cost of auditing of the School Building Aid Program, Chapter 1389, Statutes of 1949. The balance of \$5,662 is for the purchase of a bookkeeping machine and the salary of one book-keeping machine operator to perform the accounting functions of this program.

**STATE CONTROLLER**

ITEM 108 of the Budget Bill

Budget page 341  
Budget line No. 7

*For Audit of Special Appropriations for Aid to Local Government  
From the Postwar Unemployment and Construction Fund*

Amount requested .....	\$72,997
Estimated to be expended in 1950-51 Fiscal Year .....	72,997
Increase .....	None

**RECOMMENDATIONS**

Amount budgeted .....	\$72,997
Legislative Auditor's recommendation .....	72,997
Reduction .....	None

**ANALYSIS**

The function of this program is to make an office audit of claims filed by local agencies against allocations to cities, counties, and cities and counties for prevention or alleviation of unemployment through the construction of public works, posting of these claims and allocations to control ledgers and, finally, a field audit upon completion of the projects.

**STATE CONTROLLER**

ITEM 109 of the Budget Bill

Budget page 339  
Budget line No. 68

*For Support of the Bureau of Highway Accounts and Reports From the  
Motor Vehicle Fuel Tax Fund*

Amount requested .....	\$98,483
Estimated to be expended in 1950-51 Fiscal Year .....	99,993
Decrease (1.5 percent) .....	\$1,510

**RECOMMENDATIONS**

Amount budgeted .....	\$98,483
Legislative Auditor's recommendation .....	98,483
Reduction .....	None

**ANALYSIS**

There is no change in work load anticipated for this program. A slight decrease in salaries and wages is due to the fact that normal salary adjustments are partially offset by the abolishing of two positions established in the 1949-50 Fiscal Year. Operating expenses and equipment have been reduced accordingly.

**STATE CONTROLLER**

ITEM 110 of the Budget Bill

Budget page 339  
Budget line No. 69

*For Support of Motor Vehicle Fuel Tax Refund Division From the  
Motor Vehicle Fuel Fund*

Amount requested .....	\$183,003
Estimated to be expended in 1950-51 Fiscal Year .....	176,381
Increase (3.8 percent) .....	\$6,622

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$5,747	\$5,747	---	355	51
Operating expense -----	1,069	1,069	---	355	69
Equipment -----	1,944	1,944	---	355	77
Total increase -----	\$6,622	\$6,622	---		

RECOMMENDATIONS

Amount budgeted -----	\$183,003
Legislative Auditor's recommendation -----	183,003
Reduction -----	None

ANALYSIS

Normal salary adjustments, an increase in temporary help, and two new positions account for the increase in salaries and wages. Justification is based on an increase in work load. Refund claims have increased steadily since 1948 and an 8 percent increase is anticipated for the 1951-52 Fiscal Year.

Operating expenses show a decrease, and the amount for equipment is \$1,944 over the amount requested for the 1950-51 Fiscal Year. The additional amount is to purchase equipment for the new positions and for replacement of old and obsolete equipment.

These increases appear to be fully justified.

STATE CONTROLLER

ITEM 111 of the Budget Bill

Budget page 341  
Budget line No. 37

For Support of Tax-Deeded Lands Division From the Redemption Tax Fund

Amount requested -----	\$167,507
Estimated to be expended in 1950-51 Fiscal Year -----	166,180
Increase (0.8 percent) -----	\$1,327

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$1,588	\$1,588	---	357	33
Operating expense -----	267	267	---	357	54
Equipment -----	6	6	---	357	62
	\$1,327	\$1,327	---		

RECOMMENDATIONS

Amount budgeted -----	\$167,507
Legislative Auditor's recommendation -----	167,507
Reduction -----	None

ANALYSIS

Salary adjustments account for the increase in salaries and wages. No change in functions or work load is anticipated for this division.

**BOARD OF EQUALIZATION**

ITEM 112 of the Budget Bill

Budget page 359  
Budget line No. 52

**For Support of Board of Equalization From the General Fund**

Amount requested .....	\$10,802,894
Estimated to be expended in 1950-51 Fiscal Year .....	10,415,233
<b>Increase (3.7 percent) .....</b>	<b>\$387,661</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$220,187	\$101,473	\$118,714	372	67
Operating expense .....	147,472	14,027	133,445	372	68
Equipment .....	26,626	-11,795	38,421	372	69
<b>Less:</b>					
Increased reimbursements .....	-6,624	-6,624	---	372	72
<b>Total increase .....</b>	<b>\$387,661</b>	<b>\$97,081</b>	<b>\$290,580</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$10,802,894
Legislative Auditor's recommendation .....	10,521,831
<b>Reduction .....</b>	<b>\$281,063</b>

**ANALYSIS**

The total increase in the expenditure program for the Board of Equalization is from \$11,549,909 for 1950-51 to \$11,959,783 for 1951-52. This is an increase of \$409,874, or 3.5 percent. That part of the expenditure program which is from the General Fund increases from \$10,415,233 to \$10,802,894, an increase of \$387,661, or 3.7 percent.

The recommended reductions in the budget for the Board of Equalization from the General Fund activities are listed in the following table:

<i>Item</i>	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
<i>Division of Assessment Standards</i>			
1 Associate estimator of building construction .....	\$4,980	362	72
Travel expense .....	5,000	363	14
Automobile operation .....	2,032	363	17
New automobiles .....	8,125	364	25
<i>Sales Tax Division</i>			
Use tax enforcement			
1 Auditor, grade 3 .....	4,740	367	36
2 Auditors, grade 2 .....	7,800	367	37
2 Accountant auditors, grade 1 .....	6,432	367	38
3 Intermediate typists .....	6,840	367	39
Collections			
1 Intermediate typist-clerk .....	2,280	367	41
1 Intermediate clerk .....	2,280	367	42
1 Junior typist-clerk .....	2,040	367	43
62 Audit positions (vacant) .....	200,000	---	---
Rent, Monterey branch office .....	1,200	369	9
<i>ABC Division</i>			
1 Intermediate stenographer-clerk .....	2,400	372	23
1 Junior typist-clerk .....	2,040	372	24
Miscellaneous equipment .....	22,874	376	69
<b>Total .....</b>	<b>\$281,063</b>		



**Division of Assessment Standards**

1 Associate estimator of building construction (Budget page 362, line 72) ----- \$4,980

The agency justifies this position on the ground that it is needed to furnish county assessors with more accurate and complete cost data on structures for use in the assessment of property for tax purposes. Since services to the counties in the matter of assessment practices are not subject to any precise work load measurement, *we recommend the deletion of this position as a new level of service beyond what has been authorized and operating within the Division of Assessment Standards.* No clear showing of necessity for the increased service has been made with respect to this additional position.

The budget request for the Division of Assessment Standards also contains an increase of \$4,000 in printing expense, Budget page 363, line 8. The largest part of this printing expense, and it is our understanding also the increase, is due to the publication of county surveys of assessment practices authorized by Chapter 1523 of the Statutes of 1947. This program, which authorized studies of county assessment practices for the benefit of local assessors, has been in operation for almost four years. It is expected that 25 individual county studies will be completed by the end of the current fiscal year. We believe that it would be desirable to conclude this special program as speedily as possible and, therefore, recommend the approval of the increase in printing expense.

The budget for the Division of Assessment Standards also contains an increase of \$5,000 for travel expense, Budget page 363, line 14, and an increase of \$2,032 in automobile operation, Budget page 363, line 17. *We recommend reduction of these items to the same level of expenditures as were incurred in 1950-51, as there has been no adequate justification for the increase.*

Also contained in the budget for the Division of Assessment Standards is a request for a total of \$139,387 for administration of Chapter 1466, Statutes of 1949. This chapter provided for the compilation of individual county and state-wide ratios of assessed valuations to market values. This request was incorporated in the Budget last year at a cost of \$217,347 and although recommended by us for approval was deleted by action of the Legislature. The program submitted this year is substantially the same in staffing pattern as the program submitted last year. The difference in cost is due to budgeting the positions at different effective dates throughout the 1951-52 Fiscal Year.

It is well known that ratios of assessed valuations to true value are not uniform between counties, and in view of the increasing importance of these ratios as factors used in computing relative need for local assistance grants to the various counties, there is no question but that accurate information of this kind is badly needed.

Included in the total request for this function is \$22,750 for 14 additional automobiles. *If this item is approved by the Legislature at this session, we recommend that the amount for additional automobiles be reduced to the cost of nine rather than 14 automobiles, or a reduction of \$3,125.* Positions which might be required to travel, both for this function and in the existing Division of Assessment Standards, total 38. It is

believed that an allowance of one automobile for every two persons on any reasonable pool arrangement would be completely adequate for the performance of the functions of the division and at this ratio would be considerably higher than automobile allowances in other state agencies.

#### Retail Sales Tax Division

##### Auto Use Tax

In the headquarters office of the Sales Tax Division, request is made for eight new positions for enforcement of use tax against out-of-state purchasers of automobiles. These positions are in addition to those established by a supplemental appropriation of \$50,202 granted by the Legislature for this purpose last year. *We recommend that the additional positions established last year on a trial basis be maintained for a further or indefinite period but that no increase be made at this time in the program of enforcement of use tax against out-of-state purchasers of automobiles.* We make this recommendation for the following reasons:

It was intended by the Legislature at the time the supplemental appropriation was granted that the program would be on a trial basis and that there would be a later opportunity to appraise the entire program for legislative decision as to the proper scope of the use tax enforcement and the most effective method of enforcement. In our opinion, adequate data has not yet been submitted for complete appraisal of this program.

The Legislature, at its 1950 Session, approved the increase of \$50,202 submitted by the agency as a supplement to its original budget request. This provided for 20 additional personnel, six auditors, and 14 clerical, to be used on this program. Both the Legislative Auditor and the Director of Finance recommended approval of this request with the qualification that the 20 additional positions be established on a limited term basis for one year, requiring approval before their extension.

In recommending approval of the increase of \$50,202, the Legislative Auditor further recommended, and the Assembly Ways and Means Committee concurred, that the program "be conducted in such a way as to lead to the compilation of adequate data from which studies can be made of the following points:

"a. Possibility of amending the Motor Vehicle Code to provide for collection of the tax or determination of liability for tax at time application for registration is made with the Department of Motor Vehicles.

"b. Possible amendment to the Sales and Use Tax Law to facilitate collection of the tax, eliminate inequities arising from double taxation, or to facilitate administration of this phase of the law.

"c. Possible changes in procedure both in the Board of Equalization and the Department of Motor Vehicles.

"d. The development of adequate cost data on the operation, including overhead and all costs incurred by both agencies attributable to the program."

Although this program has yielded a "profit" in terms of additional revenue collections from out-of-state purchasers of automobiles, we believe that revenue is not the only consideration and that the enforcement program requires several policy determinations before its extension is authorized.

A general use tax is one of the most expensive and difficult of all types of taxes to administer. It was never intended as a revenue measure but as a supplement to the sales tax in order to remove what might otherwise be inequities in sales tax administration and to eliminate insofar as possible, the inducement to purchase outside of California to the detriment of California retailers. Complete enforcement is administratively out of the question and was never intended, and when enforcement concentrates upon a single type of purchase, such as the purchase of an automobile because its ownership is a matter of record, questions of inequities arise. If the objective of the use tax is not revenue but rather aiding sales tax enforcement, the question is raised whether revenue is a proper primary consideration in connection with the purchase of a single type of commodity.

Under the use tax, tax liability is incurred and is enforced with regard to many transactions which in no way involve competition with California retailers, and there are also many instances where double tax liability arises out of the same purchase: liability for sales tax in another state, and liability for use tax in California.

Until the purchaser of an out-of-state automobile registers his car in California, there is virtually no way to determine and assess use tax. If, as a result of intensive enforcement, this fact becomes generally known, a concerted move on the part of out-of-state purchasers of automobiles to delay or forego California registration might develop with a resulting loss in revenue from motor vehicle license fees as well as use tax.

We recommend that consideration be given by the Legislature to possible amendments to the law to eliminate double taxation and provide for more equitable application of penalty provisions, before the program is extended. Furthermore, we recommend that the Board of Equalization and the Department of Motor Vehicles jointly determine the feasibility of transferring to the Department of Motor Vehicles responsibility for search of records to establish tax liability, while leaving to the Board of Equalization the function of collection.

1 Intermediate typist-clerk (Budget page 367, line 41).....	\$2,280
1 Intermediate clerk (Budget page 367, line 42).....	\$2,280
1 Junior typist-clerk (Budget page 367, line 43).....	\$2,040

These positions are requested to increase the staff in the collection section in the headquarters office, which now consists of 25.5 clerks and a supervisor of collections, and are justified by the board on the basis of increased work load. However, there is some indication that the work load of this section is decreasing rather than increasing. Number of delinquent accounts is the work load measure used as a basis for granting personnel increases in this section in the past. Number of clerks, number

of delinquent accounts, and clerks per 1,000 delinquent accounts were as follows, including the proposed increase for 1951-52:

Year	Clerks	Delinquent accounts	Clerks per 1,000 delinquent accounts
1946-47	19.7	114,938	17.1
1947-48	20.1	129,148	15.6
1948-49	22.2	124,006	17.9
1949-50	24.6	115,611	21.3
1950-51	25.5	118,000	21.6
1951-52	28.5	123,000	23.2

It appears, therefore, that the clerks per 1,000 accounts have been increasing steadily since 1947-48, which indicates a decreasing rather than an increasing work load. Furthermore, estimates of delinquent accounts for future periods have exceeded actual numbers in the past and there is doubt that the projected estimate will be realized, even for 1950-51.

It has been indicated by the agency that the character of the work, as well as the work load, has been changed. This appears to indicate that consideration should be given to possible reclassification or increased supervision rather than increased clerical positions. *We recommend that this be resurveyed by the management analysis section or by the Personnel Board to determine the nature of the work to be performed, and that the request for additional clerical positions not be granted at this time.*

Sales Tax Audit Program

1951-52

One of the most serious budget problems to arise with regard to the Sales Tax Division has been the expansion of the audit program by year to year additions to the staff, and the lack of any criteria for establishing work load or any other measure of what the total audit program should be in relationship to number of taxable accounts or taxes collected. For a number of years we have been unimpressed by submission of work load data measured in terms of "backlog" of audits. Backlog has validity as a measure of work load and needed additional staff only for the processing of transactions which are absolutely necessary or required by law to be performed. Backlog in the audit program of the Sales Tax Division, therefore, has validity only if it is assumed that it is both necessary and desirable to perform, over some period of time, complete audit of all accounts. The audit of tax returns is, or should be, a selective process in which a policy is established that auditing will be on a sample basis, or on a selective basis, or within some particular relationship to total collections or total amount of taxable sales, or some combination of these. The work load, and therefore backlog against that work load, is variable and is determined by the agency itself. We believe that it is a completely inadequate picture of necessary work to be performed to present to the Legislature statements of total number of unaudited accounts as the work load of the agency.

Furthermore, the Legislature has had before it at each session, as justification for increases in the audit staff and audit program of the Sales Tax Division, only statements of the "net profit" which results from the audit program. This has usually been presented in the form of a ratio of tax recovered per dollar spent. For instance, when request was made to the Legislature in 1947 for a considerably expanded audit

program of some 228 additional auditors, the justification presented is represented by the following statement of the Board of Equalization contained in a release to the legislative committees dated April 9, 1947:

“We are so far from the saturation point in our audit program that there can be no question that each additional auditor, once he is familiarized with our work, can produce at least five dollars in taxes for each one dollar spent in his employment.”

This statement, accepted at its face value, presents to the Legislature virtually no alternative except that of approving requests for additional auditors so long as the entire program returns a profit.

In the light of these conditions, the office of the Legislative Auditor has undertaken this year to make a more complete analysis of the costs and characteristics of the audit program for report to the Legislature. The results of this study, analyzing the audit program for the fiscal year ending in 1949, are contained in a special report which will be submitted to the Budget Committee.

The results of this survey of the audit program lead us to the conclusion that, not only is the audit program far above the reasonable requirements of good administration, but that on any adequate basis of selectivity in auditing accounts, the entire audit function could be de-emphasized at considerable savings to the State and no loss in revenue.

Productivity of auditors under the sales tax audit program are presented by the agency as follows:

<i>Year</i>	<i>Auditors full-time</i>	<i>Deficiencies recommended</i>	<i>Deficiency per man</i>
1943-44-----	199.13	\$3,145,939	\$15,798
1944-45-----	193.44	4,507,009	23,299
1945-46-----	183.41	3,961,947	21,602
1946-47-----	203.04	4,062,557	20,009
1947-48-----	311.92	5,901,291	18,919
1948-49-----	452.63	7,955,574	17,576
1949-50-----	483.53	9,758,951	20,183

The foregoing figures are inadequate for appraisal of the function for the following reasons:

1. The number of auditors shown is not the number paid but the equivalent in terms of man years of the total direct audit time only. The number of auditors actually employed during these years was much greater, being 371 in 1943-44, 362 in 1945-46, 403 in 1946-47, 565 in 1947-48, 667 in 1948-49, and 725 in 1949-50.

2. The deficiencies recommended are subject to decrease as a result of later adjustment so that the amount actually collectible is something less than that recommended, being 79.41 percent in 1943-44, 82.56 percent in 1944-45, 86.61 percent in 1945-46, 67.85 percent in 1946-47, 91.66 percent in 1947-48, 86.09 percent in 1948-49, and 88.99 percent in 1949-50.

3. No attempt is made to include total costs in the comparison which, in addition to total salaries paid auditors, should include the State's contribution to the employees' retirement system and other items of overhead.

Our studies indicate that the total costs of the audit program in 1946-47, for example, were \$2,886,105, and that the net amount collectible from all types of audits was 67.85 percent of \$4,062,557, or \$2,756,445. This means that far from producing additional taxes at the rate of at

least five for one, the audit program at the time that statement was made was actually costing more than it produced.

For 1948-49 the net amount collectible from all types of audits was \$6,764,436, total audit program costs were \$4,947,694, or a net recovery per dollar of cost amounting to \$1.37; while for 1949-50 the net amount collectible was \$8,673,934, total audit program costs were \$5,377,687 for a net recovery of \$1.61 per dollar of cost.

At the time the addition of 228 auditors was approved by the Legislature in 1947, it was proposed that a detailed record of the activities and production of each man employed under that appropriation be kept. The agency concurred in that proposal. Each year when the audit program has been discussed, the necessity for adequate cost and production analysis has been pointed out by the Legislative Auditor. To date no analysis has been presented by the agency which would show the total and functional cost of the audit program, the high proportion of non-productive audits, nor, in fact, change in any substantial way the "five-for-one" profit ratio submitted to the Legislature in 1947.

In the survey made by us, the year 1948-49 was selected for study, since it was the most recent year for which complete data were available at the time the study was started. The most significant findings are discussed in the text which follows.

The method used in determining audit program costs is essentially the same as that used in compiling the data relating to the sales tax field audit program which appears on page 219 of the report of the Legislative Auditor on the Analysis of the Budget Bill for the Fiscal Year 1950-51.

An analysis of the regular field audits exclusive of those made out of state, completed during 1948-49, by size of deficiency as billed per audit hour, is as follows:

Deficiency per audit hour	Number of audits		Audit hours		Deficiencies collectible	
	No.	Percent of total	No.	Percent of total	Amount	Percent of total
Refunds -----	1,729	4.3	30,605	3.9	—\$104,294	—1.7
No change -----	12,045	29.6	117,749	15.0	---	---
\$0.01 to \$6.06 -----	16,101	39.5	355,205	45.1	759,858	12.0
\$6.07 to \$21.67 -----	8,050	19.8	206,476	26.2	2,141,806	34.0
\$21.68 to \$61.33 -----	2,237	5.4	62,024	7.9	1,880,245	29.8
\$61.34 and over -----	571	1.4	14,785	1.9	1,631,428	25.9
Total -----	40,733	100.0	786,844	100.0	\$6,309,043	100.0

The amount shown as "deficiencies collectible" in the foregoing is the amount billed less an estimate for the amount later to be written off as the result of protests.

It will be noted that 1.4 percent of the audits and 1.9 percent of the audit hours accounted for 25.9 percent of the additional revenue.

The same data are shown in the following table as percentages in cumulative form:

Deficiency per audit hour	Number of audits	Audit hours	Deficiencies
Refunds -----	4.3	3.9	—1.7
Refunds and no change -----	33.9	18.9	—1.7
Refunds, no change, and \$0.01 to \$6.06 -----	73.4	64.0	10.3
Refunds, no change, and \$0.01 to \$21.67 -----	93.2	90.2	44.3
Refunds, no change, and \$0.01 to \$61.33 -----	98.6	98.1	74.1

The unit cost per audit hour, including all direct costs and a proportionate share of the overhead was \$6.06 in 1948-49. The foregoing table indicates that in 73.4 percent of total audits, representing 64 percent of the audit hours, no individual audit produced more than its cost. This group, which included refunds, no change audits and those producing \$6.06 per hour or less, produced total net revenue of \$655,564 at a total cost of \$3,051,568.

An even more disproportionate picture is that presented when we note that the 98.6 percent of the audits which represented 98.1 percent of the total audit hours (this being the group which yielded revenue of \$61.33 per audit hour or less), cost \$4,677,805 to make and produced additional revenue of \$4,677,615.

If it were possible to select for audit only the accounts which would produce at least \$61.34 per audit hour in additional revenue and to limit the audit program to those accounts and those accounts only, it would be possible to cut the costs of the sales tax field audit program from \$4,767,385 per year to \$89,580, a saving of \$4,677,805, without any net loss to the State.

This, of course, is not feasible and is not here suggested. However, it indicates the need for a greater degree of selectivity in the audit program and points up the high cost of nonproductive audits and "policing."

For the four years ended June 30, 1950, the regular sales tax field audit program produced \$18,996,000 in net deficiencies collectible, at a cost of \$16,708,000, or net revenue of \$2,288,000, or \$1.14 in revenue for each dollar of cost. Over the same four-year period, the total deficiencies and costs attributable to each district office were as follows:

Audit Recoveries by District, Four Years Ended June 30, 1950

District	Net recoveries		Costs	Excess net recoveries over costs
	\$1 of cost	per Net recoveries		
San Francisco -----	\$1.55	\$3,262,652	\$2,103,610	\$1,159,042
Stockton -----	1.50	1,011,151	674,539	336,612
Los Angeles -----	1.28	7,956,053	6,209,715	1,746,338
Oakland -----	1.17	1,608,715	1,377,209	231,506
San Diego -----	1.12	848,448	755,883	92,565
Sacramento -----	.90	440,542	487,884	-47,342
Fresno -----	.88	768,662	877,129	-108,467
Santa Rosa -----	.80	540,275	661,827	-121,552
San Jose -----	.81	731,860	905,060	-173,200
San Bernardino -----	.78	818,662	1,044,187	-225,525
Marysville -----	.69	333,458	482,169	-148,711
Redding -----	.61	232,146	377,627	-145,481
Santa Barbara -----	.59	251,617	424,316	-172,699
Woodland -----	.59	191,984	327,270	-135,286
Total -----	\$1.14	\$18,996,225	\$16,708,425	\$2,287,800

It will be noted that in only five of the districts did the revenue exceed the cost. It is also interesting that only two of the districts, San Francisco and Stockton, showed a "profit" in each of the four years.

For purposes of comparison with other states, it is extremely difficult to compile strictly comparable data which would apply to audit cost and recovery for sales tax alone. Furthermore, some of the states have obviously inadequate audit or enforcement programs and provide little in the way of guidance or measure of comparison for California. However, no

state sales tax department from which replies to questionnaires were received has an audit program which approaches the Board of Equalization sales tax audit program in scope, total expenditures, or expenditures in relation to number of accounts or taxable sales. The Board of Equalization administers its audit program through some sixty district or branch offices. The State of Michigan administers all of its taxes through six branch offices, and the State of Illinois administers its sales tax audit and investigation program through offices only in Springfield and Chicago.

The following table indicates, for sales tax states replying to a questionnaire, the cost of administration per account and per \$1,000 of taxable sales:

**Cost of Sales Tax Administration in Other States**

<i>State</i>	<i>Cost of administration Per \$1,000 of taxable sales</i>	<i>Per account</i>
California -----	\$0.64	\$28.00
Illinois -----	0.31	21.02
Michigan -----	0.29	15.73
Washington -----	0.37	11.21
Wyoming -----	0.10	10.30
Arizona -----	0.16	8.92
Connecticut -----	0.30	8.07
Utah -----	0.15	7.49
Tennessee -----	0.18	6.67
Oklahoma -----	0.12	5.16
West Virginia -----	0.10	4.39

**Summary of Findings**

A summary of the findings, which result from our special study of the audit program for 1948-49, is as follows:

1. The concept of "backlog," or number of unaudited accounts, is a completely unsatisfactory measure of the necessary audit work to be performed by the Sales Tax Division.

2. Necessary work load, as represented by total audit work to be performed in any given year, lends itself to policy determination by the Legislature. Work load can be expressed in a number of ways, as a percentage of total number of accounts to be audited, as a percentage of the dollar volume of gross sales to be audited, as a percentage of the dollar volume of taxable sales to be audited, or as number of auditors in relation to one of these measures. It can also be expressed in terms of total cost in relation to one of these measures. Whatever measure of work load is adopted some limitation might well be placed on that part of the program which should be nonproductive in the sense that audit deficiencies would not be expected to exceed total costs. It is appropriate for the Legislature to determine as an over-all policy what this level and, therefore, the number of auditors shall be, leaving to the agency the administrative determination of where and how this audit time shall be spent to produce the greatest recovery to the State.

3. An excessive number of total audits, total audit time, and therefore cost, is devoted to nonproductive audits.

4. Because of the high concentration of audit recoveries in a relatively small number of audits, the over-all state "profit" basis must be discounted as a justification for the addition of more auditors.



5. The need is indicated for a much greater degree of selectivity in the field audit program with much more extensive analysis of audit results and reasons for audit deficiencies and more centralized control.

6. Contributing to the high audit cost is the cost of establishing, staffing and maintaining an excessive number of branch offices.

7. The establishment of an excessive number of branch offices leads to unwarranted emphasis upon the "servicing" of accounts and the performance of functions neither necessary nor directly related to tax enforcement.

**Recommendations**

In view of these findings we recommend :

1. That there be no addition to the audit program of the Sales Tax Division.

2. That, in order to reduce audit cost, the number of authorized audit positions be reduced to 825. This can be accomplished by the abolition of 62 presently vacant positions.

3. That personnel be transferred and reassigned to accomplish the above objective to the best interests of the State.

4. That a greater degree of selectivity be instituted in the determination of cases for audit.

5. That continuing study and analysis be made of the audit program to indicate procedures for greater selectivity and a reduction in the proportion of non-productive audits.

6. That greater emphasis be placed upon prosecutions and penalty provisions of the law as an aid to enforcement.

7. That there be a reduction in "taxpayer services," such as personal visits to each new licensee, with an accompanying increase in the proportion of time spent on audits to total available audit time.

**Branch Offices and Rent**

We have commented elsewhere in this analysis on the number and cost of maintaining 60 district and branch offices throughout the State. Only one of these costs is the cost of rental space for existing and proposed new quarters.

Rent items for the Board of Equalization appear in 15 different places in the printed budget, the largest single item being that for Retail Sales Tax Division, Districts, Budget page 369, line 9, for \$323,034. Due to the fact that many of the leases are in the name of the Sales Tax Division, which in turn makes charges to the other divisions for space, the only figure which has any significance for comparative purposes is the total rent for the entire agency, which is as follows :

Proposed 1951-52 Fiscal Year-----	\$551,676
Estimated 1950-51 Fiscal Year-----	486,433
<b>Increase (11.8 percent) -----</b>	<b>\$65,243</b>
The major items of increase are :	
Headquarters, Sacramento (8,287 sq. ft. additional)-----	\$13,886
Santa Monica branch (1,400 sq. ft. additional)-----	3,360
3 Proposed new branches, Los Angeles (16,000 sq. ft.)-----	33,600
Proposed new branch in Monterey-----	1,200
Assessment Standards, Chapter 1466-----	3,352
All other (chiefly expansion during 1950-51)-----	9,845
<b>Total -----</b>	<b>\$65,243</b>

In our opinion, an appraisal of need for existing or new branch offices is dependent upon a determination of the level of service for the audit or enforcement program. For this reason we recommend that no new branch offices be established until there has been developed by the agency, and approved by the Legislature, a comprehensive plan setting acceptable standards of need which can be consistently followed.

In the territory from and including Sacramento and Amador counties north to the Oregon line and east of the coast range, the Franchise Tax Board maintains a single office in Sacramento; the Department of Employment for unemployment insurance tax purposes maintains seven branch offices, while the Board of Equalization maintains 19. We believe this clearly indicates the necessity for further study of the whole question of branch offices before any additional are opened.

The number of field offices maintained, the number of accounts, and the accounts per field office for 1948-49 in sales tax states where such information was available, are shown in the following table:

Field Offices—Sales Tax Administration

State	Field offices	Accounts	Accounts per field office
Connecticut -----	None	57,000	----
West Virginia -----	None	23,595	----
Rhode Island -----	None	18,289	----
Arizona -----	1	21,534	21,534
Illinois -----	2	131,069	65,535
Oklahoma -----	2	40,890	20,445
Utah -----	3	13,772	4,591
Tennessee -----	4	60,000	15,000
Arkansas -----	4	35,246	8,812
Michigan -----	6	118,732	19,789
Wyoming -----	6	9,163	1,527
North Carolina -----	13	62,597	4,815
South Dakota -----	14	18,262	1,304
Florida -----	17	100,000	5,882
Washington -----	19	91,000	4,789
California -----	60	255,995	4,267

We recommend the deletion of provisions for rent and other costs for a proposed new branch office at Monterey. This proposed new office is only 18 miles distant by main highway from an existing branch at Salinas which has also been expanded this year.

Request is also made in the budget for three new branch offices in Los Angeles at a rental cost of \$33,600. Additional equipment for these offices is requested in the amount of \$13,749. Since the downtown Los Angeles office is in one of the highest cost areas in the State and does suffer overcrowding, due to inefficient design of the building for the purposes for which it is used, certain ultimate economies should result from decentralizing a part of the staff from the main downtown building. We recommend approval of this decentralization provided no new personnel are needed and ultimate economies shown. Savings, for instance, should be possible in automobile operation.

ABC Division—District Liquor Control Offices

1 Intermediate stenographer-clerk (Budget page 372, line 23)-----\$2,400  
 1 Junior typist-clerk (Budget page 372, line 24)-----\$2,040

One of these positions is requested for the Richmond office and the other for the Bakersfield branch to raise the level of existing service in these offices in connection with the issuance of licenses. Since there is no clear showing that the work in either office warrants an additional clerk, we believe any additional work can be handled by existing personnel or by utilization of sales tax personnel, and accordingly recommend the deletion of the two positions.

Equipment

Additional equipment to improve existing service-----\$22,874

Total equipment requested, Budget page 372, line 61, consists of the following:

Replacement			
Office -----	\$21,988		
Automobile -----	14,667		
			\$36,655
Additional			
Office -----	\$64,605		
Automobile -----	22,900		
			87,505
Total -----			\$124,160

We recommend approval of all replacements, totaling \$36,655.

All but \$150 of the \$22,900 requested for additional automobiles are for the 14 cars requested for the Division of Assessment Standards for carrying out the provisions of Section 1831 of the Revenue and Taxation Code, Budget page 364, line 25, which we have commented on elsewhere in this analysis.

The additional office equipment of \$64,605 includes equipment for proposed new positions which should, of course, be eliminated if the positions are deleted, equipment for the proposed new branch offices in Los Angeles, commented upon elsewhere in this analysis, as well as \$22,874 representing certain items requested by the agency and approved by the Department of Finance, which cannot be justified strictly on the basis of increased work load but only as improvements in existing services. The detail by operating divisions is as follows:

	Amount	Budget page	Line No.
General administration -----	\$2,086	361	42
Research and statistics -----	80	362	21
Assessment standards, existing activities -----	482	363	25
Sales tax, headquarters -----	962	367	77
Sales tax, district offices:			
New Pasadena Office -----	\$1,821		
New Monterey Office -----	890		
All other -----	12,602		
Total -----	15,313	369	19
Alcoholic beverage control			
Headquarters -----	153	370	63
Bureau of Tax Assessment ---	45	371	59
	\$21,929		
District offices -----	2,808	372	49

While these items of new equipment may be desirable, we believe they are borderline cases and that the agency could function without them if necessary, since it has done so in the past.

We have recommended the entire amount for deletion with the further suggestion that, if the Legislature desires to restore any part of the total in order to be consistent with action taken on comparable items in budgets of other agencies, the Board of Equalization be permitted to select those items which it deems most essential on a priority basis.

**BOARD OF EQUALIZATION**

ITEM 113 of the Budget Bill

Budget page 374  
Budget line No. 67

**For Support of Motor Transportation License Tax Division  
From the Motor Vehicle Transportation Tax Fund**

Amount requested .....	\$670,351
Estimated to be expended in 1950-51 Fiscal Year .....	662,005
<b>Increase (1.3 percent) .....</b>	<b>\$8,346</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$10,376	\$7,160	\$3,216	374	63
Operating expense .....	4,546	4,546	---	374	64
Equipment .....	-6,576	-7,306	730	374	65
	<b>\$8,346</b>	<b>\$4,400</b>	<b>\$3,946</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$670,351
Legislative Auditor's recommendation .....	666,405
<b>Reduction .....</b>	<b>\$3,946</b>

**ANALYSIS**

The position of one field representative, Budget page 374, line 23, at \$3,216 is requested to raise the level of service in Tulare County, but has not been justified on the basis of work load. For the division as a whole most measures of work load have been decreasing over the last few years, while the staff has been increasing. Accordingly we recommend against the proposed position and suggest that if there is any variation between the level of service in Tulare County and the remainder of the State, it be compensated for by reassignment of existing staff.

The additional equipment to raise existing level of service by \$730 is all included in the item of \$1,324, Budget page 374, line 44, and consists of a typewriter desk and chair for a clerk in the Los Angeles office, and two additional adding machines, one for Stockton and the other for Red Bluff. These are new services, and unless it is desired to raise the level of existing service, they are not needed.

**BOARD OF EQUALIZATION**

ITEM 114 of the Budget Bill

Budget page 376  
Budget line No. 78

**For Support of Motor Vehicle Fuel Tax Division From the Motor Vehicle Fuel Fund**

Amount requested .....	\$424,750
Estimated to be expended in 1950-51 Fiscal Year.....	413,512
<b>Increase (2.7 percent) .....</b>	<b>\$11,238</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages.....	\$11,476	\$3,260	\$3,216	376	73
Operating expense .....	1,357	1,357	---	376	74
Equipment .....	1,595	2,338	743	376	75
	<b>\$11,238</b>	<b>\$7,279</b>	<b>\$3,959</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$424,750
<b>Legislative Auditor's recommendation.....</b>	<b>420,791</b>
<b>Reduction .....</b>	<b>\$3,959</b>

**ANALYSIS**

The position of one accountant-auditor, grade 1, Budget page 376, line 33, at \$3,216, is requested to increase the staff assigned to audit of motor vehicle fuel distributors in Los Angeles. As pointed out in the report of the Legislative Auditor for 1950-51, page 218, it is the practice of this division to audit all taxpayers under the Motor Vehicle Fuel Tax Law at least once each year, and we believe the necessity for this is open to serious question. We therefore recommend that the position be deleted and that any increase in work load from other sources be absorbed by modification of the existing program for a 100 percent audit of distributors.

The additional equipment to raise level of existing service, Budget page 376, line 55, by \$743, consists of an additional calculating machine, a typewriter, and a fan, all for use in Los Angeles, and in our opinion these are not needed unless it is desired to raise the level of service.

**Department of Finance  
GENERAL ACTIVITIES**

ITEM 115 of the Budget Bill

Budget page 381  
Budget line No. 7

**For Support of the Department of Finance, General Activities, From the General Fund**

Amount requested .....	\$1,820,712
Estimated to be expended in 1950-51 Fiscal Year.....	1,806,372
<b>Increase (0.8 percent) .....</b>	<b>\$14,340</b>

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages-----	\$7,079	\$24,671	\$17,592	393	9
Operating expense-----	157,956	166,580	8,624	393	10
Equipment-----	11,163	12,950	1,787	393	11
Plus:					
Decrease in reimbursements-----	190,462	190,462	---	393	14
Decrease cost supported by Item 116-----	76	76	---	392	79
Total increase-----	\$14,340	\$13,663	\$28,003		

RECOMMENDATIONS

Amount budgeted-----	\$1,820,712
Legislative Auditor's recommendation-----	1,813,632
Reduction-----	\$7,080

Summary of Reductions

	Amount	Budget page	Line No.
Purchases Division			
2 Junior buyers-----	\$7,080	390	53

ANALYSIS

The amount requested for the Department of Finance, General Activities, is derived from the following budget items:

Budget Item 115-----	\$1,820,712
Budget Item 116-----	157,188

Total amount requested----- \$1,977,900

The amount of \$1,977,900 requested for 1951-52 is an increase of \$14,264 or 0.7 percent over estimated expenditures from the General Fund for the current fiscal year.

The total gross expenditure program, however, is \$2,743,281 for the Fiscal Year 1951-52. This represents a decrease of \$176,198 from the gross expenditure program for the current year. This is more than offset, however, by a decrease of \$190,462 in estimated reimbursements, resulting in over-all increase of \$14,264 in support requested.

The major reason for the large increase in the gross expenditure program during the current and budget years may be attributed primarily to the assignment to the Department of Finance of the task of liquidating leases and equipment acquired by the Department of Social Welfare for the administration of Article XXV of the Constitution. Appropriations for support for the Department of Finance, General Activities, were increased in the amount of \$1,407,515 by Item 259.1 of the Budget Act of 1950, which reappropriated the unexpended balance of the appropriation made by Item 261 of Section 2, Budget Act of 1949, for expenses in connection with the liquidation of this property. This function has also increased reimbursements an estimated \$770,472 in the current year and \$609,197 in the budget year. The net cost to the State from the liquidation of Social Welfare equipment and leases is estimated at \$157,264 for 1950-51 and \$157,188 in 1951-52. Of the \$1,348,911 in estimated savings for the current year, \$1,250,251 results from savings in the amount reappropriated by Item 259.1 for this purpose.

Other changes in program during the current year are the initiation of a traffic management section and an automotive management section which proposes to include automotive inspection. The automotive inspection service is being transferred from the Division of Buildings and Grounds in 1951-52. A position of secretary to the Merit Award Board has been established during the current year in the Division of Budgets and Accounts, under authority of Chapter 723, Statutes of 1949. The program of centralized radio maintenance in the Division of Communications was transferred from support to the Purchasing Revolving Fund effective January 1, 1950.

The budgets for each of the activities covered in this item will be covered as they appear in the Budget.

#### Administration Division

The amount of \$256,349 is requested for support of the Administration Division. This represents an increase of \$34,461 or 15.5 percent over the amount of \$221,888 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages-----	\$46,474	24.5
Operating expenses-----	4,177	12.5
Equipment (decrease)-----	—5,591	—78.3
Less : Increased reimbursements-----	—10,559	125.8
Total decrease-----	\$34,461	15.5

The increase in salaries and wages for the budget year results primarily from the transfer of 11 positions from the Buildings and Grounds Division and the addition of two new positions requested on a work load basis. We recommend approval of the additional positions requested.

The automotive management section was established in the Administration Division during the current year to carry out provisions of Section 17.5 of the Budget Act of 1950. It is being financed during the current year out of funds appropriated for this activity by Item 116.1 of the Budget Act of 1950. The transfer of the seven garage attendants and four inspectors of automotive equipment from the Division of Buildings and Grounds to this section will combine related activities.

The traffic management section was activated during the current year. This function was added to the Department of Finance by Chapter 1464, Statutes of 1949. It was originally budgeted for operation during the current year as a unit in the Division of Purchasing but transferred to the Administration Division. The objectives to be realized from this function justify the additional position of transportation rate clerk requested for 1951-52, and we recommend approval of the position as requested. We recommend approval of the addition of intermediate stenographer-clerk position on a work load basis.

The increase in operating expenses is the result of additional functions added to the division, plus \$7,500 for contract consulting services partially offset by a decrease in rent and the termination of contract services for communication engineers. We recommend approval as requested. The additional amount of \$7,500 for consulting service will permit contracting with survey firms or consultants for special studies

in the management field. The need for a special study on the problem of group feeding in state institutions is recognized and economy should result from one-time contracts covering special problems of this nature rather than the addition of additional special consultants to the staff on a permanent basis. Special studies of this type have been conducted previously by allocations from the Emergency Fund. We believe, however, the inclusion of an amount for this purpose as an operating expense is better budgeting and will permit a better analysis of the values to be derived from such surveys.

We recommend approval of the divisional budget as submitted.

**Accounts and Disbursements**

The amount of \$230,729 is requested for support of the Accounts and Disbursements Division. This represents a decrease of \$589 or 0.3 percent under the amount of \$231,318 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages (decrease) -----	—\$4,896	—2.3
Operating expenses -----	4,200	11.7
Equipment (decrease) -----	—693	—5.8
Plus: Decrease in reimbursements -----	800	—2.4
	<hr/>	
Total decrease -----	—\$589	—0.3

The accounting system is being mechanized during the current year. The increase of \$12,297 in salary savings for the budget year is attributable in part to a proposed program of reducing personnel as rapidly as training is completed under the new system. The net expenditure program for the current year has increased \$18,350 over the amount estimated in the 1950 Budget as a direct result of the cost of mechanization and a reduction of \$9,200 in estimated reimbursements. The appropriation was augmented during the current year by an allocation of \$14,000 from the Emergency Fund, of which \$10,613 was allocated to this division for the purchase of accounting equipment. As a policy, we question the propriety of using emergency funds for major organization changes of this nature which precludes their review by the Legislature prior to expenditure. There is no evidence that work load had increased to the point that immediate expansion of facilities was required and, therefore, we believe the entire program should have been submitted for legislative review.

No savings are indicated for either the current or budget years as the estimated gross expenditures for 1950-51 and 1951-52 exceed the estimated gross expenditures originally submitted for the current year by \$9,150 and \$7,761, respectively. We recommend that a careful review of the entire divisional budget be made after completion of the program of mechanization which is presently scheduled for April 1, 1951. We believe that there is considerable merit to a policy of renting equipment, when possible, for a period long enough to permit careful analysis of the benefits to be derived from mechanization.

We recommend approval of the divisional budget as submitted.



**Division of Audits**

The amount of \$473,615 is requested for support of the Division of Audits. This represents a decrease of \$23,028 or 4.6 percent under the amount of \$496,643 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages (decrease) -----	—\$22,334	—4.7
Operating expenses (decrease) -----	—360	—0.7
Equipment (decrease) -----	—334	—10.7
Total decrease -----	—\$23,028	—4.6

The decrease of \$23,028 in the amount requested for the Division of Audits is the result of the deletion of seven positions specifically authorized to cover audits required in the Department of Social Welfare as the result of the adoption of Article XXV of the Constitution. These audits will be completed during the current year.

Operating and equipment expenses seem in line with divisional requirements.

We recommend approval of the divisional budget as requested.

**Division of Budgets and Accounts**

The amount of \$425,210 is requested for support of the Division of Budgets and Accounts. This represents a decrease of \$1,227 or 0.3 percent under the amount of \$426,437 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages (decrease) -----	—\$490	—0.1
Operating expenses -----	494	1.7
Equipment (decrease) -----	—1,507	33.0
Plus : Decrease in reimbursements -----	276	—1.2
Total decrease -----	—\$1,227	0.3

A position of secretary, Merit Award Board, has been added during the current year. The budgeting of this position for a full year, plus normal salary adjustments, has been more than offset by the deletion of one authorized position and an increase of \$14,500 in estimated salary savings, plus a decrease of \$500 in the amount budgeted for overtime during the Budget year.

Operating expenses show reductions in amounts budgeted for office expense, telephone and automobile mileage with the addition of a new item for library service of \$1,124. This new item will provide for one-third the salary of a librarian. A cooperative program with other state agencies is planned in order to obtain this service. The need for improvement of library facilities to permit more ready reference to available material is recognized and we, therefore, recommend approval of this item.

Equipment requests have been reviewed and seem in line with Division needs.

We recommend approval of the divisional budget as submitted.

**Division of Communications**

The amount of \$88,724 is requested for support of the Division of Communications. This represents a decrease of \$13,475 or 13.2 percent under the amount of \$102,199 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages .....	\$21,115	—24.0
Operating expenses .....	30,053	—59.5
Equipment .....	1,017	—41.0
Plus: Decrease in reimbursements .....	38,710	—100.0
<b>Total decrease .....</b>	<b>—\$13,475</b>	<b>—13.2</b>

The reductions in proposed expenditures during the 1951-52 Fiscal Year are the result of the transfer of the centralized radio maintenance service from the support budget to the Purchasing Revolving Fund effective January 1, 1951. This unit was activated during 1949-50 and supported on the basis of findings by the California Communications Study which was submitted to the Director of Finance October 8, 1948. Savings on maintenance cost were indicated as well as improved service. This program was to be self-supporting and service to all state agencies was to be on a reimbursable basis. We recommend, however, that a thorough review of the service be made to determine the level of service offered the agencies served and also to insure that the cost of the service is in line with maintenance costs experienced by agencies prior to the establishment of the centralized service.

We recommend approval of the divisional budget as submitted.

**Division of Purchasing**

The amount of \$367,185 is requested for support of the Division of Purchasing. This represents an increase of \$17,431 or 5.0 percent over the amount of \$349,754 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages .....	\$15,210	5.1
Operating expenses .....	1,300	2.7
Equipment .....	921	21.1
<b>Total increase .....</b>	<b>\$17,431</b>	<b>5.0</b>

Four additional positions are requested as follows:

2 Junior buyers .....	\$7,080
1 Purchasing specification analyst .....	4,740
1 Intermediate stenographer-clerk .....	2,400
<b>Total new positions .....</b>	<b>\$14,220</b>

These positions will raise the level of service in the Division of Purchasing. We recommend deletion of the two junior buyers at a saving of \$7,080. Equipment and operating expenses related to these positions should also be deleted.

*2 Junior buyers*

The addition of the junior buyers would provide a trainee group which is considered necessary because of expected retirement of two or three of the senior buyers during the next year. Since no increased work load is contemplated it must be considered an improvement in the level of service. There are, at present, six junior buyer positions which should furnish experienced personnel for vacancies created by retirement. We therefore recommend disapproval of these positions as additional recruitments should be made as existing positions are vacated. The amount for temporary help is large enough to cover any emergency situations.

*1 Purchasing specifications analyst**1 Intermediate stenographer-clerk*

We recommend approval of the above new positions as being necessary improvements in the service which should result in actual savings to the State. The purchasing specifications analyst would head a committee to work toward standardization of a greater number of items used by various departments in quantity.

The proposed duties would also include (1) development of specifications to insure proper values to the State and obtain maximum commercial competition; (2) supervise testing of materials sold to State where doubt of quality may arise; and (3) do necessary research on new materials and products offered by vendors. These functions are not being adequately performed at present and are sufficiently important to justify a specialist in the field. The stenographer-clerk will provide necessary clerical assistance.

Operating expenses and equipment, except that related to positions recommended for deletion, seem in order.

**Public Works and Acquisition Division**

The amount of \$28,900 is requested for support of the Public Works and Acquisition Division. This represents an increase of \$767 or 2.7 percent over the amount of \$28,133 estimated for expenditure in the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages.....	\$619	2.9
Operating expenses .....	77	1.3
Equipment .....	71	19.2
Total increase .....	\$767	2.7

The increase in salaries and wages is the result of normal salary adjustments and fuller occupancy of existing positions partially offset by an increase in estimated salary savings. The amounts budgeted for operating expenses and equipment seem in line.

We recommend approval of the divisional budget as submitted.

**Liquidation of Surplus Equipment and Leases of the  
Department of Social Welfare**

The amount of \$157,188 is requested for the liquidation of surplus equipment and leases during the budget year. This represents a decrease of \$76 or 0.05 percent under the amount of \$157,264 estimated for expenditure during the 1950-51 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages -----	\$20,547	—80.4
Operating expenses -----	137,791	—15.3
Equipment -----	3,013	100.0
Plus: Decrease in reimbursements -----	161,275	—20.9
 Total decrease -----	 —\$76	 —0.05

This unit has been assigned the responsibility of liquidating equipment and leases acquired during the period when the State operated under Article XXV of the Constitution. The additional amount of \$1,407,515 was appropriated to the Department of Finance for this function by Item 259.1 of the Budget Act of 1950, which reappropriated the unexpended balance of Item 261 of the Budget Act of 1949. In addition, the proceeds of sales of equipment and proceeds from subleases were made available to the department to meet expenses. Reimbursements from the sale of equipment and subleases are estimated to total \$770,472. This, when deducted from the total cost of the activity amounting to \$927,736, leaves a net cost to the State for the current year of \$157,264. Estimated savings in moneys appropriated by Item 259.1 amount to \$1,250,251.

Since sale of equipment will be completed during the current year, reimbursements are scheduled to decrease \$161,275 in the budget year. Savings in operating costs about offset this reduction, leaving the annual net cost to the State in 1951-52 at approximately the same level as the current year.

The liquidation of this property, especially the subleasing of the real property involved, has been a very difficult task, and we believe the department should be complimented on the expeditious manner in which they have proceeded. Since most of the leases are for five years, the State will be in the property management business for a few years, and the amounts budgeted for labor and operating expenses appear to be reasonable estimates.

We recommend approval of the divisional budget as submitted.

**Department of Finance  
GENERAL ACTIVITIES**

ITEM 116 of the Budget Bill

Budget page 392  
Budget line No. 79

*For Liquidation of Equipment and Leases—Department of Social Welfare  
From the General Fund*

Amount requested -----	\$157,188
Estimated to be expended in 1950-51 Fiscal Year -----	157,264
 Decrease (0.05 percent) -----	 \$76

**RECOMMENDATIONS**

Amount budgeted -----	\$157,188
Legislative Auditor's recommendation -----	157,188
 Reduction -----	 None

**ANALYSIS**

The amount of \$157,188 requested from the General Fund is supplemental to General Fund support provided the Department of Finance—General Activities, by Item 115. The amount requested represents the estimated net cost to the State in the Fiscal Year 1951-52, resulting from the liquidation of equipment and leases acquired by the Department of Social Welfare for administration of Article XXV of the Constitution. It is further provided that proceeds from subleases and the sale of equipment are also made available to the Department of Finance to meet expenses related to this activity.

The activity budget is analyzed under Item 115.  
We recommend approval.

**Department of Finance  
AUDITS DIVISION**

ITEM 117 of the Budget Bill

Budget page 381  
Budget line No. 31

*For Support of the Audits Division, Department of Finance, From the Fairs and Expositions Fund*

Amount requested -----	\$50,000
Estimated to be expended in 1950-51 Fiscal Year -----	50,000
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$50,000
Legislative Auditor's recommendation -----	50,000
Reduction -----	None

**ANALYSIS**

The amount of \$50,000 is requested from the Fairs and Expositions Fund for support of the Audits Division. This appropriation represents the estimated amount necessary for the Audits Division to provide adequate audits of fair activities during the budget year. This appropriation is supplemental to the amount of \$423,615, incorporated as a part of the amount provided by Item 115.

We recommend approval.

**Department of Finance  
AUTOMOTIVE LIABILITY INSURANCE**

ITEM 118 of the Budget Bill

Budget page 393  
Budget line No. 39

*For Payment of Premiums on Automobile Liability Insurance, Department of Finance, From the General Fund*

Amount requested -----	\$120,000
Estimated to be expended in 1950-51 Fiscal Year -----	120,000
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$120,000
Legislative Auditor's recommendation -----	120,000
Reduction -----	None

**ANALYSIS**

The amount requested represents the estimated portion of the total cost of automobile liability insurance chargeable to the General Fund. The amount will provide for payment of liability claims and expenses incident to investigation, adjustment, and defense thereof, or for premiums for automobile liability insurance.

We recommend approval.

**Department of Finance  
PUBLIC LIABILITY INSURANCE**

ITEM 119 of the Budget Bill

Budget page 393  
Budget line No. 50

*For Payment of Premiums on Public Liability Insurance, Department of Finance, From the General Fund*

Amount requested -----	\$2,500
Estimated to be expended in 1950-51 Fiscal Year -----	2,500
<hr/>	
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$2,500
Legislative Auditor's recommendation -----	2,500
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Reduction -----	None

**ANALYSIS**

The amount requested covers premiums on comprehensive liability insurance to insure the liability of the State and its officers and employees for damage or injury to persons or property resulting from the dangerous or defective condition of state-owned or controlled property under the jurisdiction of the Department of Finance.

We recommend approval.

**Department of Finance  
OFFICIAL ADVERTISING**

ITEM 120 of the Budget Bill

Budget page 393  
Budget line No. 60

*For Official Advertising, Department of Finance, From the General Fund*

Amount requested -----	\$12,000
Estimated to be expended in 1950-51 Fiscal Year -----	12,000
<hr/>	
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$12,000
Legislative Auditor's recommendation -----	12,000
<hr/>	
Reduction -----	None

**ANALYSIS**

The requested amount of \$12,000 is to cover official advertising as required by law.

We recommend approval.

**Department of Finance  
PREMIUMS ON OFFICIAL BONDS**

ITEM 121 of the Budget Bill

Budget page 398  
Budget line No. 71

*For Premiums on Official Bonds, Department of Finance, From the General Fund*

Amount requested .....	\$3,000
Estimated to be expended in 1950-51 Fiscal Year .....	3,000
Increase .....	None

**RECOMMENDATIONS**

Amount budgeted .....	\$3,000
Legislative Auditor's recommendation .....	3,000
Reduction .....	None

**ANALYSIS**

The requested amount of \$3,000 is for premiums on official bonds of officers and employees required by law.

We recommend approval.

**Department of Finance  
DISTRIBUTION OF STATE DOCUMENTS TO LIBRARIES**

ITEM 122 of the Budget Bill

Budget page 398  
Budget line No. 82

*For Distribution of State Documents to Libraries, Department of Finance,  
From the General Fund*

Amount requested .....	\$40,000
Estimated to be expended in 1950-51 Fiscal Year .....	40,000
Increase .....	None

**RECOMMENDATIONS**

Amount budgeted .....	\$40,000
Legislative Auditor's recommendation .....	40,000
Reduction .....	None

**ANALYSIS**

The requested amount of \$40,000 is to provide for additional printing costs and the cost of distribution of state documents to libraries as required by law.

We recommend approval.

**Department of Finance  
STATE OF CALIFORNIA STONE EMBLEM**

ITEM 123 of the Budget Bill

Budget page 394  
Budget line No. 11

*For Furnishing, Shipping, and Installing a State of California Stone Emblem  
From the General Fund*

Amount requested .....	\$750
Estimated to be expended in 1950-51 Fiscal Year .....	---
	<hr/> \$750

**RECOMMENDATIONS**

Amount budgeted .....	\$750
Legislative Auditor's recommendation .....	None
Reduction .....	\$750

**ANALYSIS**

The Star Spangled Flag House Association of Baltimore, Maryland, the organization which sponsors Flag Day and other related patriotic celebrations, has obtained from the City of Baltimore, land adjoining the existing Flag House in which the original Star Spangled Banner was made. A Flag House Square is to be erected to include a rostrum which will contain a map of the United States with stones of the 48 states set in concrete. These stones are to be cut in the shape of the various states. A request has been received that the State of California participate in this project and that we furnish a stone cut in the shape of the State of California, which is to be two inches thick by approximately two feet wide and six feet long. The cost of providing the stone, shipping it, and installing it would be approximately \$750.

This is a nonessential expenditure of state funds. However, if the program is participated in by all states, it is probably an appropriate expenditure of state money in the nominal amount requested. On the other hand, it is the type of expenditure which could be supported by private associations or societies in California dedicated to this purpose. Inasmuch as we are recommending against nonessential expenditures of this nature in California, there is no reason for making an exception to this rule in behalf of the State of Maryland. Therefore, we recommend disapproval.

**Department of Finance**

**DIVISION OF BUILDINGS AND GROUNDS**

ITEM 124 of the Budget Bill

Budget page 382  
Budget line No. 39

*For Support of the Department of Finance, Division of Buildings and Grounds, From the General Fund*

Amount requested .....	\$1,967,636
Estimated to be expended in 1950-51 Fiscal Year .....	1,786,473
Increase (10.1 percent) .....	\$181,163

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$136,372	\$102,712	\$33,660	402	21
Operating expense .....	141,665	121,045	20,620	402	22
Equipment .....	472	472	---	402	23
Service Revolving Fund:					
Less:					
Increased collections appropriated for sup- port .....	—97,346	—97,346	---	382	48
Total increase .....	\$181,163	\$126,883	\$54,280		

**RECOMMENDATIONS**

Amount budgeted .....	\$1,967,636
Legislative Auditor's recommendation .....	1,967,636
Reduction .....	None



## ANALYSIS

All expenditures for the Division of Buildings and Grounds are made from the Service Revolving Fund. In addition to the amount of \$1,967,636 appropriated from the General Fund by this item, there will be available \$1,633,584 which represents collections to the Service Revolving Fund appropriated for support. Collections are made from special fund agencies for janitorial and maintenance services and from other agencies for special services. These funds will support a total expenditure program of \$3,601,220, an increase of \$278,509 or 8.4 percent over the amount of \$3,322,711 estimated for expenditure in the 1950-51 Fiscal Year.

Salaries and wages are scheduled to increase \$136,372 or 6.3 percent over estimated expenditures for 1950-51. A total of 48 new positions are requested and 14 authorized positions have been deleted as a result of functions transferred outside of the division, resulting in a net gain of 34 positions.

Operating expenses show a net gain of \$141,665 or 12.3 percent and equipment shows an increase of \$472 or 1.8 percent over comparable expenditures for the 1950-51 Fiscal Year.

We recommend approval of the divisional budget as requested.

## Administration

Three new positions are requested for administration on a work load basis. The major item of increase in operating expenses is the pro rata cost of Personnel Board service which is directly related to the division's increase in personnel. Other increases in operating expenses and additional equipment requested are related to new positions requested in the division.

The growth of State Government operation in recent years has resulted in a rapid increase in the total operations of this division in maintenance and operation of state-owned and rented buildings, central telephone exchanges, care and upkeep of grounds, administration of leases and minor services. With this growth has come the need for increased attention to procedure, cost analysis and time studies and other studies required in good management and economical budgeting. Standards of performance should be developed for all phases of the maintenance operation and assigned personnel must meet these standards. Increase in work load justifies the addition of an administrative officer and the additional time spent in this phase of the operation, plus the additional time made available to the division chief for general supervision and planning, should result in improved operations and reduced unit costs for services rendered. We recommend approval of this position.

The position of rental property manager is recommended on the basis of increased work load. In December, 1944, the State had 278 leases with an area of 1,212,257 square feet at a monthly rental of \$76,494.68. As of June 30, 1950, there were 698 leases representing 2,877,172 square feet at a monthly rental of \$357,616.40. This increase over a six-year period has been assumed without increase in help, but has necessitated stopping almost entirely the field trips for inspection of rental property. The periodic checking of this property to assure its full utilization is believed advisable, and with the addition of this position, at least the inspection of major rentals will again be possible.

We recommend approval of the divisional budget as submitted.

**Automotive Inspection Service**

This service has been discontinued as a function of the Division of Buildings and Grounds. The inspection service has been combined with the automotive management section in the Administrative Division of the Department of Finance, General Activities. The preventive maintenance function has been transferred to the Purchasing Revolving Fund.

**Sacramento Buildings**

Salaries and wages are scheduled to increase \$132,423 or 9.7 percent over estimated expenditures for the current year. A total of 42 new positions are requested for operations in Sacramento. Of the total new positions, 35 are budgeted for the Public Works Building Annex for a five-month period. Three new positions are needed for the Capitol Annex, two because of increased service requested by state agencies in furniture refinishing and typewriter repair, and one to augment the present messenger service staff. Included in this increase is the amount required to finance 66 positions, approved for the Capitol Annex for a part of the current year, for a full year's operation. Additional positions seem justified on the basis of increased work load forecast for the Budget year.

Operating expenses are scheduled to increase \$112,513 or 22.6 percent over estimated expenditures for the current year. This increase is the result primarily of budgeting for a full year's operation of the Capitol Annex, five months operation of the Public Works Building Annex and an increase of \$47,563 in the cost of the central telephone exchange service. A total of \$5,000 is requested for intercommunicating system parts and \$1,500 for typewriter parts. The ordering of parts as required has resulted in delays and service costs which can be minimized by stocking standard parts. The number of units presently serviced, plus the possibility of increased difficulty in promptly obtaining parts, justifies the expenditure proposed.

Equipment requests seem in order based on expanded operations.

We recommend approval of the amount requested for Sacramento Buildings.

**San Francisco Buildings**

The total expenditure for the maintenance and operations of San Francisco Buildings is scheduled to increase \$15,134 or 3.3 percent over estimated expenditures for the current year. One additional telephone operator is requested on the basis of a study made by the Division of Communications. The only other major increase is that of central telephone service, which is scheduled to increase \$9,580 over current year costs. Equipment requests seem in order.

We recommend approval of the amount requested for San Francisco Buildings.

**Los Angeles Buildings**

The total expenditure for the maintenance and operations of Los Angeles Buildings is scheduled to increase \$14,699 or 1.9 percent over estimated expenditures for the current year. The additional two positions requested are recommended for approval on a work load basis. The maintenance of the Fashion League Building on a full year basis and the increase in temporary help based on expanded activities have contributed to the increase in salaries and wages.

Requests for operating expenses and equipment seem in order. We recommend approval of the amount requested for the Los Angeles Buildings.

**Department of Finance**  
**DIVISION OF BUILDINGS AND GROUNDS**

ITEM 125 of the Budget Bill Budget page 402  
Budget line No. 50

*For Alterations, Repairs, and Equipment, State Buildings and Rented Offices,  
Department of Finance, From the General Fund*

Amount requested -----	\$150,000
Estimated to be expended in 1950-51 Fiscal Year -----	150,000
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$150,000
Legislative Auditor's recommendation -----	150,000
Reduction -----	None

**ANALYSIS**

This is a recurring item and the amount requested seems reasonable. We recommend approval as submitted.

**Department of Finance**  
**DIVISION OF BUILDINGS AND GROUNDS**

ITEM 126 of the Budget Bill Budget page 402  
Budget line No. 57

*For Maintenance of State Burying Grounds in San Mateo, Known as the  
Union Cemetery, Department of Finance, From the General Fund*

Amount requested -----	\$1,500
Estimated to be expended in 1950-51 Fiscal Year -----	1,500
Increase -----	None

**RECOMMENDATIONS**

Amount budgeted -----	\$1,500
Legislative Auditor's recommendation -----	1,500
Reduction -----	None

**ANALYSIS**

The amount requested will provide contract services for the maintenance of Union Cemetery in San Mateo County. We recommend approval as submitted.

**Department of Finance**  
**DIVISION OF LOCAL ALLOCATION**

ITEM 127 of the Budget Bill Budget page 388  
Budget line No. 19

*For Support of the Department of Finance, Division of Local Allocation,  
From the General Fund*

Amount requested -----	\$64,748
Estimated to be expended in 1950-51 Fiscal Year -----	63,037
Increase (2.7 percent) -----	\$1,711

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$5,511	\$5,511	---	404	81
Operating expense -----	1,550	1,550	---	404	82
Equipment -----	1,493	1,493	---	404	83
Less increased expenditures chargeable to other funds:					
Postwar Unemployment and Construction Fund -----	-1,711	-1,711	---	383	48
Public School Building Loan Fund -----	-5,132	-5,132	---	383	55
Net increase -----	\$1,711	\$1,711	---		

RECOMMENDATIONS

Amount budgeted -----	\$64,748
Legislative Auditor's recommendation -----	64,748
Reduction -----	None

ANALYSIS

A total amount of \$323,742 is requested from all funds for the support of the Division of Local Allocation for the Fiscal Year 1951-52. This is an increase of \$8,554 or 2.7 percent over the amount of \$315,188 estimated for expenditure in the current fiscal year. The amounts requested by funds are as follows:

Item 128. General Fund -----	\$64,748
Item 129. Postwar Unemployment and Construction Fund --	64,748
Item 130. Public School Building Loan Fund -----	194,246
Total support requested -----	\$323,742

The Division of Local Allocation is responsible for the administration of certain appropriations to local agencies. The amount requested will provide for the administration of the following activities classified as to funds chargeable for the activity:

General Fund

Aid to local agencies for emergency veterans housing: Chapter 29, Statutes of 1946 (First Extraordinary Session); Chapter 1, Statutes of 1946 (Second Extraordinary Session); Chapter 391, Statutes of 1947; and Chapter 1574, Statutes of 1947.

Acquisition of housing facilities at colleges: Chapter 46, Statutes of 1946 (First Extraordinary Session).

School building aid: Chapter 1575, Statutes of 1947; and Chapter 24, Statutes of 1948.

Aid for educational facilities for cerebral palsied children: Chapter 1167, Statutes of 1949.

Postwar Unemployment and Construction Fund

Aid to local agencies for postwar plans and sites: Chapter 47, Statutes of 1944 (Fourth Extraordinary Session).

Aid to local agencies for postwar construction: Chapter 20, Statutes of 1946 (First Extraordinary Session).

**Public School Building Loan Fund**

School building aid : Chapter 922, Statutes of 1949.

In relationship to the total work load of the division during the current year, a considerably higher proportion of total time was spent on the administration of the augmented school building aid program than was originally estimated. As a result of this shift in work load, a deficiency appropriation of \$122,338 is being requested from the School Building Loan Fund. Reductions in operations chargeable to other funds more than offset this increase with estimated savings as follows : General Fund, \$48,836 ; Postwar Unemployment and Construction Fund, \$83,131. Work load as regards relationship between the various funds is estimated for the budget year on the same basis as the revised estimates for the current year.

The amount requested for the Fiscal Year 1951-52 seems in line with agency requirements.

We recommend approval as requested.

**Department of Finance  
DIVISION OF LOCAL ALLOCATION**

ITEM 128 of the Budget Bill

Budget page 383  
Budget line No. 36

*For Support of the Department of Finance, Division of Local Allocation,  
From the Postwar Unemployment and Construction Fund*

Amount requested .....	\$64,748
Estimated to be expended in 1950-51 Fiscal Year .....	63,037
Increase (2.7 percent) .....	\$1,711

**RECOMMENDATIONS**

Amount budgeted .....	\$64,748
Legislative Auditor's recommendation .....	64,748
Reduction .....	None

**ANALYSIS**

This appropriation is for the support of the Department of Finance, Division of Local Allocation, and is supplemental to amounts provided by Item 127 and Item 129 of the Budget Bill. The amount requested represents that part of the total amount budgeted for the Division of Local Allocation that is estimated will be required to administer the Construction and Employment Act and the Postwar Planning and Acquisition Aid Act during the budget year.

We recommend approval.

**Department of Finance  
DIVISION OF LOCAL ALLOCATION**

ITEM 129 of the Budget Bill

Budget page 383  
Budget line No. 49

*For Support of the Department of Finance, Division of Local Allocation,  
From the Public School Building Loan Fund*

Amount requested .....	\$194,246
Estimated to be expended in 1950-51 Fiscal Year .....	189,114
Increase (2.7 percent) .....	\$5,132

**RECOMMENDATIONS**

Amount budgeted .....	\$194,246
Legislative Auditor's recommendation .....	194,246
Reduction .....	None

**ANALYSIS**

This appropriation is for the support of the Department of Finance, Division of Local Allocation, from the Public School Building Loan Fund and is supplemental to amounts provided for support by Item 128 and Item 129 of the Budget Bill. The amount requested represents the estimated expenses of administering the augmented school building aid program during the Fiscal Year 1951-52.

We recommend approval.

**Department of Finance  
DIVISION OF FAIRS AND EXPOSITIONS**

ITEM 130 of the Budget Bill

Budget page 407  
Budget line No. 7

*For Support of Division of Fairs and Expositions From the Fair and Exposition Fund*

Amount requested .....	\$87,925
Estimated to be expended in 1950-51 Fiscal Year .....	73,426
Increase (19.7 percent) .....	\$14,499

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$6,313	\$6,313	---	407	63
Operating expense .....	5,159	5,159	---	408	14
Equipment .....	3,027	3,027	---	408	23
Total increase .....	\$14,499	\$14,499	---		

**RECOMMENDATIONS**

Amount budgeted .....	\$87,925
Legislative Auditor's recommendation .....	87,925
Reduction .....	None

**ANALYSIS**

The substantial increase in support of 19.7 percent being requested for the 1951-52 Fiscal Year, while increasing the level of service, does not reflect in any sense a new service. This increase is brought about by the fact that the 1949 Legislature authorized the various agricultural districts to assume responsibility for construction up to \$35,000 instead of the previous limit of \$10,000. This increased activity on the part of the various districts requires additional supervision by competent technical personnel from the division level.

Consequently, it appears that the increase, which covers an additional engineering position and greatly increased operating expenses for traveling and automobile use, together with the purchase of an additional vehicle for the new position, is reasonably well justified. However, we recommend approval of the request on a contingent basis only. This is for the following reasons: as of this writing, the National Production

Administration has approved the construction of all types of fair and exposition projects with the exception of race tracks and grandstands. In our opinion, the National Production Administration is not likely to be able to stand by this decision for very long in view of what will probably be an all-out war effort on the part of industry and the country in general. Consequently, we recommend that the additional position of assistant civil engineer be allowed with the specific understanding that should the National Production Administration reverse its decision with regard to the construction of fair and exposition projects before the Budget goes into effect on July 1, 1950, the position will be dropped.

**Department of Finance—Division of Fairs and Expositions  
STATE AGRICULTURAL SOCIETY**

ITEM 131 of the Budget Bill

Budget page 409  
Budget line No. 46

*For Support of the State Agricultural Society From the State Agricultural Society Contingent Fund*

Amount requested .....	\$1,645,034
Estimated to be expended in 1950-51 Fiscal Year .....	1,631,210
<b>Increase (0.8 percent) .....</b>	<b>\$13,824</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	—\$685	—\$685	---	413	59
Operating expense .....	21,337	—2,392	\$23,729	413	60
Equipment .....	—6,828	—6,828	---	413	61
<b>Total increase .....</b>	<b>\$13,824</b>	<b>—\$9,905</b>	<b>\$23,729</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$1,645,034
Legislative Auditor's recommendation .....	1,645,034
<b>Reduction .....</b>	<b>None</b>

**ANALYSIS**

**Comparison of Expenditures and Revenues**

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenue percentage of expenditures</i>
1947-48 .....	\$1,134,483	\$927,623	\$206,860	81.7
1948-49 .....	1,507,315	944,681	562,634	62.7
1949-50 .....	1,762,768	1,005,235	757,533	57.0
1950-51 .....	1,646,210	930,211	715,999	56.5
1951-52 .....	1,660,034	957,700	702,334	57.7

The above table indicates that for 1951-52 the operating deficit of \$702,334 will be \$13,665 less than the \$715,999 estimated for 1950-51. The forecasted improvement, although small, is commendable as indicative of a favorable trend that should be enlarged and continued. The 1950-51 estimated deficit of \$715,999 is \$12,802 more than the estimated deficit figure of \$703,197 in effect at the time the 1950-51 Budget was presented. The entire problem of large continuing deficits is one that needs urgent attention to correct.

Revenues are scheduled to increase from \$930,211 in 1950-51 to \$957,700 in 1951-52, an increase of \$27,489 or 3.0 percent. This is still \$47,535 or 4.7 percent below the high figure of \$1,005,235 reached in 1949-50. Continuing effort should be expended to attempt further improvement in revenues.

The table further illustrates the unsound financial trend of this operation from the standpoint of the percentage of expenditures that result in revenues. This percentage return has declined from 81.7 percent in 1947-48 to a low of 56.5 percent for 1950-51. A slight improvement to 57.7 percent is forecasted for 1951-52. In general terms this indicates that the more money that is spent by this facility, the more money it loses. Either the operation should be improved financially or expenditures curtailed in those aspects least likely to affect revenues.

Expenditures are scheduled at \$1,660,034 for 1951-52. This is \$13,824 or 0.8 percent more than the level estimated for 1950-51.

**Passes**

We again repeat our previous recommendation that all passes be eliminated in connection with the operation of the California State Fair.

The following table presents the potential loss of revenue fostered by a continuation of the "pass" system.

*Comparison of Revenue Values of Passes Issued and Honored*

	Issued		Honored	
	Number	Value	Number	Value
1947-48	269,169	\$134,584	131,230	\$65,615
1948-49	437,880	218,940	126,185	63,092
1949-50	447,828	199,815	131,899	57,188
1950-51	447,546	223,773	136,071	68,035

The value of passes honored in 1949-50 was the equivalent of 16.9 percent of total revenue from all admissions. For 1950-51 this increased to 23 percent.

**Salaries and Wages**

The number of presently authorized positions has been reduced from 77 in 1950-51 to 76 for 1951-52.

Salaries and wages are scheduled at \$635,382, a decrease of \$685 under the amount of \$636,067 estimated for expenditures in 1950-51. The reduction is occasioned by an increase in estimated salary savings of \$2,533. No new positions are requested.

Allowances for temporary help and overtime are scheduled at approximately the same level as for 1950-51. These two items total \$389,850 and comprise 63.0 percent of the total of \$635,382 scheduled for salaries and wages. This type of expenditure may easily become excessive if not properly supervised, particularly when the employment represents a peak load operation, such as encountered in the operation of a fair. The distribution of temporary help and overtime costs by function is shown in the following table.



## Temporary Help and Overtime Costs

Function	Temporary help		Overtime	
	1950-51	1951-52	1950-51	1951-52
Administration .....	\$15,000	\$14,200	\$4,000	\$3,500
Exhibits and horse show .....	42,302	42,000	1,000	1,000
Operations .....	92,353	93,000	65,000	65,000
(Interim activities) .....	15,000	15,000	---	---
Promotions .....	---	---	1,000	1,000
(Admissions) .....	45,870	45,000	---	---
(Public information) .....	16,500	16,500	---	---
Concessions and commercial space .....	---	---	300	150
(Concessions) .....	2,080	5,000	---	---
(Commercial space) .....	6,700	5,000	---	---
Attractions and special events .....	---	---	4,000	4,000
(Special events) .....	10,540	10,500	---	---
(Attractions) .....	11,000	11,000	---	---
Racing .....	57,000	58,000	---	---
Totals .....	\$314,345	\$315,200	\$75,300	\$74,650

The total amount of \$389,850 scheduled for overtime and temporary help is \$131,004 or 25.1 percent less than the \$520,845 actually expended in 1949-50. Although the 1951-52 Budget forecast for overtime and temporary help is only \$205 more than the 1950-51 estimate, we believe that continued close management attention to this problem can result in further substantial savings in line with past accomplishments.

## Operating Expenses

Operating expenses are scheduled at \$979,187 for 1951-52. This is an increase of \$21,337 or 2.2 percent over the amount of \$957,850 estimated to be expended in the 1950-51 Fiscal Year.

The increase by function for operating expenses is indicated below:

Function	1950-51	1951-52	Increase	
			Amount	Percent
Administration .....	\$53,952	\$55,337	\$1,385	2.6
Exhibits and horse show .....	276,120	288,150	12,030	4.4
Operations .....	245,385	248,250	2,865	1.2
Promotions .....	69,410	70,000	590	0.9
Concessions and commercial space .....	18,850	7,050	—11,800	—62.6
Attractions and special events .....	135,577	135,700	123	0.1
Racing .....	158,556	174,700	16,144	10.2
Totals .....	\$957,850	\$979,187	\$21,337	2.2

The increase in operating expenses for the exhibits and horse show function is due primarily to an increase of \$3,943 in general premiums, plus \$5,000 for a new item for a special attraction at the horse show. The increased cost for this special attraction is more than offset by increased revenue estimates from the horse show. The largest item of increase in the operations function is \$3,500 for additional livestock feed. This likewise is offset by increased revenue from feed sales.

An increase of 10.2 percent or \$16,144 in operating expenses under racing is primarily attributable to an increase of \$14,786 in the amount scheduled for race purses.

No increased revenue is forecasted to offset this increased cost with the possible exception of the \$5,519 shown as increased revenue from afternoon grandstand admissions. However, general trends in racing have been down, and it is anticipated that the increased level of purses will hold better horses to the State Fair meet and thus prevent a possible decline in revenues below the past level.

We recommend operating expense items be approved as budgeted.

**Equipment**

Proposed expenditures for equipment amount to \$30,465. This is \$6,828 or 18.3 percent less than the amount of \$37,293 budgeted for 1950-51. Out of total equipment expenditures, the sum of \$17,996 is scheduled for replacement items, and the further sum of \$12,469 is for additional items.

Equipment requests, both for replacement and additional items, are 13 and 24 percent respectively below the 1950-51 figures. Individual items appear in line with needs. We recommend approval of equipment as requested.

**STATE AGRICULTURAL SOCIETY CONTINGENT FUND**

ITEM 132 of the Budget Bill

Budget page 414  
Budget line No. 41

**For Augmentation of the State Agricultural Society Contingent Fund payable From the Fair and Exposition Fund**

Amount requested .....	\$515,000
Estimated to be expended in 1950-51 Fiscal Year .....	400,000
Increase (29 percent) .....	\$115,000

**RECOMMENDATIONS**

Amount budgeted .....	\$515,000
Legislative Auditor's recommendation .....	515,000
Reduction .....	None

**ANALYSIS**

This amount is required to augment the State Agricultural Society Contingent Fund which is the source of support for the operation of the State Fair.

We recommend approval of the amount requested.

**Department of Finance**

**DIVISION OF FAIRS AND EXPOSITIONS—SIXTH DISTRICT**

**AGRICULTURAL ASSOCIATION**

ITEM 133 of the Budget Bill

Budget page 415  
Budget line No. 8

**For Support of Sixth District Agricultural Association From the Sixth District Agricultural Association Fund**

Amount requested .....	\$86,578
Estimated to be expended in 1950-51 Fiscal Year .....	82,274
Increase (5.2 percent) .....	\$4,304

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$5,165	\$5,165	---	417	32
Operating expense -----	—281	—281	---	417	33
Equipment -----	—580	—580	---	417	34
<b>Total increase -----</b>	<b>\$4,304</b>	<b>\$4,304</b>	<b>---</b>		

RECOMMENDATIONS

Amount budgeted -----	\$86,578
Legislative Auditor's recommendation -----	86,578
Reduction -----	None

ANALYSIS

The requested support budget for the 1951-52 Fiscal Year contemplates approximately the same level of expenditures as estimated for 1950-51. The total expenditures for support for 1951-52 are scheduled at \$86,578, which is an increase of \$4,304 or 5.2 percent over the amount of \$82,274 estimated for the 1950-51 Fiscal Year.

The increase of \$4,304 is represented by an increase of \$5,165 in salaries and wages, less a reduction of \$281 in operating expenses, less a further reduction of \$580 in equipment expenditures. The increase of \$5,165 in salaries and wages is equivalent of 13.7 percent. This increase is made up of \$1,226 in normal salary adjustments, plus the sum of \$4,512 representing one proposed new position, less an offset of \$573 in an increase in salary savings. The requested proposed new position is that of supervisor of exhibit installation. This position has been transferred to the support budget from capital outlay in order to handle the over-all exhibit planning. We recommend approval of the requested transfer of this position.

No exception is taken to expenditures proposed for operating expenses or equipment. We recommend approval of the budget as submitted.

Department of Finance

DIVISION OF FAIRS AND EXPOSITIONS—SIXTH DISTRICT

AGRICULTURAL ASSOCIATION

ITEM 134 of the Budget Bill

Budget page 417  
Budget line No. 47

*For Maintenance and Operation of Parking Lot Property From the Sixth District Agricultural Association Fund*

Amount requested -----	\$1,200
Estimated to be expended in 1950-51 Fiscal Year -----	1,200
Increase -----	None

RECOMMENDATIONS

Amount budgeted -----	\$1,200
Legislative Auditor's recommendation -----	1,200
Reduction -----	None

**ANALYSIS**

The amount requested is to provide for payment for the services of the rental property manager, Department of Finance, and is the same amount as requested in the 1950-51 Fiscal Year. We recommend approval of the request.

**Department of Finance  
DIVISION OF STATE LANDS**

ITEM 135 of the Budget Bill

Budget page 419  
Budget line No. 7

**For Support of the Department of Finance—Division of State Lands  
From the State Lands Act Fund**

Amount requested .....	\$189,258
Estimated to be expended in 1950-51 Fiscal Year .....	207,006
<b>Decrease (8.6 percent) .....</b>	<b>\$17,748</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$9,829	\$9,829	---	420	75
Operating expense .....	9,717	9,717	---	421	22
Equipment .....	-1,514	-1,514	---	421	31
Less:					
Increased reimbursements .....	-35,780	-35,780	---	421	35
<b>Total increase .....</b>	<b>-\$17,748</b>	<b>-\$17,748</b>	<b>---</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$189,258
Legislative Auditor's recommendation .....	189,258
Reduction .....	None

**ANALYSIS**

The amount of \$189,258 requested for expenditure in the 1951-52 Fiscal Year represents a decrease of \$17,748, or 8.6 percent less than estimated expenditures for the current year. The gross expenditure program for the 1951-52 Fiscal Year, however, is scheduled to increase \$18,032, or 6 percent over estimated expenditures during the current year. The reduction in the amount requested is directly related to increased reimbursements provided by the new stipulation of August 1950 entered into between the State of California and the United States relative to operation of leases on controversial tide and submerged lands. The new stipulation provides for reimbursement for administrative costs from impounded funds effective October 1, 1950, and not to exceed \$12,000 per month. As a result of this agreement, reimbursements for the current year have been increased \$108,000, and are scheduled to be \$144,000 for 1951-52, an increase of \$36,000 in reimbursements from this source over the current year.

Salaries and wages are scheduled to increase \$9,829 or 4.2 percent over estimated expenditures for the current year. Detail on the increase is as follows:

Normal salary increases -----	\$4,672
2 New positions -----	6,432
Increase—temporary help -----	1,608
Less—increased salary savings -----	—2,883
Net increase -----	\$9,829

We recommend approval of the two additional positions requested, namely: one accountant auditor, grade one, and one junior real property agent.

The additional accountant auditor is required for field audits and to provide assistance to the accounting officer. Complications in revenue accounting due to tideland controversy justifies the request for additional help.

The position of junior real property agent is required to provide necessary assistance in the investigation of trespasses on State lands and in the processing of lease applications. Increased rental revenues should result from expediting the processing of leases on trespasses uncovered by the survey crew in the field. Increase in temporary help will provide for training a replacement for the supervision of the Huntington Beach office where all royalties are computed.

Operating expenses are scheduled to increase \$9,717 or 12 percent. We recommend approval as requested. Major increases in operating expense are: rent, \$3,232; files indexing service, \$4,000; office expense \$898; and engineering supplies and service \$800.

Increased rent covers additional space assignments made during the current year for the full Fiscal Year 1951-52. The amount requested for files indexing service is a one time expenditure. The revision and indexing of the general files has been completed and the Management Analysis Section, Department of Finance, recommends that proposed revision and indexing of the engineering and mineral leasing files be undertaken. Increases in office expense seem justified on the basis of increased activity in the processing of applications under Section 126 of the Government Code which fixes specific responsibilities with the State Lands Commission in relation to the granting of consent to the acquisition of land by the United States. The increase in the amount requested for engineering supplies is directly related to the increased use of aerial photography in survey activities.

The amount of \$6,264 requested for equipment seems in order and we recommend approval.

Revenues to the State Lands Act Fund are scheduled to increase from an estimated \$1,252,473 in 1950-51 to \$1,393,748 in 1951-52, an increase of \$141,275 or 11.3 percent.

Rentals and royalties from leases of marginal sea tidelands have been impounded since 1947 pending determination of the "three mile marginal belt" stipulated in the United States Supreme Court decision of June 23, 1947, and its decree of October 27, 1947, adjudging that the State of California has no title or property interest in such tidelands.

The following is actual and estimated revenue impounded and to be impounded:

Accumulated total June 30, 1949 (actual)-----	\$17,185,435
1949-50 (actual)-----	8,121,927
1950-51 (estimated)-----	8,658,847
1951-52 (estimated)-----	9,524,732
Estimated total, June 30, 1952-----	\$43,490,941

Prior to October 1, 1950, the impounded money has been deposited with the State Treasurer. The terms of the new stipulation between the United States and the State of California, dated August 21, 1950, provide that after October 1, 1950, revenues from mineral leases shall be impounded by the Federal Government with the remittance of all amounts collected on a quarterly basis.

Under provisions of the State Resources Code, revenue collected, except rents, bonuses, royalties and profits accruing from the use of state school land, shall be deposited to the credit of the State Lands Act Fund. Revenues from rentals, bonuses, royalties and profits accruing from the use of state school lands are deposited in the State School Fund. Funds which now receive money from the State Lands Act Fund by transfer are: The General Fund, the Veterans' Dependents Education Fund, the State Beach Fund and the State Park Fund.

We repeat our recommendation made in previous analyses that all agencies receiving support from the State Lands Act Fund should be transferred to a basis of receiving support from the General Fund and all money collected by the Division of State Lands, with the exception of that which goes into the State School Fund, should be paid into the General Fund. All impounded tideland moneys when and if released should also be paid into the General Fund.

**Department of Finance  
DIVISION OF STATE LANDS--TIDE LANDS CONTROVERSY**

ITEM 136 of the Budget Bill

Budget page 419  
Budget line No. 28

*For Defense of Title to Tide and Submerged Lands From the  
State Lands Act Fund*

Amount requested-----	\$70,000
Estimated to be expended in 1950-51 Fiscal Year-----	70,000
Increase-----	None

**Summary of Increase**

	Total increase	INCREASE DUE TO			Budget page	Line No.
		Work load or salary adjustments	New services			
Salaries and wages-----	\$1,000	\$1,000			422	10
Operating expense-----	—1,000	—1,000			422	15
Equipment-----	---	---			422	19
Total increase-----	None	None				

**RECOMMENDATIONS**

Amount budgeted-----	\$70,000
Legislative Auditor's recommendation-----	70,000
Reduction-----	None

**ANALYSIS**

The amount requested will provide funds for the State to continue efforts to regain control of its marginal sea area through congressional action and to continue a parallel effort to retain the tidelands through having them declared "inland waters."

We recommend approval as submitted.

**Department of Finance**  
**DIVISION OF STATE LANDS—LITIGATION EXPENSES**

ITEM 137 of the Budget Bill Budget page 422  
Budget line No. 30

*For Expenses for Litigation, City of Los Angeles, From the State Lands Act Fund*

Amount requested .....	\$10,000
Estimated to be expended in 1950-51 Fiscal Year .....	10,000
<hr/>	
Increase .....	None

**RECOMMENDATIONS**

Amount budgeted .....	\$10,000
Legislative Auditor's recommendation .....	10,000
<hr/>	
Reduction .....	None

**ANALYSIS**

The amount requested is to cover further litigation in the case against the Bureau of Power and Light, City of Los Angeles, for flooding the state-owned mineral deposits in the bed of the Owens and Mono Lakes. The case is under appeal to the Supreme Court and the amounts budgeted will provide for further research work and other assistance to the Attorney General as required.

We recommend approval.

**Department of Finance**  
**DIVISION OF STATE LANDS—DEFENSE OF QUIET TITLE ACTIONS**

ITEM 138 of the Budget Bill Budget page 422  
Budget line No. 40

*For Defense of Quiet Title Actions From the State Lands Act Fund*

Amount requested .....	\$15,000
Estimated to be expended in 1950-51 Fiscal Year .....	15,000
<hr/>	
Increase .....	None

**RECOMMENDATIONS**

Amount budgeted .....	\$15,000
Legislative Auditor's recommendation .....	15,000
<hr/>	
Reduction .....	None

**ANALYSIS**

The amount requested is to cover expenses in connection with the defense of quiet title actions filed in accordance with Section 6461 of the Public Resources Code, added by the Statutes of 1947. These investigations and engineering determinations are performed for the Attorney General as required in defending the State's interest in public lands.

**Department of Finance  
NAPA STATE FARM**

ITEM 139 of the Budget Bill

Budget page 424  
Budget line No. 6

**For Support of Napa State Farm From the General Fund**

Amount requested.....	\$34,930
Estimated to be expended in 1950-51 Fiscal Year.....	35,866
<b>Decrease (2.6 percent).....</b>	<b>\$936</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages.....	\$1,440	\$1,440	---	424	38
Operating expense.....	725	725	---	424	56
Equipment.....	-3,035	-3,035	---	424	62
Less:					
Increased reimbursements.....	-66	-66	---	424	67
<b>Net increase.....</b>	<b>-\$936</b>	<b>-\$936</b>	---		

**RECOMMENDATIONS**

Amount budgeted.....	\$34,930
Legislative Auditor's recommendation.....	34,930
<b>Reduction.....</b>	<b>None</b>

**ANALYSIS**

The amount requested for the Fiscal Year 1951-52 is \$34,930, a decrease of \$936 or 2.6 percent under estimated expenditures during the current year and \$2,499 less than the amount appropriated for support for the current year.

The increase of \$1,440 or 6.2 percent in salaries and wages results from normal salary adjustments totaling \$240 and an increase of \$1,200 for temporary help and overtime. The amount of \$9,500 requested for temporary help and overtime compares favorably with the amount of \$10,388 actually expended in these categories in the fiscal year 1949-50, and seem justified on the basis of planned operations.

Operating expenses and equipment requests appear to be in line.

Revenue for the General Fund from farm operations for 1951-52 is estimated at \$35,111, the same as for the current year.

The excess of revenue over expenditures for support, actual and estimated for a four year period is as follows:

	Support	Revenue	Excess
1948-49 (actual).....	\$32,402	\$34,299	\$1,897
1949-50 (actual).....	33,248	28,300	-4,948
1950-51 (estimated).....	35,866	35,111	-755
1951-52 (estimated).....	34,930	35,111	181

In addition to expenditures for support outlined above a total of \$17,500 was expended for capital outlay during the fiscal year 1948-49, \$1,467 in 1949-50 and an estimated \$5,900 will be expended during the current year. No expenditures for capital outlay are proposed for 1951-52.

Based on the State's investment in Napa State Farm present revenue makes it difficult to justify the continuance of the farm operation. Activities should be reviewed with the objective of increasing the benefits realized by the State.



The farm operation should be geared to meet the requirements of the Napa State Hospital, the Veterans Home and the Sonoma State Home.

**FRANCHISE TAX BOARD**

ITEM 140 of the Budget Bill

Budget page 425

Budget line No. 18

**For Support of the Franchise Tax Board From the General Fund**

Amount requested .....	\$2,827,465
Estimated to be expended in 1950-51 Fiscal Year .....	2,497,343
Increase (13.2 percent) .....	\$330,122

**Summary of Increase**

	Total increase	INCREASE DUE TO			Budget page	Line No.
		Work load or salary adjustments	New services			
Salaries and wages .....	\$259,525	\$83,949	\$175,576		432	36
Operating expense .....	51,424	18,748	32,676		432	37
Equipment .....	19,173	10,590	8,583		432	38
Total increase .....	\$330,122	\$113,287	\$216,835			

**RECOMMENDATIONS**

Amount budgeted .....	\$2,827,465
Legislative Auditor's recommendation .....	2,643,498
Reduction .....	\$183,967

**ANALYSIS**

The following tabulation shows the details of our recommended reduction of \$183,967:

	Amount	Budget page	Line No.
<i>Administration</i>			
1 Intermediate typist—personnel .....	\$2,280	427	28
1 Semi-senior accountant—accounting .....	3,900	427	30
3 Field representatives—collections .....	9,648	427	32
1 Associate tax counsel—investigation unit .....	5,772	427	36
Rent of tabulating equipment .....	—5,000	427	54
Purchase of tabulating equipment .....	20,398	427	61
Total administration .....	\$36,998		
<i>Franchise Tax Division</i>			
1 Franchise tax auditor, grade 2, Sacramento .....	\$3,900	429	22
1 Franchise tax auditor, grade 3, Los Angeles .....	4,740	429	25
1 Intermediate stenographer, Los Angeles .....	2,400	429	26
1 Franchise tax auditor, grade 3, San Francisco .....	4,740	429	28
Total franchise tax .....	\$15,780		
<i>Personal Income Tax Division, Headquarters</i>			
3 Income tax examiners, grade 3 .....	\$14,220	430	45
4 Income tax examiners, grade 2 .....	15,600	430	46
4 Junior accountant auditors .....	11,088	430	47
Total income tax, headquarters .....	\$40,908		
<i>Personal Income Tax, Los Angeles</i>			
2 Examiners, grade 3 .....	\$9,480	431	24
10 Junior accountant auditors .....	27,720	431	25
1 Supervising typist .....	3,216	431	26
5 Intermediate typists .....	11,400	431	27
Temporary help .....	6,432	431	20
Total income tax, Los Angeles .....	\$58,248		

**Franchise Tax**

<i>Personal Income Tax, San Francisco</i>	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
4 Income tax examiners, grade 2-----	\$15,600	431	79
1 Junior accountant auditor-----	2,772	431	80
1 Senior clerk-----	2,640	431	81
1 Intermediate typist clerk-----	2,280	431	82
Temporary help-----	4,288	431	75
<b>Total income tax, San Francisco-----</b>	<b>\$27,580</b>	---	---
Additional equipment to improve existing services	\$4,453	432	38
<b>Total-----</b>	<b>\$183,967</b>		

Our reasons for recommending each reduction are given in the text which follows.

**Administration**

1 *Intermediate typist—Personnel Records (Budget page 427, line 28)*-----\$2,280

Two positions were requested to handle an increased volume of work in connection with processing personnel records, due to decentralization to the agency of certain work formerly done by the Personnel Board. However, the addition of two clerks would give the agency the equivalent of 5.6 personnel clerks for each 100 employees, which is higher than that in comparable agencies such as State Controller with 4.0, mental institutions with 4.6 and Board of Equalization with 4.1. The reduction of one will give the Franchise Tax Board a ratio of 4.2 which we believe adequate.

1 *Semi-senior accountant—Accounting Section (Budget page 427, line 30)*-----\$3,900

This is requested by the agency to assist the accounting officer in budget preparation, control and administration, and in the general administration of the accounting office, and is urged because the number of agency personnel and number of tax returns processed has increased more rapidly than the number of positions in the accounting office. However, we do not believe that these have any relationship to the problem of supervision in the accounting office which is conditioned on the number of personnel to be supervised. Permanent accounting office personnel has increased from 52.4 in 1946-47 to an estimated 64 in 1951-52.

We believe the problem can be solved by an appropriate reclassification of an existing position and that no additional position is needed.

3 *Field representatives—Collections (Budget page 427, line 32)* \$9,648  
Three additional field representatives are requested for field assignment on collection work.

The Budget Act of 1950 authorized one position in this class for the field collection unit.

Since that date, three additional field representative positions have been created by reclassification without legislative authorization, so that the agency now has four field representatives instead of the one authorized by the Budget Act. We believe four positions to be sufficient.

1 *Associate tax counsel—Special Investigations (Budget page 427, line 36)*-----\$5,772

The agency proposes to establish a special investigation unit to consist of one associate tax counsel, three special agents, and one intermediate

stenographer-clerk, primarily to make criminal investigations and present evidence to the Attorney General, District Attorneys, and other law enforcing bodies in support of criminal charges. The total additional expenditures proposed for this unit are as follows:

Salaries .....	\$20,448
Operating expenses (chiefly travel) .....	17,500
Equipment .....	1,761
Total .....	<u>\$39,709</u>

Section 18431.1 of the Personal Income Tax Law reads:

“18431.1. Returns, false, penalty for. Any individual who willfully makes and subscribes a return which he does not believe to be true and correct as to every material matter, shall be guilty of a felony, and upon conviction thereof, shall be subject to the penalties prescribed for perjury by the Penal Code of this State.”

Section 18 of the Bank and Corporation Franchise Tax Act provides that it is a misdemeanor for any corporation to fail or refuse to file a return or to make a false or fraudulent return, subject to a fine of not to exceed \$5,000. It also provides that it is a misdemeanor, punishable by a like fine, or imprisonment of not to exceed one year, or both, for any corporation official to make a false return with intent to evade the tax.

To date no prosecutions have been made under the foregoing sections of either law.

We are of the opinion that violations should be prosecuted, but believe several matters should be studied further before final decision is made.

The first is the adequacy of penalties under the present law, since corresponding penalties for violation of federal income tax laws are much more severe.

The second is whether or not better results might be obtained if the function were assigned to the Attorney General rather than the Franchise Tax Board, a point on which we are not prepared to make a recommendation without further study.

The third is the relationship of the proposed new unit to the existing so-called “sepcial investigation” units, consisting of nine examiners, one grade 3, four grade 2 and one grade 1 in Los Angeles, and one grade 3 and two grade 2 in San Francisco. The justification submitted for additional personnel for the existing unit in Los Angeles states:

“The principal activity of this section is to investigate the liability of and require compliance with the law by individuals who live here and who qualify as residents under the definition in the law, but who deny liability for tax on the ground they are nonresidents. The section also handles fraud cases and other cases where special investigative techniques are necessary and where there is resistance to compliance with the law.”

We are of the opinion, however, that if an additional special investigation unit is established in the Franchise Tax Board, an additional attorney is not needed, since the work of such a unit would consist of gathering evidence for presentation to the law enforcement agency which is to do the actual prosecuting, i.e., either a local district attorney or the Attorney General, and the special investigators doing this work would be

working directly with a prosecutor for one or the other. The Franchise Tax Board now has 10 attorneys on its staff, seven in its legal section and three in its appeals and review section, and this staff we believe to be entirely adequate to render any necessary legal advice on tax questions to the special investigators or the prosecutors in connection with any fraud prosecutions.

We also recommend that, if a special investigation unit is established, complete records of its activities should be maintained, including costs, in order that results of the program may be evaluated at a later date.

*Rent of tabulating equipment (Budget page 427, line 54)*.....\$5,000  
*Purchase of new tabulating equipment (Budget page 427, line 61)*  
\$20,398

The agency operates a statistical unit consisting of 18 people, total salaries of which will amount to an estimated \$51,329 for 1950-51. The unit also uses mechanical punched card equipment, which in the past has been rented; the actual rentals amounting to \$4,686 in 1948-49 and \$5,106 in 1949-50. The punched card equipment rented was of the same type which constitutes over 95 percent of all such state installations.

The agency now proposes to purchase rebuilt punched card equipment of another type and discontinue the rental of the former type of equipment. The justification in the printed Budget, page 426, line 26, reads as follows:

“Rental cost of comparable equipment would amortize this purchase price in six years. Since no changes in the statistical reporting are contemplated which would require a change in the equipment, considerable savings will accrue through continued use over a long period of time.”

The statistical unit consisting of 18 persons performs two functions. It makes the calculations necessary to determine the rate of tax on banks and financial corporations as required by Section 4-a of the Bank and Corporation Franchise Tax Act, and it compiles and issues statistics on personal income tax returns and corporation returns for the benefit of interested parties. Punched card equipment is not essential to the first operation, which, its chief estimates, requires the equivalent of about three persons full time, or  $\frac{1}{3}$  of the total personnel of the unit. The annual direct costs of the unit are as follows:

Salaries, 18 employees.....	\$50,000
State's contribution to Employees Retirement System.....	4,000
Equipment.....	5,000
Supervision by Chief, Research Division, Board of Equalization....	1,800
<b>Total</b> .....	<b>\$60,800</b>

Thus it appears that  $\frac{1}{3}$  of this cost, or \$10,133 is attributable to the performance of the operation required by law, namely, the computation of the bank tax rate, while the other  $\frac{2}{3}$ , or \$50,667, represents the cost of compiling statistics which are not required by law to be compiled.

We believe this proposed change in equipment to be not only unwise under present circumstances, but also to be a departure from ordinary budgeting procedure. The request for purchase, rather than rental, and the shift to a different type of tabulating equipment, did not appear in the original departmental budget received by this office, and the matter of

the proposed change was not discussed at the time of the departmental budget hearings. However, subsequent to departmental hearings, a contract was entered into which provided for the rental of rebuilt equipment effective February 1 with the right to purchase within six months. The contract for rental of existing tabulating equipment has been terminated and the money budgeted for the balance of the fiscal year for this purpose applied to the purchase of the new type of equipment.

Since the Legislature does not ordinarily act upon the Budget, including fundamental policy changes or equipment changes of this nature, before February 1, the effect of this change will be that, by the time the legislative committees will have had an opportunity to approve the change, the change will be made and the Legislature is asked to pay the bill for the balance of the equipment purchase. This procedure and the timing which is involved in the contracts entered into will have the effect of costing some additional sums if the Legislature does not approve the proposed equipment change. By the time the Budget is acted upon, the existing rental equipment will have been moved from the State under a contract which calls for the State to pay freight charges to whatever point it is to be used by another renter and the new equipment, whether to be rented or ultimately purchased, will be installed. If the Legislature disapproves these steps, the State will be put to the added expense of reentering into a contract for rental of equipment such as existed before, including the payment of freight charges and the cost incidental to moving out the new equipment which will have been installed. This entails loss of money spent on printing a different type of punch card and other incidental expenses. We believe that the execution of this contract has been under circumstances which have not given the Legislature an opportunity to appraise the proposed equipment purchase on its merits.

Even though additional costs will be incurred by returning to the previous procedure, we recommend that the additional sum requested not be approved and that there be placed into the Budget instead an amount for rental of equipment similar to that which was used prior to the contract. We make this recommendation for the following reasons:

1. The equipment proposed to be installed by the department would be much less flexible in its potential uses if an expanded or altered statistical program or other program requiring the use of punched card equipment were to be undertaken by the Franchise Tax Board. By far the largest part of the tabulating equipment in existence in Sacramento for state agencies is of the type which has been given up by the department. This includes the Board of Equalization, which has both information and procedures which might be used jointly if a common type of equipment is used. Purchase of a different type of equipment will limit the ability of the Franchise Tax Board to cooperate with and to receive statistical services from other departments. During the past year, some progress has been made in revising and reappraising the statistical program of the Franchise Tax Board, largely through cooperative services received from the Research Division of the Board of Equalization. This type of joint cooperative program and reappraisal is commendable. Its extension will be impaired, however, if the two agencies use a different type of tabulating equipment.

There is no other major installation in the state service of the type of equipment which it is proposed to purchase, and, accordingly, no

possibility of the Franchise Tax Board benefiting from the use of specialized equipment found only in the largest installations, as has been the case in the past.

An excellent example of this is an operation performed by the tabulating section of the Department of Employment for the Franchise Tax Board in 1950. This consisted of some 12,000 computations involving multiplying two factors together in expanding sample data used in compiling personal income tax statistics by county and by industry, and was performed by the Department of Employment in one week. This operation cannot be performed mechanically in the future if the new equipment is purchased, and the Franchise Tax Board is requesting the purchase of a new calculator for \$604 to perform the same operation by hand, which will take an estimated 120 man days or 30 weeks.

2. The request for change in the tabulating equipment was surveyed by the management analysis section of the Department of Finance, and the report of the section offers no evidence of either ultimate savings or substantial advantages which would accrue to the department from the proposed change. On the other hand, the prospect of considerable savings to the State was pointed out if the Franchise Tax Board were to use contract services from other departments for parts of its tabulating program.

3. There is no trained pool of operators for the new type of equipment, and its installation will require retraining of present personnel.

4. By renting punched card equipment on a month to month basis as in the past, its use can be discontinued on very short notice, when and if no longer needed, with no loss to the State.

5. Since the equipment proposed to be purchased is rebuilt rather than new equipment, it will have little or no trade-in value and should it prove unsatisfactory or its use become unnecessary within the six-year period, the State will be forced to stand the entire loss.

6. By renting equipment, the latest and most efficient type can be secured, whereas purchased equipment may become obsolete before it is worn out by the development of new and improved types. The recent mechanized registration changes inaugurated by the Department of Motor Vehicles, for instance, would have been either impossible or at a prohibitive cost to the State had the equipment initially been an outright purchase.

7. If all state tax functions should be centralized in a single agency, many economies would result from such centralization; not the least of these would be in the operation of a centralized tabulating unit. In order to realize maximum benefits from any consolidation, it is essential that all agencies involved use the same type of tabulating equipment. Since no other tax agency uses the type of equipment proposed to be purchased, this purchase by the Franchise Tax Board would reduce the possible economies which could be realized from any consolidation.

**Franchise Tax Division**

1 Franchise tax auditor, grade 2, Sacramento (Budget page 429, line 22)	\$3,900
1 Franchise tax auditor, grade 3, Los Angeles (Budget page 429, line 25)	\$4,740
1 Intermediate stenographer-clerk, Los Angeles (Budget page 429, line 26)	\$2,400

1 Franchise tax auditor, grade 3, San Francisco (Budget page 429, line 28) ----- \$4,740

These positions are all considered together, since they are requested as a part of a proposed expansion of the Franchise Tax Audit program, which we believe is not justified at present.

The 1950 Legislature authorized an increase of \$65,000 in the Budget as originally submitted for purposes of expanding the audit program of the Franchise Tax Division with respect to one particular class of taxpayers, those with income both within and without the State where the allocation of income attributable to California is a factor in determining tax due. Eight additional auditors were authorized by this increase, the agency proposing that four be assigned to work in California and the other four outside the State.

The Legislative Auditor approved the increase of \$65,000 and recommended in addition:

“That the expenditure be for a one-year period and subject to further review at the time of the next legislative session, and that it be regarded as an expenditure not only to recover immediate revenues to the State but also to finance a thorough statistical and analytical study designed to show ultimately what the size and character of the audit program in the Franchise Tax Board should be. In our opinion, the additional audit program should be conducted in such a way as to yield at the end of a one-year period statistical information and analysis which would be of considerable aid in helping the Department of Finance and the Legislature to decide the proper expenditure for audit of Franchise Tax returns.”

This recommendation was concurred in by the Senate Finance Committee and the Assembly Ways and Means Committee.

To date the analysis referred to above has not been submitted by the agency, notwithstanding that, except as to certain features of the out-of-state audit work, the program has been in effect for almost a year.

Until such a study has been completed, we do not believe any further expansion of the audit program is warranted, either the office audit or the field audit.

Preliminary investigations cause us to question the effectiveness of the entire Franchise Tax Audit program, since it is based on the premise that every return filed should be audited within four years after it is filed, regardless of its size or complexity, and makes no provision for any selection on the basis of relative importance of the return.

As the returns are received they are first checked for arithmetical errors and then filed in individual files by taxpayers, the taxpayers' files being arranged in alphabetical order. The audit process consists of examining each file in that order and reviewing the oldest return involved which has not been audited, at present these being the 1946 returns filed in 1947.

Under this procedure, it is impossible for the agency to know at any time the relative importance of any return until audited, since there is no distinction in the audit program between the return of a taxpayer showing no transactions, who pays the minimum tax of \$25, and that of the taxpayer filing a complicated return with a large amount of tax.

The following data taken from the franchise tax section of the booklet "Statistics of Income" published each year by the agency shows the distribution of franchise tax returns, other than delinquent returns, by size, for the income year 1947, the tax shown being exclusive of the second installment on banks.

Class of return	Returns		Tax		Average tax per return
	Number	Percent of total	Amount	Percent of total	
No transactions and arbitraries -----	8,676	25.3	\$219,000	0.3	\$25
Net loss -----	7,852	22.9	190,000	0.3	24
Net income under \$5,000--	4,647	13.5	425,000	0.6	91
Subtotal -----	21,175	61.7	\$834,000	1.2	\$39
Net income, \$5,000 to \$5,000,000 -----	12,825	37.4	\$45,845,000	67.3	\$3,575
Net income, \$5,000,000 and over -----	316	0.9	21,470,000	31.5	67,943
Total -----	34,316	100.0	\$68,149,000	100.0	\$1,986

The foregoing distribution is typical of returns for income years, both before and since 1947. It indicates that 61.7 percent of total returns account for only 1.2 percent of total tax while the remaining 38.3 percent of the returns account for 98.8 percent of the tax. It also indicates that the 316 largest returns, less than 1 percent of the total, account for almost one-third of the total tax.

In the audit program, as conducted by the agency, no more preference is given to the audit of one of the very large returns, which average about \$68,000 tax per return, than to a return showing no transactions, which pays the minimum tax of \$25. Furthermore, the agency cannot identify, at any date, those returns which pay the largest amount of tax and should presumably be given preference in the audit program.

We believe that the so-called backlog of unaudited returns, which is urged as one justification for these additional positions, is due to time wasted in audit of returns not justifying audit, and that the present staff is entirely adequate to perform all of the auditing necessary of those returns requiring audit well within the four-year limitation period if the auditing were done on a selective basis, with highest priority being given to audit of the most important returns.

The same considerations apply to the so-called backlog of field assignments in the field offices, since such assignments are made only after desk audit of the return in headquarters.

We believe there are a number of other factors which should be studied before consideration is given to an increase in the field audit staff, such as the extent of its dependency on federal audits, the extent to which it should depend on federal audits, and the various bases of selection of cases assigned for field audit.

We are aware that net assessments from all types of franchise tax audits have exceeded all agency costs by a considerable margin over a period of years, but we believe that the same results could have been achieved at a substantially lower cost by a more selective audit program.



## Personal Income Tax Division—Headquarters

3 Income tax examiners, grade 3 (Budget page 430, line 45)-----	\$14,220
4 Income tax examiners, grade 2 (Budget page 430, line 46)-----	\$15,600
4 Junior accountant auditors (Budget page 430, line 47)-----	\$11,088

These additional auditors are requested to reduce a so-called "back-log" of unaudited returns in headquarters and thus bring the audit of returns more current, to process additional field audit reports expected to be received because of a proposed increase in field audit staff, and to extend the scope of the desk audit to 50 percent of the so-called "small" returns.

The following tabulation, based on Personal Income Tax Table I in "Statistics of Income, 1947 Returns" published by the agency, shows the distribution of the 1947 returns by income class. These are the returns filed in 1948 which, under the procedure used by the agency, will be audited during 1951:

Net income class	Returns		Tax		
	Number	Percent of total	Amount	Percent of total	Average tax per return
Nontaxable -----	225,080	28.7	---	---	---
Optional -----	177,077	22.6	\$1,642,301	3.6	\$9.27
Under \$5,000 ---	59,441	7.5	663,294	1.5	11.16
Subtotal -----	461,598	58.8	\$2,305,595	5.1	\$4.99
\$5,000 to \$9,999	234,252	29.9	6,735,572	14.8	28.75
\$10,000 to \$29,999	77,793	9.9	12,591,085	27.7	161.85
\$30,000 and over	11,066	1.4	23,792,297	52.4	2,150.09
Total -----	784,709	100.0	\$45,424,549	100.0	\$57.89

It will be noted that 58.8 percent of the returns accounted for only 5.1 percent of the tax, while the remaining 41.2 percent accounted for 94.9 percent of the tax, also that the 11,066 returns with net incomes of \$30,000 and over, or 1.4 percent of the total, accounted for 52.4 percent of the tax.

The audit program of the agency contemplates a 100 percent audit of all but the smallest returns, the latter amounting to 24 percent of the total for 1946 returns, 29 percent for 1947 returns, and 36 percent for 1948 returns. The audit, referred to as the "drawer audit," is made alphabetically by name of taxpayer 3 to 3½ years after the return is filed, the audit of returns in the group averaging \$2,000 tax being given no greater priority than those in the group averaging \$5.

We believe this method of audit is unnecessarily wasteful, costly, and inefficient and that, if audits of returns were made on a selective basis, the audit program could be kept as current as need be without increasing the present staff.

In the year ended June 30, 1950, for example, 25,000 deficiencies were proposed which represented an examination of some 580,000 returns. This was at the rate of one deficiency for each 22.4 returns audited, which means that only 4.5 percent of the returns audited resulted in any deficiency.

The Personal Income Tax Law has been in operation since 1935, a period of some 15 years, and during that period experience should have developed sufficient information to enable the agency to select those returns for audit which are most likely to produce additional revenue and

to reduce progressively the amount of time spent on those where the audit is not warranted.

The agency justifies the increase in staff by submitting data which purports to show that the auditors will produce additional revenue several times in excess of their salary costs. A detailed study of the field audit program in the Sales Tax Division recently completed by the staff of this committee convinces us that such data can be very misleading. That study indicated that, while in the aggregate the audits produced more revenue than they cost the State, the excess over cost was produced by 1.4 percent of the total number of audits completed, which accounted for 25.9 percent of the total tax recovery, and that the other 98.6 percent of the audits produced in the aggregate *net revenue which did not exceed the cost of making the audits involved.*

We have every reason to believe that a comparable condition exists in the audit program in the Personal Income Tax Division, and until a detailed analysis is made of this program in all its phases, including accurate and complete costs, we believe it highly inadvisable to increase the size of the present audit staff.

Here, as in the Franchise Tax Division, the proper relationship between state and federal audit programs is a vital part of such a study.

**Personal Income Tax Division—Los Angeles Office**

2 Income tax examiners, grade 3 (Budget page 431, line 24) ---- \$9,480  
 10 Junior accountant auditors (Budget page 431, line 25) ----- \$27,720

The two grade 3 examiners are requested to provide additional supervision for 18 examiners of lower grade who are assigned to the field audit unit in Los Angeles.

At present there are seven grade 3 examiners in Los Angeles for a total of 28 of lower grades and five in branch offices for two of lower grades, a total of 12 grade 3 for 30 grade 2 and grade 1. We believe 12 grade 3 examiners to be more than sufficient to give adequate supervision for the existing staff, provided the staff is properly organized and that, pending the recommended study of the audit program of this agency, no additional grade 3 positions be approved. There is every indication that the existing number of grade 3 examiners is excessive in relation to the remainder of the staff and the type of work performed.

Of the 10 junior accountant-auditors, five are requested for field audit work, two for the existing so-called special investigation section in Los Angeles, the principal activity of which is to determine residence status of persons who live in California but deny tax liability on the ground that they are nonresidents, and three for the so-called miscellaneous section, the principal activity of which is to communicate with individuals who have failed to file and who apparently should have filed, either because they filed federal returns or received income sufficient to require a filing.

We do not believe any additional auditors are warranted for field audit work until a complete analysis of the field audit program has been made, and since the field audit assignments originate almost entirely from headquarters, and we are recommending against any increase in headquarters audit staff, it follows that none should be approved in the field staff at this time.

With respect to the other two activities, it appears to us that this work does not justify technical auditing personnel at all, but could more appropriately and economically be performed by clerical personnel or field representatives, and that, pending a further study of the activities of the "special investigation" unit and the "miscellaneous" unit, no increase in audit personnel is warranted.

While the personnel being requested is at the junior accountant-auditor level, salary \$231-\$281, it should be remembered that both the Personnel Board and the Division of Budgets and Accounts regard this class as a training class, not a class appropriate for a permanent working level, and that reclassifications and promotions will be approved as a matter of routine to the next higher class, examiner grade 1, salary \$268-\$325, as soon as the individuals involved can qualify for promotion; and that, therefore, when the agency asks for additional junior accountant-auditors, it is really asking for an equivalent number of men at the grade 1 level approximately one year after the effective date of the appointment of the juniors. For this reason, it is important to determine at this point whether the activity for which the juniors are being requested is an activity which really requires technical audit personnel.

The agency justifies additional audit personnel on the basis of probable additional revenue, but the data submitted is not complete, either as to the over-all picture or as to costs. As to field audit activities, at least one-fourth of the audits are "no-change" audits; that is, do not result in additional tax, and we believe this is a clear indication of serious defects in the method of selecting cases for field audit.

*Supervising typist—Los Angeles (Budget page 431, line 26)-----\$3,216*

This position is requested to provide a supervisor for the clerical pool in Los Angeles which now consists of 11 clerical employees. It is stated that there are four additional clerical employees which could be assigned to the pool, and it is also proposed to assign the five additional intermediate typists requested to the pool.

We do not believe that an additional position is justified for this purpose and that, if an organizational problem exists requiring better supervision, it can be handled satisfactorily by an appropriate reclassification of a member of the existing staff.

*5 Intermediate typist-clerks (Budget page 431, line 27)-----\$11,400*

These are requested to provide clerical assistance for the additional audit personnel requested, and since we are recommending against any increase in auditors, these positions are not needed.

*Temporary help (Budget page 431, line 20)-----\$6,432*

The temporary help to handle peak loads during the filing period as requested for 1950-51, as approved for 1950-51, and as requested for 1951-52, is as follows:

	<i>Requested</i> <i>1950-51</i>	<i>Approved</i> <i>1950-51</i>	<i>Requested</i> <i>1951-52</i>
Examiners to assist taxpayers in filing returns -----	\$8,576	\$4,288	\$10,720
Clerical help -----	7,116	7,116	2,410
<b>Total -----</b>	<b>\$15,692</b>	<b>\$11,404</b>	<b>\$13,130</b>

The amount requested for examiners for 1950-51 represented 32 man-months, which, on recommendation of the Legislative Auditor, the Legislature reduced to 16. The amount requested for 1951-52 represents 40 man-months, an increase of 150 percent in both man-months and amount. Since this is purely a service function and no justification has been submitted for the increase, we recommend a reduction of \$6,432 in the amount requested for temporary examiners to conform to the authorized 1950-51 level.

**Personal Income Tax Division—San Francisco Office**

- 4 Income tax examiners, grade 2 (Budget page 431, line 79)-----\$15,600
- 1 Junior accountant auditor (Budget page 431, line 80)-----\$2,772

The four examiners are requested for field audit work, one each in San Francisco, Stockton, San Jose, and Oakland, while the junior accountant-auditor is requested for investigations of residence status in San Francisco.

We are recommending against these for the same reasons we recommended against any increase in the audit staff in Los Angeles and headquarters.

In the case of the four examiners, grade 2, the agency justifies the increase on the basis of inequalities in work load as between the various branch offices involved. This, in turn, presupposes that the present pattern of field organization is proper. For reasons commented on elsewhere, we believe this is subject to question.

- 1 Senior clerk (Budget page 431, line 81)-----\$2,640
- 1 Intermediate typist (Budget page 431, line 82)-----\$2,280

The senior clerk is requested to assist an examiner in securing and processing certain information from the records of the Collector of Internal Revenue in San Francisco relating to federal filings and the intermediate typist for addition to the San Francisco clerical pool. Since both of these positions are related to an increased audit staff, we recommend against their establishment at this time.

**Temporary help—San Francisco (Budget page 431, line 75)-----\$4,288**

The temporary help to handle peak loads during the filing period as requested for 1950-51, as approved for 1950-51, and as requested for 1951-52, is as follows:

	<i>Requested</i>	<i>Approved</i>	<i>Requested</i>
	<i>1950-51</i>	<i>1950-51</i>	<i>1951-52</i>
Examiners to assist taxpayers in filing returns -----	\$8,576	\$4,288	\$8,576
Clerical help -----	4,933	4,933	2,070
<b>Total -----</b>	<b>\$13,509</b>	<b>\$9,221</b>	<b>\$10,646</b>

The amount requested for temporary examiners for 1950-51 represented 32 man-months, which on recommendation of the Legislative Auditor was reduced by the Legislature to 16. The amount requested for 1951-52 represents 32 man-months, an increase of 100 percent. Since this is purely a service function and no justification has been submitted for the increase, we recommend a reduction of \$4,288 to conform to the existing level of service.

*Additional equipment to improve existing service*.....\$4,453

Total equipment requested, Budget page 432, line 38, has been classified as follows in the printed Budget, page 425, line 45.

<i>Purpose</i>	<i>Total</i>
1. Proposed new positions.....	\$14,533
2. Work load and necessary improvements.....	12,809
3. New statistical installation.....	20,398
4. Replacement of worn out and obsolete items.....	6,739
5. All other .....	1,664
Total .....	\$56,143

All items in the first group which are related to any proposed new positions which are deleted should, of course, be eliminated, but we have not felt it necessary to make a detailed segregation of these for purposes of this analysis.

We have recommended against purchase of new statistical equipment, item 3 above, elsewhere in this report, and we recommend approval of groups 5 and 6.

Included in the second group are certain items requested by the agency and approved by the Department of Finance which cannot be justified strictly on the basis of increased work load, but only as improvements in existing services. While these may be desirable, we believe they are borderline cases and that the agency could function without them if necessary, since it has done so in the past. The list includes 31 small items totaling \$4,453, of which the larger are: \$464 for eight swivel chairs for examiners in the Los Angeles office to replace straight chairs to be used in new conference rooms; \$443 for steel shelving for the accounting office in headquarters to store additional stationery, forms, and supplies; \$221 for an additional electric letter opener for the accounting section to serve partly as a standby machine; \$320 for an adding machine for the Franchise Tax office in San Francisco, which now uses the Income Tax machine; \$187 for a two-drawer safe file for the Stockton office; \$195 for a rapid print automatic numbering machine; and \$604 for an automatic electric calculator for the statistical unit in Sacramento to obviate the necessity of borrowing a machine from another division.

We have recommended the entire amount for deletion with the further suggestion that, if the Legislature desires to restore any part of the total in order to be consistent with action taken on comparable items in budgets of other agencies, the Franchise Tax Board be permitted to select those items which it deems most essential on a priority basis.

#### Studies Recommended

In addition to detailed studies of the audit programs of both the Franchise Tax Division and the Personal Income Tax Division, which we have recommended elsewhere, we believe that other matters should be studied at the same time.

The basic organization of the agency, particularly the relationships between headquarters and field staff, needs study, since there are indications that it could be improved and considerable economies effected.

At present, area offices are maintained in Los Angeles and San Francisco, each of which contains three divisions operating more or less independently of one another and reporting directly to division chiefs in headquarters. These divisions are Personal Income Tax, Franchise Tax and

Collections. The staff in Los Angeles is as follows (the San Francisco staff being comparable, except as to size) :

<i>Personnel</i>	<i>Income tax</i>	<i>Franchise tax</i>	<i>Collection</i>	<i>Total</i>
Administrative -----	1	1	1	3
Technical -----	26	15	3	44
Clerical -----	28	5	9	42
Total -----	55	21	13	89

A single administrative head for the entire area office, with most clerical operations pooled, would appear to offer possibilities for economies.

In addition, the Personal Income Tax Division operates 10 small branch offices as shown in the following table :

<i>Location</i>	<i>Office rent</i>	<i>Audit</i>	<i>Staff Clerical</i>	<i>Total</i>
Oakland -----	\$5,700	4	1	5
San Jose -----	1,920	3	2	5
Fresno -----	2,069	2	1	3
Santa Rosa -----	2,208	2	1	3
Stockton -----	2,100	1	1	2
Long Beach -----	2,508	2	1	3
San Diego -----	2,720	2	1	3
Bakersfield -----	1,540	1	1	2
San Bernardino -----	1,310	1	1	2
Santa Barbara -----	2,400	1	1	2
Total -----	\$24,475	19	11	30

The basic question appears to be why such offices are needed at all and why the entire amount of the rent plus a substantial amount of the \$30,000 paid in salaries to the clerical personnel could not be saved, since if the clerical work were to be performed either in headquarters or the main offices, 11 clerks would not be needed to handle the work of 19 auditors.

For purposes of field administration, the State is divided into three areas, the Los Angeles area which includes San Luis Obispo and Kern Counties and all counties south, the Sacramento area which includes Sacramento County and the 18 counties lying north thereof and east of the Coast Range, and the San Francisco area which includes the remainder of the State. The branch offices at Stockton and Fresno are administered from San Francisco rather than Sacramento, which appears to be an awkward arrangement.

The distribution of the audit staff, by areas, and the percentage of tax returns and total tax originating in each area in 1948 are shown in the following table :

<i>Location</i>	<i>Returns</i>	<i>Tax</i>	<i>Audit staff Number</i>	<i>Percent of total</i>
Los Angeles -----	53.2	59.7	44	51.2
San Francisco -----	40.9	35.8	41	47.7
Sacramento -----	5.9	4.5	1	1.1
Total -----	100.0	100.0	86	100.0

This would appear to raise a serious question as to the proper distribution of the audit staff in relation to work load.

Another important study should include an analysis of all functions performed by the agency and total costs to taxpayers of each. For example, the technical audit personnel in the field perform many functions other than auditing and the extent and nature of these should be determined in order to properly evaluate the work of the agency.

**STATE TREASURER**

ITEM 141 of the Budget Bill

Budget page 433  
Budget line No. 7

**For Support of the State Treasurer From the General Fund**

Amount requested .....	\$277,983
Estimated to be expended in 1950-51 Fiscal Year.....	260,307
<b>Increase (6.8 percent) .....</b>	<b>\$17,676</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$10,440	\$10,440	---	434	58
Operating expense .....	11,650	11,650	---	434	77
Equipment .....	<del>4,414</del>	<del>4,414</del>	---	434	85
<b>Total increase .....</b>	<b>\$17,676</b>	<b>\$17,676</b>	<b>---</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$277,983
Legislative Auditor's recommendation.....	277,983
<b>Reduction .....</b>	<b>None</b>

**ANALYSIS**

The increase of \$10,440 for salaries and wages is due to the request for two new positions for the amount of \$5,280 and the filling of two vacant positions amounting to \$4,560. Also a small amount is due to salary increases and a slight increase in temporary help. These increases are necessary due to the increase in work load resulting from the State's bonded debt activity which is expected to increase more than 100 percent in the 1951-52 Fiscal Year. All state trust funds will have been absorbed by the State Treasurer and warrant operations increased considerably due to the centralized payroll system during the 1951-52 Fiscal Year.

Operating expenses increased accordingly due to the increase in work load.

We recommend approval of the amounts requested.

**STATE TREASURER**

ITEM 142 of the Budget Bill

Budget page 433  
Budget line No. 37

**For Expenses of the State Treasurer for Preparation and Advertising the Sale of Bonds Under Chapter 835, Statutes of 1929, Payable From the San Francisco Harbor Improvement Fund of 1929**

Amount requested .....	\$1,000
Estimated to be expended in 1950-51 Fiscal Year.....	---
<b>Increase (100 percent) .....</b>	<b>\$1,000</b>

**RECOMMENDATIONS**

Amount budgeted .....	\$1,000
Legislative Auditor's recommendation .....	1,000
Reduction .....	None

**CALIFORNIA HIGHWAY PATROL**

ITEM 143 of the Budget Bill

Budget page 436  
Budget line No. 23

**For Support of California Highway Patrol From the Motor Vehicle Fund**

Amount requested .....	\$10,175,498
Estimated to be expended in 1950-51 Fiscal Year .....	9,069,851
Increase (12.2 percent) .....	\$1,105,647

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages .....	\$560,889	\$104,705	\$456,184	442	42
Operating expense .....	388,638	243,603	145,035	442	43
Equipment .....	153,105	<del>123,585</del>	276,690	442	44
<b>Plus:</b>					
decrease in reimburse ment .....	3,015	3,015	---	442	48
<b>Total increase</b> ....	<b>\$1,105,647</b>	<b>\$227,738</b>	<b>\$877,909</b>		

**RECOMMENDATIONS**

Amount budgeted .....	\$10,175,498
Legislative Auditor's recommendation .....	9,327,391
Reduction .....	\$848,107

**ANALYSIS**

The proposed budget request for support of the California Highway Patrol for the fiscal year 1951-52 is \$10,175,498. This is an increase of \$1,105,647, or 12.2 percent, over the amount requested for the Fiscal Year 1950-51.

The justification given for this increase is:

“This increase is due mainly to a very necessary increase in the agency's uniformed structure. Vehicle registrations and vehicle miles have increased sharply over previous years and are expected to increase still more. The present structure cannot properly cope with current conditions.”

A similar justification has been given for each fiscal year since the separation of the California Highway Patrol from the Department of Motor Vehicles in 1948.

Our recommended reduction of \$848,107 is the total estimated cost for salaries and wages, operating expenses and equipment of an additional 14 lieutenants, 10 sergeants, 100 state traffic officers and corresponding clerical help. *We recommend that no additional patrolmen be allowed until sufficient justification is furnished to prove their effectiveness in the further prevention and decrease of accidents.*