

BOARD OF CONTROL

ITEM 110 of the Budget Bill

Budget page 391
Budget line No. 7

For Support of the Board of Control From the General Fund

Amount requested	\$22,703
Estimated to be expended in 1952-53 Fiscal Year	22,579
Increase (0.5 percent)	\$124

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$31	\$31	---	391	41
Operating expense	130	130	---	391	55
Equipment	-37	-37	---	391	58
Total increase	\$124	\$124	---		

RECOMMENDATIONS

Amount budgeted	\$22,703
Legislative Auditor's recommendation	22,703
Reduction	None

ANALYSIS

The amount of \$22,703 requested for the Fiscal Year 1953-54 represents an increase of \$124, or 0.5 percent over estimated expenditures for 1952-53. This increase is the result of minor adjustments for price changes.

We recommend approval of this item as submitted.

STATE CONTROLLER

ITEM 111 of the Budget Bill

Budget page 393
Budget line No. 6

For Support of the State Controller From the General Fund

Amount requested	\$2,108,872
Estimated to be expended in 1952-53 Fiscal Year	2,072,001
Increase (1.8 percent)	\$36,871

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$57,329	\$51,557	\$5,772	401	66
Operating expense	9,486	9,486	---	401	67
Equipment	-17,143	-17,143	---	401	68
Plus:					
Decreased reimbursements of audit service to special programs	13,437	13,437	---	401	72
Less:					
Increased reimbursements for amount payable from Public School Building Loan Fund	-26,238	-26,238	---	401	73
Total increase	\$36,871	\$31,099	\$5,772		

RECOMMENDATIONS

Amount budgeted	\$2,108,872
Legislative Auditor's recommendation	2,103,100
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Reduction	\$5,772

ANALYSIS

The recommended reduction of \$5,772 consists of salaries and wages for one proposed new position as follows:

	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
Accounting Division:			
1 Senior accountant	\$5,772	396	64

A position of senior accountant for the accounting division was requested in the 1952-53 Budget. Justification given was the need for an assistant in the preparation of the accounting procedural manual. The Legislature denied the request on the basis that sufficient staff was available within the division to compile this manual. The justification for the request in the 1953-54 Fiscal Year is based on the need for assistance to the chief and assistant chief of the division. The functions to be performed by the new position cover a wide range of various duties. The Office of the Controller has several high-level positions to which these functions could be distributed. We recommend disapproval of this position.

The proposed new positions, which we believe are justified on a work load basis, are as follows:

	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
Accounting Division (Financial Analysis Section)			
1 Semisenior accountant	\$4,740	396	67
Inheritance and Gift Tax Division			
1 Junior counsel (San Francisco office)	4,092	400	33
1 Senior legal stenographer (Los Angeles office) ---	3,216	400	35
County Budgets and Reports Division			
1 Auditor II	4,740	400	25
1 Accountant auditor I	3,250	400	26

Other items showing significant changes in expenditures are as follows:

	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
Administration Division			
Furniture (San Francisco office)	\$773	395	66
Rug (Sacramento office)	3,000	395	66
Addressing list machine	1,248	395	66
Automobile	3,450	395	67
Audits Division			
Replacement of six automobiles	6,300	398	22
Disbursements Division			
Elimination of six clerical positions in the 1952-53 Fiscal Year due to improved procedure for issuing general warrants	—18,235	---	---
Inheritance and Gift Tax Division			
Filing equipment	3,187	400	62
Books (library)	2,500	400	62

A major program change, which we believe should be given careful consideration, is the claim audit function performed in the Controller's Office. At present, all claims are audited 100 percent in the Audits Division as to legality, correctness and sufficient provisions of law for

payment. In state agencies, where these claims originate, the claims are carefully prepared and checked for correctness and certified as to correctness by a responsible employee. Furthermore, after the audit has been performed by the Controller's Office, a post-audit of claims is made by the Division of Audits in the Department of Finance. We are informed that this audit is done on a sample basis.

We see no reason why the pre-audit of claims performed in the Controller's Office, at least the check for mathematical correctness, could not be done on a sample basis and still maintain sufficient fiscal control to avoid significant loss to the State.

We recommend that operations requiring a check for mathematical correctness in audit be done on a 25 percent sampling basis and that the Department of Finance make the corresponding adjustments in the 1953-54 budget request.

STATE CONTROLLER

ITEM 112 of the Budget Bill

Budget page 403
Budget line No. 68

For Support of the Tax Collection Division From the Motor Vehicle

Transportation Tax Fund

Amount requested	\$113,400
Estimated to be expended in 1952-53 Fiscal Year	101,699
	\$11,701
Increase (11.5 percent)	\$11,701

RECOMMENDATIONS

Amount budgeted	\$113,400
Legislative Auditor's recommendation	None
	\$113,400
Reduction	\$113,400

ANALYSIS

In our budget analysis for 1949-50, pages 218-20, we recommended transfer of the function of collecting the Motor Vehicle Transportation License Tax from the Tax Collection Division of the Controller's Office to the Motor Vehicle Transportation License Tax Division of the Board of Equalization and gave details of a study made at that time which indicated that savings of \$69,417 per year would result from such a transfer.

Elsewhere in this analysis we are recommending transfer of all tax-collecting functions from the State Controller to the Board of Equalization as part of a program to eliminate duplication of staff and facilities and place all major self-assessed taxes on the same basis; namely, that a single agency be responsible for all phases of administration.

Accordingly, we recommend deletion of this entire item from the budget of the State Controller, the corresponding functions to be set up in the appropriate sections of the Board of Equalization at reduced amounts to be determined by the Department of Finance.

Transfer of these functions will require appropriate changes in the law.

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 402
Budget line No. 28

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

Amount requested	\$22,784
Estimated to be expended in 1952-53 Fiscal Year	36,221
Decrease (37.1 percent)	<u>\$13,437</u>

RECOMMENDATIONS

Amount budgeted	\$22,784
Legislative Auditor's recommendation	<u>22,784</u>
Reduction	None

ANALYSIS

The decrease of \$13,437 is due to less emphasis on the audit projects under this program to enable the Controller's Office to increase the audits of the school building aid program. We recommend approval of the budget as submitted.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 393
Budget line No. 53

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

Amount requested	\$318,359
Estimated to be expended in 1952-53 Fiscal Year	296,360
Increase (7.4 percent)	<u>\$21,999</u>

RECOMMENDATIONS

Amount budgeted	\$318,359
Legislative Auditor's recommendation	<u>311,819</u>
Reduction	\$6,540

ANALYSIS

The above recommended reduction of \$6,540 consists of salaries and wages for one accountant auditor, grade I, at \$3,900 per annum and one intermediate typist-clerk at \$2,640 per annum.

The position of accountant auditor, grade I, is requested primarily by the agency to provide a more thorough review of the corrections, adjustments and approval of claims audited by 11 senior account clerks. At present, this review is the responsibility of the supervising account clerk I.

After these functions have been performed in the Motor Vehicle Fuel Tax Refund Division, they are forwarded to the Audits Division where all checks made by the Motor Vehicle Fuel Tax Refund Division are duplicated. The equivalent of more than three positions are employed for this function which is duplicated in the Audits Division. This duplication within the same agency is not justified. For this reason, we recommend deletion of the proposed new position of accountant auditor, grade I. We also recommend deletion of the proposed new position of one intermediate typist-clerk on the assumption that discontinuance of

this duplication by the Division of Audits would provide positions which could be transferred to the Motor Vehicle Fuel Tax Refund Division, if needed.

We recommend approval of one proposed new position of accountant auditor, grade I, for the Motor Vehicle Fuel Tax Refund Division. This position is requested to improve the supervision of field representatives and coordinate the work between the office and the field. This responsibility, at present, is delegated to the supervising inspector who has other duties which have hindered his supervisory function. We believe the addition of one accountant auditor, grade I, will improve the operations and reduce overtime work which is being done under present conditions.

Apart from the increase due to these proposed new positions, other increases are due to normal salary increases and the replacement of an automobile at \$1,050.

STATE CONTROLLER

ITEM 115 of the Budget Bill

Budget page 406
Budget line No. 65

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

Amount requested	\$183,199
Estimated to be expended in 1952-53 Fiscal Year	185,483
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Decrease (1.2 percent)	\$2,284

RECOMMENDATIONS

Amount budgeted	\$183,199
Legislative Auditor's recommendation	183,199
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Reduction	None

ANALYSIS

The decrease of \$2,284 is due primarily to normal salary adjustments, elimination of one position of senior clerk at \$2,568 per annum and one intermediate typist-clerk at \$2,756 per annum.

We recommend approval of the budget as submitted.

STATE CONTROLLER

ITEM 116 of the Budget Bill

Budget page 402
Budget line No. 17

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

Amount requested	\$48,886
Estimated to be expended in 1952-53 Fiscal Year	22,648
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Increase (115.8 percent)	\$26,238

RECOMMENDATIONS

Amount budgeted	\$48,886
Legislative Auditor's recommendation	48,886
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Reduction	None

ANALYSIS

The accounting and auditing of school building aid to impoverished school districts is performed by the Office of the State Controller. The increase of \$26,238 is due to the increased activity of the school building aid program of Chapter 1389, Statutes of 1949. Estimate of man-hours for close-out examinations for the current fiscal year is 2,400 and for the 1953-54 Fiscal Year 12,000, an increase of 9,600 man-hours required for completed projects. The estimated audit work of the Controller's Office is based on the estimated number of projects to be completed in the 1953-54 Fiscal Year.

**Board of Equalization
GENERAL ACTIVITIES**

ITEM 117 of the Budget Bill

Budget page 408
Budget line No. 48

For Support of Board of Equalization From the General Fund

Amount requested	\$12,193,457
Estimated to be expended in 1952-53 Fiscal Year	12,054,030
Increase (1.2 percent)	\$139,427

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$34,352	\$6,260	\$28,092	420	69
Operating expense	87,125	33,599	53,526	420	70
Equipment	23,454	7,492	15,962	420	71
Less:					
Reimbursements	—5,504	—5,504	---	420	80-81
Total increase ---	\$139,427	\$41,847	\$97,580		

RECOMMENDATIONS

Amount budgeted	\$12,193,457
Legislative Auditor's recommendation	11,916,461
Reduction	\$276,996

ANALYSIS

The total amount requested from the General Fund for 1953-54 is \$12,193,457, an increase of \$139,427 or 1.2 percent over the amount estimated to be expended for 1952-53.

The increase of \$34,352 in salaries and wages is computed as follows:

Merit salary increases	\$227,773
Less 11 existing positions eliminated (9 in Service Division and 2 in Sales Tax, headquarters)	23,779
Remainder	\$203,994
Proposed new positions (2 assessment standards and 6 liquor control officers for field offices)	33,864
Total, gross increase	\$237,858
Less increase in estimated salary savings	203,506
Remainder, net increase	\$34,352

It should be noted that the net increase of \$34,352 is based upon the assumption that salary savings will increase by the approximate amount of the merit salary increases after eliminating the 11 existing positions, an assumption which we do not consider to be realistic. If we assume no increase in salary savings, the total budget increase would be \$342,933 or 2.8 percent rather than \$139,427 or 1.2 percent.

The major activities of the Board of Equalization supported by the General Fund consist of equalization of local property assessments between counties, valuation of public utility properties for purpose of local taxation and assessment of the tax, administration of the Sales and Use Tax Law, administration of the Alcoholic Beverage Control Act, and assessment of taxes on insurance companies which is done by the Division of Research and Statistics. This work is carried on by 10 operating units, the detailed budget of each being shown separately in the printed budget. The following tabulation shows these units, the total personnel and budget requested for 1953-54, and the budget page upon which the detailed line item listing starts:

<i>Operating unit</i>	<i>Personnel requested</i>	<i>Total budget requested</i>	<i>Budget page</i>
General administration -----	71.5	\$430,404	410
Division of Research and Statistics-----	8.0	49,638	411
Service Division -----	117.0	1,274,279	412
Division of Assessment Standards-----	43.0	226,617	413
Valuation Division -----	42.0	218,195	414
Retail Sales Tax Division, headquarters-----	397.5	1,673,574	415
Retail Sales Tax Division, districts-----	1,366.2	6,240,069	417
Alcoholic Beverage Control Division, headquarters -----	55.0	237,284	418
Alcoholic Beverage Control Division, district liquor control offices-----	364.0	1,947,645	419
Alcoholic Beverage Control Division, Bureau of Tax Assessment-----	68.0	247,024	420
Total -----	2,532.2	\$12,544,729	
Less chargeable to other funds or agencies-----		351,272	420
		<u>\$12,193,457</u>	

While our specific recommendations for budget cuts total only \$276,996, we would like to point out that we believe it would be entirely possible to reduce the budget of the Sales Tax Division by an additional \$1,900,000, \$1,000,000 from the field audit program and \$900,000 from the "compliance" program, without any serious effect on state revenues and to reduce substantially the budget of the Alcoholic Beverage Control Division by shifting the enforcement burden to a greater extent to local peace officers. Our reasons for making these statements are set forth in some detail under the headings of "Sales Tax Field Audit Program" starting on page 198, "Compliance Costs" starting on page 201, and "Liquor Control Officers" starting on page 194, respectively.

A summary of the recommended reduction of \$276,996 is shown in the following tabulation which is followed by a detailed discussion of each item:

	Amount	Budget page	Line No.
Service Division			
Rent for new branch offices and additional space	\$51,526	413	15
Air conditioning equipment	5,820	413	24
Division of Assessment Standards			
1 Associate estimator of building construction	5,772	414	7
Reduce travel	2,000	414	21
Retail Sales Tax Division, headquarters			
5 Intermediate clerks, alphabetical files	14,856	416	38
Increase equipment replacement, alphabetical files	12,000	416	67
Equipment for Seattle office	910	416	68
Retail Sales Tax Division, districts			
Equipment for new branch offices	6,680	418	8
Alcoholic Beverage Control Division, districts			
6 Liquor control officers	22,320	419	39
Equipment for new branch offices	2,552	419	63
Distilled spirits license fee audit costs	176,560	419	35
Total	\$276,996		

Service Division

Rent for additional space ----- \$51,526

We recommend elimination of this amount which is included in rent (Budget page 413, line 15) and represents rent for the following additional space:

	Sq. ft.	Rent
New branch offices		
Van Nuys	6,400	\$16,128
Monterey	750	1,800
Seattle	---	600
Subtotal		\$18,528
Additional space in existing or previously authorized offices		
Burlingame	240	720
Santa Cruz	299	1,100
Los Angeles	10,439	31,178
Total		\$51,526

In our analysis of the Budget Bill for 1951-52, we pointed out that 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 and we recommended that no new branch offices be established until there had been developed by the agency and approved by the Legislature a comprehensive plan setting acceptable standards of need which can be consistently followed. No such standards have been developed to date, nor any detailed justification submitted for any of the new branch offices or any of the additional space.

The 1951-52 Budget contained an item of additional rent of \$33,600 for the establishment of three new branch offices in the Los Angeles area as part of a program of decentralization of facilities from downtown Los Angeles, one of the highest cost rental areas in the State.

The 1952-53 Budget contained the following rent for these three branches:

	<i>1952-53 Rent</i>
Inglewood, occupied 1951-52	\$13,500
Downey, occupied January 1, 1952	12,900
Subtotal	<u>\$26,400</u>
Hollywood, proposed for 1952-53	11,000
Total	<u>\$37,400</u>

In the budget for 1953-54, in lieu of the Hollywood branch it is proposed to establish a new office at Van Nuys, rental \$16,128, and to increase the net rental payments for the main Los Angeles office by \$31,178. This is to be accomplished by releasing 9,561 square feet in downtown Los Angeles at a saving of \$28,822 (\$3 per square foot per year) and leasing 20,000 additional square feet at another location at a cost of \$60,000, the same rate per square foot as the space released.

Thus, the original program of decentralization, which we recommended in 1951-52 and which was to have cost \$33,600, has now more than doubled as follows:

Inglewood (occupied)	\$13,500
Downey (occupied)	12,900
Van Nuys (proposed new branch)	16,128
Los Angeles (proposed new space)	31,178
Total	<u>\$73,706</u>

A new branch office at Monterey was proposed in 1951-52 and rejected by the Legislature on our recommendation. It was proposed again by the agency for 1952-53 and deleted from the budget as submitted by the Department of Finance. It is proposed a third time this year, with no new justification, and we recommend its deletion for the same reason as in 1951-52; namely, that it is an unnecessary duplication of a branch office at Salinas 18 miles away.

The new branch office in Seattle is proposed as headquarters for men assigned to that territory for audit work. We believe these assignments can be handled effectively without such an office, as they have been in the past, since they are essentially temporary in nature.

It is proposed to add 240 square feet to the 1,040 square feet now occupied by the Burlingame office at a cost of \$720 and 299 square feet to the 701 square feet now occupied at Santa Cruz at a cost of \$1,100. No justification has been submitted for either of these increases. The Burlingame office has 14 employees and the Santa Cruz office seven, there being one stenographer in each.

Rents paid and proposed by the Board of Equalization for office space for the eight years ending with the budget year are as follows:

Rents, Board of Equalization

Year	Total	Headquarters,	Amount	District offices	
				Amount	Percent
1946-47	\$245,612	\$113,999	\$131,613	---	---
1947-48	360,883	114,689	246,194	\$114,531	87.1%
1948-49	383,986	114,801	269,185	22,991	9.3
1949-50	418,377	119,056	299,321	30,136	11.2
1950-51	479,880	143,939	335,941	36,620	12.2
1951-52	529,509	169,359	360,150	24,209	7.2
1952-53 *	605,001	215,533	389,468	29,318	8.1
1953-54 †	670,000	215,533	454,467	64,999	16.7

* Estimated.
† Proposed.

Air conditioning equipment, tabulating section ----- \$5,820

Included in additional equipment (Budget page 413, line 24) is \$5,820 for two "five-ton" air conditioners for the tabulating section in the Business and Professions Building in Sacramento. This section has been able to function satisfactorily without this equipment for a number of years and we accordingly recommend against its purchase unless more adequate justification can be presented as to the specific problem encountered.

Assessment Standards

1 Associate estimator of building construction ----- \$5,772

This position is requested (Budget page 414, line 7) to raise the level of service being given to county assessors by furnishing them with additional data on building costs to be used in connection with their appraisal work.

A similar position was requested for the same purpose in 1951-52 but eliminated by the Legislature on recommendation of the Legislative Auditor. At that time no clear showing of necessity was made for the increased service, a condition which still holds true, and we accordingly recommend against its approval.

The 1952 Legislature deleted from the staff of the Division of Assessment Standards the following five positions:

Position	Salary
1 Assistant chief -----	\$8,520
2 Assistant real property appraisers -----	9,734
1 Junior real property agent -----	3,765
1 Intermediate typist-clerk -----	2,640
Total -----	\$24,659

This was the staff engaged in making county surveys pursuant to Chapter 1523, Statutes of 1947, a program which was started in 1947-48 and completed as to field work during 1951-52.

The positions actually abolished by the agency were four junior real property agents, \$16,113, and the intermediate typist, \$2,640, a total of \$18,753, less by \$5,906 or 24 percent than the actual cut made by the Budget Bill.

Section 254.5 of the Revenue and Taxation Code provides that local assessors shall submit to the Board of Equalization for review each affidavit filed by a nonprofit religious, hospital, scientific or charitable organization in support of any exemption claimed from local property taxes under the so-called "welfare exemption" provided for by Section 214 of the Revenue and Taxation Code. It also provides that the board shall notify each assessor of its findings. During 1951-52, about 1,200 requests for exemptions were reviewed but it is estimated that this will be increased by about 70 percent with the passage of Proposition 3 on November 4, 1952, which extends the welfare exemption to nonprofit private schools of less than collegiate grade. To meet this increase in work load, an additional position of associate auditor appraiser (Budget page 414, line 8) is requested at \$5,772.

We recommend the increased position on a one-year basis only, pending actual experience with the increased work load.

Reduce travel expense \$2,000

Since, if our recommendation for elimination of the proposed additional position of associate estimator of building construction is followed, there will be no increase in traveling staff, we recommend that travel expense (Budget page 414, line 21) be reduced to the 1952-53 level.

Retail Sales Tax Division, Headquarters

5 Intermediate clerks, alphabetical file section \$14,856
Equipment replacements (increase) —12,000

The agency proposes to purchase new "Rol-dex" filing equipment at a cost of \$30,000 for its alphabetical file section, which will improve filing procedures and result in the elimination of the five above positions (Budget page 416, line 37). In setting up the budget, \$18,000 was included in equipment replacements (Budget page 416, line 67) and an explanatory note included (Budget page 415, line 32) to the effect that the remainder of the cost is to be covered by the abolishment of five intermediate clerical positions effective September 1, 1953.

We recommend approval of this purchase provided that normal budgetary procedure is followed; namely, the full cost of the equipment is included in the equipment category and the five positions are abolished for the entire year. These two budget revisions will accomplish this purpose.

Equipment for Seattle office \$910

This eliminates equipment for the Seattle office against which we have previously recommended.

Retail Sales Tax Division, Districts

Equipment for proposed new branch offices \$6,680

Additional equipment shown at Budget page 418, line 8, includes the following for new branch offices:

Los Angeles and Van Nuys	\$5,879
Monterey	801
Total	<u>\$6,680</u>

We recommend against this for reasons previously indicated.

Alcoholic Beverage Control Division District Liquor Control Offices

6 Liquor control officers..... \$22,320

These positions are requested (Budget page 419, line 39) for the Fresno, San Bernardino and Woodland district offices on the grounds that there has been an 18 percent increase in number of liquor licenses since 1946, centered, to a great extent, in these areas.

We recommend against these positions for the following reasons:

1. While it is true that licensed retail premises have increased from 36,726 on March 1, 1947, to 43,546 on April 1, 1952, an increase of 6,820 or 18.6 percent, 60 percent of this increase or 4,091 took place between March 1, 1947, and April 1, 1948, during which period, that is, the 1947-48 Fiscal Year, the number of authorized liquor control officer positions in the field was increased from 230 to 272, an increase of 42 or 18.3 percent.

2. The following tabulation shows total retail liquor license in effect on April 1 of each of the last five years, by class of license, the licenses being classified as between those unrestricted as to number and those restricted as to number, either by law or board rule. It also shows the number of licensed retail premises after adjusting for those where the same premise has both an on- and an off-sale general license.

Kind of license	4-1-48	4-1-49	4-1-50	4-1-51	4-1-52	Increase
						4-1-48 to 4-1-52
Licenses unrestricted as to number:						
On-sale beer	8,166	9,083	9,729	9,245	9,844	1,678
Off-sale beer and wine	11,792	12,559	12,953	13,219	13,041	1,249
Clubs	131	257	270	315	319	188
Licenses restricted as to number:						
On-sale beer and wine.....	4,860	4,686	4,446	4,286	4,158	-702
On-sale general	8,438	8,370	8,359	8,357	8,372	-66
Off-sale general	9,261	9,248	9,270	9,270	9,312	51
Total licenses	42,648	44,203	45,027	44,692	45,046	2,398
Less duplications	1,831	1,783	1,682	1,590	1,500	-331
Total licensed premises	40,817	42,420	43,345	43,102	43,546	2,729

The only licenses which are increasing are on-sale beer (for premises which can sell beer and beer only by the drink and can hold no other type of license) and off-sale beer and wine (mostly grocery stores). On-sale beer and wine licenses are decreasing, while the other two are restricted by law.

There are no precise data available as to the relative importance of the various licenses as an index to the work load of a liquor control officer, but there are many indications that the number of on-sale beer licenses and off-sale beer and wine licenses has little or no significance but that the major portion of an officer's time is taken up with matters relating to on-sale general licensees; that is, establishments licensed to sell all types of alcoholic beverages by the drink.

Accordingly, in the absence of other special reasons for an expanded enforcement program, we believe that no increase in liquor control officer positions is warranted without an increase in on-sale general licenses.

3. No work load data have been submitted in support of the additional men other than the statements that the agency is short-handed in the three areas indicated. Until acceptable standards are established, we have no assurance that the reverse is not true in other localities and that the condition could not be remedied by reassignment of personnel.

Three possible work load measures which might be used are the number of liquor control officers per 100 on-sale general licensees, per 1,000 licensed retail premises of all kinds and per 100,000 population. If we apply these tests to the 14 administrative districts of the Alcoholic Beverage Control Division, we note some startling variations. The high, the low, the state-wide average, and the number for the three districts in question are shown in the following:

Liquor Control Officers per 100 On-Sale General Licensees

San Bernardino (high) -----	4.63
Fresno -----	3.08
Woodland -----	2.99
San Francisco (low) -----	2.31
State average -----	3.19

Liquor Control Officers per 1,000 Licensed Retail Premises, All Types

Redding (high) -----	9.92
Woodland -----	7.03
San Bernardino -----	4.52
Fresno -----	4.36
Santa Barbara (low) -----	3.99
State average -----	6.13

Liquor Control Officers per 100,000 Population

Redding (high) -----	6.41
Woodland -----	3.25
Fresno -----	1.98
San Bernardino -----	1.79
Los Angeles (low) -----	1.68
State average -----	2.38

4. Under Article XX, Section 22, of the California Constitution, the State has the "exclusive right and power to license and regulate the manufacture, sale, purchase, possession and transportation of intoxicating liquor within the State," and the State Board of Equalization has the "exclusive power to license the manufacture, importation and sale of intoxicating liquors in this State."

The Alcoholic Beverage Control Act implements these constitutional provisions and also provides in Section 66.5 as follows:

"Sec. 66.5. Duty of Local Authorities to Enforce Act. It is hereby made the duty of every peace officer and every district attorney in this State to enforce the provisions of this act, and to inform against and diligently prosecute persons whom they have reasonable cause to believe offenders against the provisions hereof. Every such officer refusing or neglecting to do so is guilty of a misdemeanor."

The activities of liquor control officers appear to fall into two general classes: (1) licensing, which is an exclusive state function and involves fingerprinting of applicants, processing applications, inspection of premises and the like, and (2) enforcement, an activity which could be performed by local peace officers under the law.

No precise data are available as to the time spent on each activity but there are indications that, on the average, liquor control officers spend about one-third of their time on activities having to do with licensing and about two-thirds on enforcement.

Since the enforcement of liquor laws is a responsibility shared with local peace officers, it is possible for the State, in the interests of economy, to reduce by substantial amounts, the state costs for liquor enforcement. However, a critical examination of the existing program should probably first be undertaken to determine what the effect of such a policy would be, and the request for an increase of six in the state enforcement staff is considered as part of the over-all problem of the proper relationship between enforcement at the state and local levels.

The following table shows the number of filled positions (that is, supervising liquor control officers, special liquor investigators and liquor control officers), the number of arrests made by state officers and arrests per officer by district for the last two fiscal years.

District	1950-51			1951-52		
	Officers working	Arrests	Arrests per officer	Officers working	Arrests	Arrests per officer
Stockton -----	12.2	124	10.16	13.0	226	17.38
Fresno -----	14.7	155	10.54	15.0	236	15.73
Woodland -----	8.0	35	4.37	8.0	121	15.13
San Bernardino ---	13.0	79	6.07	13.0	126	9.69
Redding -----	7.9	29	3.67	7.9	75	9.49
Santa Barbara ----	3.0	12	4.00	3.1	24	7.74
San Jose -----	19.9	62	3.12	20.2	94	4.65
Sacramento -----	12.0	66	5.50	11.9	50	4.20
Marysville -----	10.0	9	0.90	10.0	28	2.80
Los Angeles -----	72.6	95	1.31	67.9	111	1.63
Oakland -----	23.1	43	1.86	24.7	35	1.42
Santa Rosa -----	11.0	9	0.82	12.0	17	1.42
San Diego -----	12.7	4	0.31	12.8	8	0.63
San Francisco ----	37.3	14	0.38	37.6	13	0.35
Total -----	257.4	736	2.86	257.1	1,164	4.53

This table indicates that in 1950-51 arrests per officer ranged from lows of 0.31 in San Diego and 0.38 in San Francisco to highs of 10.54 in Fresno and 10.16 in Stockton with a state-wide average of 2.86, while in 1951-52 they ranged from lows of 0.35 in San Francisco and 0.63 in San Diego to highs of 17.38 in Stockton, 15.73 in Fresno and 15.13 in Woodland with a state-wide average of 4.53.

The extremely wide variation in number of arrests in itself warrants further study of the function. The apparent explanation of this variation would appear to be that in those districts with a very low average of arrests per officer local peace officers do most of the enforcement work, whereas in those with a high average per officer the reverse is true. It is interesting to note that in the three districts where additional personnel are requested; namely, Fresno, San Bernardino and Woodland, the arrests per officer are among the highest in the State.

Arrests by state officers classified by type of offense were distributed as follows:

<i>Offense</i>	<i>1950-51</i>	<i>1951-52</i>
Purchase or consumption by minors.....	42.8%	37.4%
Sales to minors.....	32.4	25.9
* Possession by minors in a public place.....	24.8	21.4
All other.....	24.8	15.3
Total	100.0%	100.0%

* Not an offense prior to September 22, 1951.

Equipment for new branch offices..... \$2,552

Included in additional equipment requested on Budget page 419, line 63, is equipment for the following new branch offices which we recommend be deleted for reasons previously mentioned:

Monterey.....	\$450
Los Angeles and Van Nuys.....	2,102
Total	\$2,552

Distilled Spirits License Fee Audit Costs..... \$176,560

Section 5 of the ABC Act provides that the fee for a retail package off-sale general license shall be \$110 per year for the first \$10,000 retail sales of distilled spirits per year plus \$10 per year for each additional \$1,000 sales during the year but not more than \$750 per year in total. With such a fee structure quarterly sales reports are necessary from each of the 9,000 odd licenses since two out of three pay additional fees in some amount during the year, the average fee for 1950-51 being \$240. The report procedure entails processing in headquarters by a staff of four clerical employees at a cost of about \$12,000 per year as well as field auditing to verify the accuracy of the sales reports.

The field auditing is done by auditors attached to Sales Tax Division district offices and to the Bureau of Tax Assessment of the ABC Division, the cost being reflected in the budget of the ABC Division, district liquor control offices as \$158,060 on Budget page 419, line 35.

These two items of cost, as well as additional costs for tabulating services, printing, supplies and mailing total an estimated \$6,500, performed by the service division, which cannot be readily identified on a line item basis, could be eliminated by amending the ABC Act to provide for fixed fees based upon location of premises. This would eliminate the necessity of licensees filing sales reports, and the necessity for the state processing and auditing these reports.

The on-sale general license which produces more revenue with fewer licensees than the off-sale general license is fixed by law at \$75 per year, plus an additional fee to be set by the board for the distilled spirits privileges. The annual fees charged for such licenses are fixed by location of premise, as follows:

<i>Location of premises:</i>	
In cities of 40,000 population or over.....	\$525
In cities of less than 40,000 but more than 20,000 population.....	375
In all other localities.....	325

A similar pattern of fees for off-sale general licenses with fees of \$350, \$200 and \$110, respectively, would produce revenue approximately equal to the present scale of fees which range from \$110 to \$750 per year.

We recommend that the ABC Act be amended to provide for a scale of fees for off-sale general licenses fixed by location of premise and conditioned upon the passage of such legislation; we recommend the following reductions in the budget of the Board of Equalization:

	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
Service division—sundry costs-----	\$6,500	413	29
Alcoholic Beverage Control Division:			
Headquarters, 4 clerical positions-----	12,000	418	61
District Liquor Control Offices, audit costs-----	158,060	419	35
	<hr/>		
Total -----	\$176,560		

It should be noted that the effect of the last adjustment will be the elimination of the equivalent of 28 field audit personnel, 14.5 from the Bureau of Tax Assessment and 13.5 from the Sales Tax Division, district offices.

GENERAL SUMMARY

Sales Tax Field Audit Program

1953-54 In our analysis of the 1951-52 Budget we reported the findings of a special study of the costs and characteristics of the field audit program in the Sales Tax Division during the Fiscal Year 1948-49. This study indicated that far from yielding revenue of \$5 for each dollar of cost which the agency had previously represented to the Legislature to be the case, the audits were yielding considerably less than two for one. The study also indicated that over half of the total time spent on field auditing was spent on audits which produced in revenue only a fraction of what they cost.

As a result, we recommended that a legislative standard be adopted, capable of application through the device of appropriation which would have the effect of limiting the extent of nonproductive audits, a recommendation which was approved by the Senate Finance Committee which recommended further study and subsequent report to the Legislature.

As a result of this recommendation, the agency has developed cost data and methods of reporting audit deficiencies which are more realistic than any information furnished to the Legislature in the past, since the cost figures, in theory at least, include all costs attributable to the audit program and the audit recoveries are stated as nearly as it is practicable to state them in terms of actual cash collections.

The following tables, based upon these data compiled by the agency, show net revenue, cost, and revenue per dollar of cost for the sales tax field audit program by districts for the last two fiscal years.

Table 1. Field Audit Revenue and Costs, 1950-51

<i>District</i>	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
Redding -----	\$116,123	\$55,245	\$2.10
Los Angeles -----	3,548,899	1,802,906	1.97
Stockton -----	286,176	146,960	1.95
Oakland -----	740,737	380,526	1.95
San Jose -----	438,673	235,234	1.86
Woodland -----	136,008	75,062	1.81
Fresno -----	345,692	202,961	1.70
San Francisco -----	909,191	579,748	1.57
Santa Rosa -----	198,222	131,973	1.50
San Bernardino -----	333,356	227,519	1.47
Marysville -----	133,319	91,183	1.46
Santa Barbara -----	107,798	77,227	1.40
Sacramento -----	136,546	100,371	1.36
San Diego -----	253,046	228,859	1.11
Totals, California -----	\$7,683,786	\$4,335,774	\$1.77
Out-of-state -----	815,930	176,867	4.61
Totals -----	\$8,499,716	\$4,512,641	\$1.88

Table 2. Field Audit Revenue and Costs, 1951-52

<i>District</i>	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
San Francisco -----	\$1,301,175	\$615,025	\$2.11
Stockton -----	330,118	168,338	1.96
Fresno -----	375,110	206,157	1.82
Santa Rosa -----	226,402	143,613	1.58
Oakland -----	610,065	399,441	1.53
San Jose -----	370,188	246,204	1.50
Los Angeles -----	2,794,781	1,906,251	1.47
Marysville -----	157,393	107,955	1.46
Woodland -----	133,067	91,379	1.46
San Bernardino -----	334,797	232,218	1.44
Sacramento -----	139,726	105,167	1.33
Redding -----	81,824	62,704	1.30
San Diego -----	338,383	260,733	1.30
Santa Barbara -----	87,686	75,804	1.16
Totals, California -----	\$7,280,715	\$4,620,989	\$1.58
Out-of-state -----	691,476	186,929	3.70
Totals -----	\$7,972,191	\$4,807,918	\$1.66

Table 3. Revenue per Dollar of Cost, Two Years Ended June 30, 1952

District	1950-51	1951-52	2 years ended June 30, 1952
Stockton	\$1.95	\$1.96	\$1.95
San Francisco	1.57	2.11	1.85
Fresno	1.70	1.82	1.76
Oakland	1.95	1.53	1.73
Los Angeles	1.97	1.47	1.71
San Jose	1.86	1.50	1.68
Redding	2.10	1.30	1.68
Woodland	1.81	1.46	1.62
Santa Rosa	1.50	1.58	1.54
Marysville	1.46	1.46	1.46
San Bernardino	1.47	1.44	1.45
Sacramento	1.36	1.33	1.34
Santa Barbara	1.40	1.16	1.28
San Diego	1.11	1.30	1.21
Totals, California	\$1.77	\$1.58	\$1.67
Out-of-state	4.61	3.70	4.14
Totals	\$1.88	\$1.66	\$1.78

It will be noted that the two-year comparisons shown in tables 1 and 2 indicate that, for the program as a whole, costs increased from \$4,512,641 to \$4,807,918, an increase of \$295,277 or 6.5 percent, while revenues dropped from \$8,499,716 to \$7,972,191, a decrease of \$527,525 or 6.6 percent. Costs increased in every district except Santa Barbara which showed a slight decrease, while revenues increased in eight districts and decreased in seven, including Los Angeles and out of state.

Table 3, which shows revenue per dollar of cost by districts for 1950-51, 1951-52 and the two-year period ended June 30, 1950, further indicates the downward trend, since revenue per dollar of audit cost decreased from \$1.88 to \$1.66, a decrease of 11.7 percent for the program as a whole, while a decrease was likewise apparent in nine of the 15 districts, including the out-of-state group.

It is interesting to note that the Stockton district, which showed the highest average revenue per dollar of cost for this two-year period, had the second highest average for the four years immediately preceding, as indicated by the special study of the Legislative Auditor, previously referred to, being outranked only by San Francisco during that period. This uniformly good record of the Stockton district over a six-year period suggests that perhaps the methods used in that district may be superior to those used in other comparable districts throughout the State and that the administration might well study these methods with a view to their wider application, generally.

Further study of the results of the audit program for 1950-51 in which individual audits completed during that year were tabulated as to net revenue produced per hour of audit time, indicates that 57 percent of the total time at a cost of approximately \$2,500,000 was spent on audits which produced net revenue of about \$400,000 or a net loss of \$2,100,000 on this part of the program, the other 43 percent of the time at a cost of \$1,800,000

being spent on audits which produced \$7,300,000 in net revenue. There is strong evidence to support the view that many of the audits in the first group are unnecessary and that the budget for sales tax field auditing could be cut as much as \$1,000,000 without any serious consequences in the way of loss of revenue to the State. This would have the effect of forcing curtailment of the nonprofitable part of the audit program, but we believe the remaining effort would still be extensive enough for all necessary policing effect.

Detailed studies of individual audits being made by the staff of the Division of Audits of the Department of Finance indicate, among other things, that state auditors do not place sufficient reliance on the integrity of the findings of outside professional accountants who may have compiled or verified certain data which has a bearing on the tax liability reported and that, to a considerable extent, the state auditors are duplicating the work of these accountants. Representatives of the State working with representatives of the professional accountants could undoubtedly evolve procedures for much closer cooperation which would have the effect of reducing tremendously the amount of time it would be necessary for the state auditors to spend on certain kinds of verification work. Something comparable has been worked out between the State Division of Audits of the Department of Finance and representatives of the accounting profession in connection with audits of school districts.

Accordingly, we recommend that a committee be set up consisting of representatives of the Division of Audits of the Department of Finance and the Board of Equalization to work with representatives of the accounting profession with a view to eliminating insofar as possible unnecessary duplication of audit work in connection with verification of tax liability by the State.

"Compliance" Costs

For each of the last two fiscal years, the agency has compiled what it terms "compliance" program costs for each of its administrative districts and for the division as a whole, these costs including all Sales Tax Division costs other than those attributable to the audit program.

"Compliance" costs averaged 45.7 percent of total costs for the division as a whole for 1951-52, although they ranged from a low of 34.8 percent in San Diego to a high of 58.5 percent in Fresno and 58.6 percent in Redding.

Table 4 which follows shows these costs by district for the Fiscal Years 1950-51 and 1951-52 as well as the average active accounts in each district and the cost per account. In this table the districts are listed in order from lowest to highest by cost per account for 1951-52.

Table 4. "Compliance" Costs by District, 1950-51 and 1951-52

	1950-51			1951-52		
	Costs	Average active accounts	Cost per account	Costs	Average active accounts	Cost per account
F—San Diego -----	\$132,396	13,657	\$9.69	\$139,043	13,746	\$10.12
G—San Jose -----	145,295	13,920	10.44	150,661	14,058	10.72
K—Stockton -----	114,777	10,572	10.86	125,133	10,633	11.77
E—San Bernardino	210,460	18,037	11.67	260,078	18,171	14.31
B—San Francisco	338,982	26,792	12.65	383,617	26,564	14.44
H—Sacramento ---	92,993	7,269	12.79	108,166	7,399	14.62
J—Santa Rosa ---	126,883	9,156	13.86	145,075	9,355	15.51
C—Oakland -----	311,217	21,211	14.67	337,571	21,307	15.84
A—Los Angeles ---	1,454,115	104,095	13.97	1,720,472	104,708	16.43
P—Woodland -----	85,467	4,958	17.24	84,978	5,021	16.92
D—Fresno -----	260,805	16,998	15.34	291,674	16,978	17.18
L—Santa Barbara--	87,115	5,402	16.13	99,351	5,474	18.15
M—Marysville ---	108,047	6,137	17.61	114,084	6,128	18.62
N—Redding -----	82,814	3,494	23.70	88,575	3,530	25.08
Totals -----	\$3,551,366	261,692	\$13.57	\$4,048,378	263,072	\$15.39

This table indicates that total "compliance" costs have increased from \$3,551,366 in 1950-51 to \$4,048,378 for 1951-52, an increase of \$497,012 14.0 percent, while the average cost per account has increased from \$13.57 to \$15.39, an increase of \$1.82 or 13.4 percent. With only one exception, Woodland, costs per account in each district for 1951-52 exceeded those for 1950-51.

Two points worthy of note concerning the data in this table are the similarity in relative rankings of the districts during each of the two years and the wide disparity in cost per account as between districts. The relative rank of the first seven and last two districts is the same for each year, with no radical change in any of the other five.

The wide variation in costs per account as between districts presents a fruitful field for further study. Because time reporting either directly or indirectly is the controlling factor in "compliance" costs, it can be said, in general, that a cost per account in Redding of \$25.08 as compared to \$10.12 in San Diego indicates roughly that about two and one-half times as much time is devoted to "compliance" activities per account in Redding as is the case in San Diego.

Assuming that costs are compiled on a comparable basis, it is difficult to understand why the costs per account should be \$17.18 in Fresno and \$18.15 in Santa Barbara as opposed to \$10.72 in San Jose and \$11.77 in Stockton, since all four districts are roughly comparable in essential characteristics and include both medium-size cities and extensive rural areas.

If the program is being adequately handled in San Diego, San Jose and Stockton at less than \$12 per account, the question arises as to why \$12.00 should not be used as a state-wide standard, since a cutback to this figure for the entire State would reduce total "compliance" costs from \$4,048,378 to \$3,156,864, a reduction of \$891,514 or 22 percent.

We recommend that further study be made of "compliance" costs with particular reference to a segregation between those which are controllable and those which are not, since it is in the former category that economies can most easily be developed through the application of uniform standards.

Auto Operation

In our budget analysis for 1950-51, we pointed out that the Board of Equalization operated a fleet of 382 state-owned automobiles and that during the year ended June 30, 1949, 119 of these cars or 31.1 percent were driven less than 10,000 miles, the average mileage for the 119 cars being 6,873 per year. This led to the recommendation that greater pooling of vehicles was indicated.

During 1951-52, the Board of Equalization operated a fleet of 388 cars distributed by mileage groups as follows:

<i>Miles per car</i>	<i>Number of cars</i>	<i>Percent</i>
Under 1,000 -----	1	0.2%
1,000 under 2,000 -----	2	0.5
2,000 under 3,000 -----	1	0.2
3,000 under 4,000 -----	4	1.1
4,000 under 5,000 -----	5	1.3
5,000 under 6,000 -----	5	1.3
6,000 under 7,000 -----	14	3.6
7,000 under 8,000 -----	27	7.0
8,000 under 9,000 -----	33	8.5
9,000 under 10,000 -----	24	6.2
Subtotal -----	116	29.9%
10,000 and over -----	272	70.1
Total -----	388	100.0%

The car driven less than 1,000 miles was driven 36 miles during the year. It is a 1948 Buick 8 sedan which had been driven 20,290 miles at July 1, 1951. It was assigned to a staff member in Los Angeles who was on leave during almost the entire year, during which time the car was in storage. Storage charges of \$210 were paid on the car during the year plus \$35.54 operating costs.

The two cars driven between 1,000 and 2,000 are both panel trucks, one used by the Service Division in Sacramento to haul mail and supplies and the other by the Liquor Control Division in Sacramento for certain kinds of undercover work. The latter is a 1939 Chevrolet panel truck which was driven 1,122 miles during the year.

The car driven 2,238 miles is a 1947 Ford 8 sedan assigned to a supervising liquor control officer in San Francisco. This car had been driven 18,647 miles at July 1, 1951. During 1950-51, the car was driven 2,882 miles, was assigned to a supervising liquor control officer and evidence is available that a substantial part of the mileage was house to office driving.

Of the remaining cars driven less than 6,000 miles per year, four were in Sacramento, four in San Francisco, two each in Los Angeles and Oakland, and one each in San Bernardino and Redding.

We recommend transfer of all automotive equipment to the central pool operated by the Department of Finance as soon as adequate facilities are available in particular localities to handle such vehicles on a pool basis. In Sacramento such transfer can be immediate.

State Tax Administration

We repeat the recommendation previously made that consideration be given to the reorganization of services for state tax administration

which would place all tax administration within a single department of taxation.

Board of Equalization
MOTOR TRANSPORTATION LICENSE TAX DIVISION

ITEM 118 of the Budget Bill

Budget page 408
Budget line No. 19

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

Amount requested	\$754,520
Estimated to be expended in 1952-53 Fiscal Year	743,439
 Increase (1.5 percent)	 \$11,081

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$5,000	\$5,000	---	422	56
Operating expense	4,425	4,425	---	422	57
Equipment	1,733	1,733	---	422	58
Less:					
Reimbursements	—77	—77	---	422	62
 Total increase	 \$11,081	 \$11,081	 ---		

RECOMMENDATIONS

Amount budgeted	\$754,520
Legislative Auditor's recommendation	754,520
 Reduction	 None

ANALYSIS

The Motor Transportation License Tax Division administers the Motor Vehicle Transportation License Tax Law and the Itinerant Merchants Act. Administration of the latter was transferred from the Public Utilities Commission effective October 1, 1951, by Chapter 507, Statutes of 1951. Total proposed expenditures for the two operations are as follows, by funds:

Motor Vehicle Transportation Tax Fund	\$754,520
Itinerant Merchants Fund	23,394
 Total	 \$777,914

The motor vehicle transportation license tax (truck tax) is a self-assessed tax measured by gross receipts. Returns are due monthly and returns and remittances are made to the Board of Equalization. Remittances, however, are made payable to the Controller who handles collection of the tax. We recommend that the law be amended to transfer responsibility for collection from the State Controller to the Board of Equalization. Not only would this apparently result in savings of approximately \$70,000 per year by the elimination of needless duplication of facilities and staff, but it would make for a more businesslike administration of the tax by placing it on a basis comparable to that of other major self-assessed state taxes such as the sales tax, bank and corporation franchise tax, personal income tax and unemployment insurance tax where the same agency with which the return is filed also collects the tax.

The field staff of the Motor Transportation License Tax Division is distributed among the 14 administrative districts of the board throughout the State.

**Board of Equalization
MOTOR TRANSPORTATION LICENSE TAX DIVISION**

ITEM 119 of the Budget Bill

Budget page 409
Budget line No. 6

For Additional Support of Motor Transportation License Tax Division From the Itinerant Merchants Fund

Amount requested	\$23,394
Estimated to be expended in 1952-53 Fiscal Year	23,317
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Increase (0.3 percent)	\$77

RECOMMENDATIONS

Amount budgeted	\$23,394
Legislative Auditor's recommendation	23,394
<hr/>	
Reduction	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of licensing itinerant merchants, the expenditures for personnel, operating expense and equipment being paid out of that fund in the first instance and included in the detailed budget data supporting item 118 of the Budget Bill.

The estimated expenditures for 1953-54, by categories, are as follows:

	<i>Headquarters</i>	<i>Districts</i>	<i>Total</i>
Salaries	\$4,147	\$14,937	\$19,084
Operating expense	3,435	685	4,120
Equipment	190	---	190
<hr/>		<hr/>	<hr/>
Totals	\$7,772	\$15,622	\$23,394

The salaries are for the equivalent of about three and one-half field representatives in the districts and one clerk in headquarters plus supervision.

The Budget Act of 1952 appropriated \$16,491 for this operation for 1952-53. It is now estimated that \$23,317 will be needed, the deficiency of \$6,826 to be met by a deficiency authorization.

Revenues from license fees under the Itinerant Merchants Act were \$26,430, actual, for 1951-52 and are estimated at \$30,000 for 1952-53 and \$32,000 for 1953-54. These are more than sufficient to cover costs of operation.

We recommend approval of the budget as submitted.

Equalization

**Board of Equalization
MOTOR VEHICLE FUEL TAX DIVISION**

ITEM 120 of the Budget Bill

Budget page 408

Budget line No. 33

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

Amount requested	\$498,395
Estimated to be expended in 1952-53 Fiscal Year	491,326
Increase (1.4 percent)	\$7,069

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	---	---	---	424	56
Operating expense	\$2,949	\$2,949	---	424	57
Equipment	4,120	4,120	---	424	58
Total increase	\$7,069	\$7,069	---		

RECOMMENDATIONS

Amount budgeted	\$498,395
Legislative Auditor's recommendation	470,040
Reduction	\$28,355

ANALYSIS

Gross salaries as budgeted for the Fiscal Year 1953-54 (Budget page 424, line 53) increased \$6,313 due to merit salary increases, the amount being exactly offset by an estimated increase in salary savings of a like amount.

The increase of \$2,949 in operating expense represents the following:

Services rendered by service division (rents, et cetera)	\$2,280
Travel, districts	667
Printing, districts	2
Total	\$2,949

Total equipment budgeted of \$6,639 represents the following:

Replacement of five automobiles	\$5,250
Replacement of office equipment	46
Additional office equipment, files, et cetera	1,343
	\$6,639

A summary of our recommended reductions is as follows:

Headquarters	Amount	Budget page	Line No.
Eliminate position of state motor vehicle fuel tax administrator	\$9,384	423	15
Reduce travel	12,769	423	48
Reduce automobile operation	6,202	423	49
Total	\$28,355		

State motor vehicle fuel tax administrator

\$9,384

The former administrator of this division retired on October 16, 1952, and, as this is written, the position is vacant.

We recommend that the position be abolished and the activities of this division be consolidated with those of the Motor Vehicle Transportation Tax Division under a single administrator, for the following reasons:

1. Approximately 60 percent of the staff is used for use fuel tax administration which consists of auditing, investigating and collecting the tax from some 5,500 operators of diesel trucks. Many of these operators are also subject to the motor vehicle transportation license (truck) tax and we believe that the same auditor or field representative should handle all assignments relating to a given taxpayer at the same time, with a consequent saving to the State and a reduction in annoyance to the taxpayer.

2. The other 40 percent of the staff is used for audits and investigations of refineries, producers and brokers and distributors of liquified petroleum gas, an activity which centers largely in the Los Angeles area and does not need a separate administrator at the state level.

<i>Reduce travel</i>	\$12,769
<i>Reduce automobile operation</i>	\$6,202

There are 16 men on the staff in Sacramento who handle all field work in the northern part of the State, which includes the San Francisco Bay area and all territory north of the Tehachapi Pass. These men all work out of Sacramento. Total travel expense requested for this group for 1953-54 is \$16,000 (Budget page 423, line 48) and automobile operation requested (Budget page 423, line 49) is \$7,771, a total of \$1,486 in travel and automobile operation for each of the 16 men.

The Transportation Tax Division has 47 auditors and field representatives resident throughout this area and the total travel, automobile operation and automobile mileage budgeted for the staff for 1953-54 averages slightly less than \$300 per man. We believe that if the field work of the two divisions is integrated in this area, all assignments can be handled by men resident in the locality where the assignments arise and that the travel and automobile operation for the Motor Vehicle Fuel Tax Division can accordingly be reduced from \$1,486 to the level of that for the Transportation Tax Division or \$300 per man. The reductions recommended in these two items give effect to that recommendation.

GENERAL SUMMARY

This division is concerned with the administration of the Motor Vehicle Fuel License (gasoline) Tax Law and the Use Fuel (diesel) Tax Law. Both of these taxes are self-assessed and returns accompanied by payment are required to be made monthly to the board. In the case of the diesel tax the board handles all phases of its administration including collection of delinquent amounts. In the case of the gasoline tax, however, two important phases of its administration are handled by the State Controller; namely, collection of delinquent amounts and refunds for non-highway use.

We recommend that the law be amended to transfer these two functions to the Board of Equalization in order to eliminate needless duplication of facilities and staff and to make for a more businesslike administration of the tax by placing it on a basis comparable to that of other

major self-assessed state taxes such as the sales tax, bank and corporation franchise tax, personal income tax and unemployment insurance tax where the same agency with which the return is filed also collects the tax and makes refunds.

During the year 1951-52, some \$172,000,000 in gasoline tax was assessed against 100 distributors and \$2,400,000 in tax on liquified petroleum gases against 243 limited licensed distributors, while close to \$7,000,000 in diesel tax was assessed against approximately 5,000 users, there being 5,502 such licensed in June of 1952.

As we pointed out in our analysis for 1952-53 on pages 234 to 237, it costs the State about \$2.40 to collect each \$1,000 in motor vehicle fuel (gasoline) taxes as against about \$43.00 to collect each \$1,000 of use fuel (diesel) tax. This is because the gasoline tax is collected from comparatively few large taxpayers, refineries and wholesalers, whereas the diesel tax is collected from a large number of individual users, many of whom are operators of a single vehicle.

We repeat the recommendation made in our 1952-53 budget analysis, page 235, that consideration be given to amending the Use Fuel Tax Law to shift the legal incidence of the tax from the user to the retailer (or bulk storage user) by a type of tax similar to the present federal tax on diesel fuel, and refer to a special report to the Joint Legislative Budget Committee on November 10, 1951, on this subject.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 121 of the Budget Bill

Budget page 428
Budget line No. 39

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

Amount requested	\$2,353,494
Estimated to be expended in 1952-53 Fiscal Year	2,279,356
Increase (3.3 percent)	\$74,138

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$108,923	\$98,123	\$10,800	439	56
Operating expense	—33,666	—43,666	10,000	439	57
Equipment	5,383	5,383	---	439	58
Plus:					
Decreased reimbursements	25,813	25,813	---	439	62
Less:					
Increased cost supported by Item 122	—12,315	—12,315	---	---	---
Increased cost supported by Item 123	—20,000	—20,000	---	---	---
Total increase	\$74,138	\$53,338	\$20,800		

RECOMMENDATIONS

Amount budgeted	\$2,353,494
Legislative Auditor's recommendation	2,348,982
Reduction	\$4,512

ANALYSIS

Summary of Recommended Reduction

	Amount	Budget page	Line No.
Purchasing Division			
1 Junior buyer -----	\$4,512*	437	72

* Plus equipment related to position.

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

Budget Item 121—(General Fund) -----	\$2,353,494
Budget Item 122—(General Fund) -----	90,685
Budget Item 123—(Fair and Exposition Fund) -----	70,000
Total amount requested -----	\$2,514,179

The total expenditure program of \$2,514,179 for the Department of Finance, General Activities, for the Fiscal Year 1953-54 represents an increase of \$106,453 or 4.4 percent over the amount of \$2,407,726 estimated for expenditure during the current year. Budget Act appropriations for this activity during the current year have been augmented by the amount of \$148,786 from the Salary Increase Fund and by \$32,760 from the Emergency Fund. The allocation from the Emergency Fund provided emergency watchman services at Tehachapi; the extension for one year of six positions in the Accounts and Disbursements Division scheduled for deletion July 1, 1952; and the provision of \$12,000 for architectural consultant services for the director.

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

Administration

The amount of \$381,373 is requested for the support of the Administration Division. This represents a decrease of \$7,234 or 1.9 percent under the \$388,607 estimated for expenditure during the current year.

The budgeted increase, by object of expenditure, is as follows:

Item of increase	Amount	Percent increase
Salaries and wages -----	\$28,629	8.7
Operating expenses -----	-34,161	-43.2
Equipment -----	-798	-16.3
Less: Increased reimbursements -----	-904	---
Total increase -----	-\$7,234	-1.9

A total of five new positions are being requested with one presently authorized position being dropped, making a net increase of four authorized positions.

The new positions requested are as follows:

	Amount	Budget page	Line No.
1 Assistant director -----	\$12,000	432	13
1 Junior typist-clerk -----	2,400	432	16
1 Personnel officer I -----	6,060	432	14
1 Inspector of automotive equipment -----	5,232	432	18
1 Card punch operator (to June 30, 1953) -----	2,772	432	21

Assistant Director

The Director of the Department of Finance has requested an additional assistant director for the purpose of coordinating the capital outlay program. We recommend approval for a two-year period. It is

A total of five new positions is requested at an annual cost of \$17,226. Three additional junior staff analysts are requested for the budget analysis function. We recommend approval on a work load basis. The additional position for the Mental Hygiene group will permit more time for special studies and for field inspection which the size and rapid expansion of this function demand. The additional position for the Education-Welfare group will permit additional field examination which is particularly needed in respect to the social assistance budget.

An additional position of assistant secretary and one additional clerical position are requested for the Merit Award Board. The large number of suggestions regularly being submitted seem to justify the additional help. It is rather generally agreed that prompt consideration of all suggestions results in increasing the effectiveness of the program by increasing employee participation. We recommend approval of these positions.

Increased operating expense is related to new positions and will also provide money for an increased number of field inspections.

We recommend approval of the divisional budget as submitted.

Communications

The amount of \$98,950 is requested for support of the Division of Communications. This represents an increase of \$5,214 or 5.6 percent over estimated expenditures for the current year. Normal salary adjustments account for the entire increase in salaries and wages. There is no scheduled increase for operating expense. The entire increase of \$4,425 for equipment will provide for the replacement of three automobiles.

We recommend approval of the divisional budget as submitted.

Purchases

The amount of \$437,886 is requested for the support of the Purchasing Division for the 1953-54 Fiscal Year. This represents an increase of \$15,267 or 3.6 percent over the amount of \$422,619 estimated for expenditure during the current year.

The budget increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages.....	\$9,551	2.6
Operating expense.....	1,549	2.9
Equipment.....	4,167	236.1
Total increase.....	\$15,267	3.6

Two additional positions are requested as follows:

1 Administrative trainee.....	\$3,456
1 Junior buyer.....	\$4,512

We recommend approval of the administrative trainee position for the Sacramento office. We have always recognized the potential of savings through volume contract purchases. We believe the assignment of a person to work with the senior buyers in developing preliminary facts in the different fields upon which to determine feasibility of contract purchasing to be justified. This position should give impetus to the volume contract purchase program and thereby result in savings to the State.

We recommend that the junior buyer requested for the Los Angeles office be deleted at a saving of \$4,512. No work load data has been submitted to justify this position. The agency has indicated it proposed to

decentralize certain purchase activities to the southern office. If this is done without an over-all increase in volume the additional position should be transferred from the Sacramento office at the time the work load is shifted. Equipment related to this position should also be deleted.

We recommend that the divisional budget with the exception of the one junior buyer be approved as submitted.

Public Works and Acquisition

The amount of \$45,160 is requested for support of the Public Works and Acquisition Division. This represents an increase of \$11,648 or 34.8 percent over estimated expenditures for the current year.

The increase of \$1,648 in salaries and wages will provide funds for the continuation through the budget year of a watchman established from emergency funds during the current year for guard duty at Tehachapi. Provision is also made for \$100 in temporary help and normal salary increases.

Operating expenses are scheduled to increase \$10,000 to cover "title searches, architectural, appraisal and engineering services, and other similar expenditures incurred in investigating and analyzing proposed real property acquisitions and/or processing real property disposals for which funds are not otherwise available."

This is a new item. It has been indicated that preliminary investigations many times will indicate property as undesirable or not fitted for purposes for which acquisition is requested. Though most investigations would eventually be conducted from funds made available for purchase, it is believed that funds requested will permit a more orderly approach to property acquisition. We recommend approval with the provision that a detailed record of purposes served be maintained. Experience should indicate the necessity or advantage of continuing such a contingency appropriation.

Surplus Equipment and Leases

The amount of \$90,685 is requested for the liquidation of surplus equipment and leases, Department of Social Welfare. This represents an increase of \$12,315 or 15.7 percent over \$78,370 estimated for expenditure during the current year.

This unit has the responsibility of liquidating equipment and leases acquired during the period when the Department of Social Welfare operated in accordance with provisions of Article XXV of the Constitution. Proceeds from the sale of equipment and income from subleases are available to the Department of Finance to meet the cost of liquidation. The last lease under the program will expire in December 1954.

The amount of \$90,685 requested for this activity represents the difference between rental payments plus temporary help and operating expenses of \$704,246 and estimated income from subleases in the amount of \$613,561. No income from equipment sales is expected in the budget year and income from subleases is expected to decrease by \$26,255.

We recommend approval of the amount requested.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 122 of the Budget Bill

Budget page 439
Budget line No. 46

For Support of the Department of Finance—Liquidation of Equipment and Leases, Department of Social Welfare, From the General Fund

Amount requested	\$90,685
Estimated to be expended in 1952-53 Fiscal Year	78,370
	<hr/>
Increase (15.7 percent)	\$12,315

RECOMMENDATIONS

Amount budgeted	\$90,685
Legislative Auditor's recommendation	90,685
	<hr/>
Reduction	None

ANALYSIS

The amount of \$90,685 requested by this item is supplemental to General Fund support provided the Department of Finance, General Activities, by Item 121 of the Budget Bill. The amount requested represents the estimated net cost to the State in the 1953-54 Fiscal Year, resulting from the liquidation of equipment and leases acquired by the Department of Social Welfare for administration of the former Article XXV of the Constitution. It is further provided that proceeds from sub-leases 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 121.
We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 123 of the Budget Bill

Budget page 434
Budget line No. 72

For Support of the Audits Division, Department of Finance, From the Fair and Exposition Fund

Amount requested	\$70,000
Estimated to be expended in 1952-53 Fiscal Year	50,000
	<hr/>
Increase (40.0 percent)	\$20,000

RECOMMENDATIONS

Amount budgeted	\$70,000
Legislative Auditor's recommendation	70,000
	<hr/>
Reduction	None

ANALYSIS

The amount of \$70,000 is requested from the Fair and Exposition Fund for support of the Audits Division. This amount represents the estimated amount necessary to provide adequate audits of fair activities during the budget year. The amount requested represents an increase of \$20,000 or 40 percent over estimated expenditures during the current year. The increase is attributable to the increased size and complexity of fair operations, two additional fairs to be audited during the budget

year and the proposed increase in scope of the audit of county fair activities.

This appropriation is supplemental to the amount of \$584,014, incorporated as a part of the amount provided by Item 121 of the Budget Bill.

We recommend approval.

**Department of Finance
AUTOMOBILE LIABILITY INSURANCE**

ITEM 124 of the Budget Bill

Budget page 440
Budget line No. 13

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

Amount requested	\$157,500
Estimated to be expended in 1952-53 Fiscal Year	140,000
	<hr/>
Increase (12.5 percent)	\$17,500

RECOMMENDATIONS

Amount budgeted	\$157,500
Legislative Auditor's recommendation	157,500
	<hr/>
Reduction	None

ANALYSIS

The amount requested represents the estimated portion of the total cost of automobile liability insurance which is chargeable to the General Fund. The cost of such insurance has increased substantially during the last few years. The present policy is on a retrospective basis with a basic rate of \$33.50 per vehicle. Since a favorable accident experience would result in rebates, it is most important that the State continue and intensify its campaign for safe driving.

We recommend approval as requested.

**Department of Finance
PUBLIC LIABILITY INSURANCE**

ITEM 125 of the Budget Bill

Budget page 440
Budget line No. 24

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

Amount requested	\$2,500
Estimated to be expended in 1952-53 Fiscal Year	2,500
	<hr/>
Increase	None

RECOMMENDATIONS

Amount budgeted	\$2,500
Legislative Auditor's recommendation	2,500
	<hr/>
Reduction	None

ANALYSIS

The amount requested is for payment of 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 subject to a review of the State's policy in respect to comprehensive liability insurance as outlined in our special report on this subject.

**Department of Finance
OFFICIAL ADVERTISING**

ITEM 126 of the Budget Bill

Budget page 440
Budget line No. 34

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

Amount requested	\$18,000
Estimated to be expended in 1952-53 Fiscal Year.....	18,000
	<hr/>
Increase	None

RECOMMENDATIONS

Amount budgeted	\$18,000
Legislative Auditor's recommendation.....	18,000
	<hr/>
Reduction	None

ANALYSIS

The amount requested will provide for official advertising as required by law.

We recommend approval.

**Department of Finance
PREMIUMS ON OFFICIAL BONDS**

ITEM 127 of the Budget Bill

Budget page 440
Budget line No. 45

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

Amount requested	\$3,000
Estimated to be expended in 1952-53 Fiscal Year.....	3,000
	<hr/>
Increase	None

RECOMMENDATIONS

Amount budgeted	\$3,000
Legislative Auditor's recommendation.....	3,000
	<hr/>
Reduction	None

ANALYSIS

The amount requested is for the payment of premiums on official bonds of officers and employees as required by law, and whose salaries are paid from the General Fund.

We recommend approval.

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

ITEM 128 of the Budget Bill Budget page 440
Budget line No. 56

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

Amount requested	\$47,000
Estimated to be expended in 1952-53 Fiscal Year	47,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$47,000
Legislative Auditor's recommendation	47,000
Reduction	None

ANALYSIS

The amount of \$47,000 requested is to provide for additional printing costs and the cost of distribution of state documents to libraries as required by law.

The current year appropriation of \$40,000 is being augmented by a \$7,000 allocation from the Emergency Fund.

We recommend approval.

**Department of Finance
BUILDINGS AND GROUNDS DIVISION**

ITEM 129 of the Budget Bill Budget page 429
Budget line No. 41

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

Amount requested	\$3,140,454
Estimated to be expended in 1952-53 Fiscal Year	2,858,141
Increase (9.9 percent)	\$282,313

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$309,063	\$309,063	---	448	81
Operating expense	138,407	138,407	---	448	82
Equipment	19,628	19,628	---	448	83
Less:					
Increased collections ap- propriated for support	-184,785	-184,785	---	429	50
Total increase	\$282,313	\$282,313	---		

RECOMMENDATIONS

Amount budgeted	\$3,140,454
Legislative Auditor's recommendation	3,140,454
Reduction	None

ANALYSIS

All expenditures for the support of the Buildings and Grounds Division are made from the Service Revolving Fund. In addition to the amount

of \$3,140,454 to be appropriated from the General Fund by this item, there will be available an estimated \$1,988,901 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 all agencies for special services. These funds will support a total expenditure program of \$5,129,355, an increase of \$467,098 or 10 percent over the amount of \$4,662,257 estimated for expenditure in the 1952-53 Fiscal Year.

Salaries and wages are scheduled to increase \$309,063 or 9.6 percent over estimated expenditures for the current year. A total of 18 new positions are requested at a total cost of \$81,947. The balance of the increase is the result primarily of providing full year maintenance and custodial services in the Public Works Building Annex, the Motor Vehicles Building, the Education Building, and the Civil Defense Building in Sacramento and the 11th and Grand Avenue and Motor Vehicles Buildings in Los Angeles.

Operating expenses are scheduled to increase \$138,407 or 9.9 percent over estimated expenditures during the current year. The provision for full year operating costs of buildings listed above which are being opened during the current year directly account for the increase in this category.

The amount of \$43,989 is requested for equipment. These requests have been reviewed with the agency and seem to be in order.

We recommend approval of the divisional budget as submitted.

General Recommendation

Provision is made in this budget for the replacement of a passenger car presently assigned to the rental property manager. We recommend that provision be made during the budget year for the transfer of this car to the automotive pool and that the pool be utilized to fill automotive requirements of the division in Sacramento, except where specialized vehicles are required.

A contract is being negotiated with the Frank Wiggins Trade School in Los Angeles to provide for a study which will develop position assignments and standards for janitorial work loads. There is considerable difference of opinion as to the proper space assignment per janitor in the various types of buildings. We believe the development of standards that can be applied on a post assignment basis is needed and will permit a more equitable assignment of custodial duties. We recommend approval of the budgeted amount for janitors with the provision that savings immediately be realized where recommended standards indicate a reduction in the total number of janitors presently assigned.

**Department of Finance
BUILDINGS AND GROUNDS DIVISION**

ITEM 130 of the Budget Bill

Budget page 449
Budget line No. 7

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

Amount requested	\$125,000
Estimated to be expended in 1952-53 Fiscal Year	125,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$125,000
Legislative Auditor's recommendation	75,000
Reduction	\$50,000

ANALYSIS

The amount of \$125,000 is requested for miscellaneous alterations, repairs, and equipment for state buildings and rental offices. This item was reduced \$25,000 for the current year, but an offsetting item for general maintenance in the support budget for Buildings and Grounds was established. As pointed out in our analysis last year, the need for rental space should continue to decrease as additional state-owned buildings are completed, and also the need for shifting agencies between locations and resulting alterations should decrease. Normal maintenance should be provided for through the support budget of Buildings and Grounds and minor construction and maintenance except in emergency situations reviewed and approved through the regular budgetary process.

We believe, therefore, that this item should be substantially reduced and recommend that it be approved for \$75,000, a reduction of \$50,000 from the amount requested.

**Department of Finance
BUILDINGS AND GROUNDS DIVISION**

ITEM 131 of the Budget Bill

Budget page 449
Budget line No. 13

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

Amount requested	\$1,500
Estimated to be expended in 1952-53 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
LOCAL ALLOCATIONS DIVISION**

ITEM 132 of the Budget Bill

Budget page 451
Budget line No. 47

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

Amount requested	\$51,164
Estimated to be expended in 1952-53 Fiscal Year	58,390
Decrease (12.4 percent)	\$7,226

RECOMMENDATIONS

Amount budgeted	\$51,164
Legislative Auditor's recommendation	51,164
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Reduction	None
Analysis under Item 135.	

**Department of Finance
LOCAL ALLOCATIONS DIVISION**

ITEM 133 of the Budget Bill

Budget page 451
Budget line No. 48

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

Amount requested	\$26,450
Estimated to be expended in 1952-53 Fiscal Year	25,383
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Increase (4.2 percent)	\$1,067

RECOMMENDATIONS

Amount budgeted	\$26,450
Legislative Auditor's recommendation	26,450
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Reduction	None
Analysis under Item 135.	

**Department of Finance
LOCAL ALLOCATIONS DIVISION**

ITEM 134 of the Budget Bill

Budget page 451
Budget line No. 49

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

Amount requested	\$201,624
Estimated to be expended in 1952-53 Fiscal Year	267,110
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Decrease (24.5 percent)	\$65,486

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$20,305	\$20,305	---	451	20
Operating expense	2,129	2,129	---	451	37
Equipment	2,487	2,487	---	451	44
Plus:					
Decreased expenditures chargeable to the General Fund	7,226	7,226	---	451	47
Less:					
Increased expenditures chargeable to Postwar Unemployment and Construction Fund	—1,067	—1,067	---	451	48
School Building Aid Fund	—96,566	—96,566	---	451	50
<hr/>		<hr/>		<hr/>	
Total increase	—\$65,486	—\$65,486	---		

RECOMMENDATIONS

Amount budgeted -----	\$201,624
Legislative Auditor's recommendation -----	201,624
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Reduction -----	None

Analysis under Item 135.

**Department of Finance
LOCAL ALLOCATIONS DIVISION**

ITEM 135 of the Budget Bill

Budget page 451
Budget line No. 50

For Support of the Department of Finance, Local Allocations Division From the School Building Aid Fund

Amount requested -----	\$154,361
Estimated to be expended in 1952-53 Fiscal Year -----	57,795
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Increase (167.1 percent) -----	\$96,566

RECOMMENDATIONS

Amount budgeted -----	\$154,361
Legislative Auditor's recommendation -----	154,361
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Reduction -----	None

ANALYSIS

A total amount of \$433,599 is requested from all funds for the support of the Local Allocations Division for the Fiscal Year 1953-54. This is an increase of \$24,921 or 6.1 percent over the amount of \$408,678 estimated for expenditure in the current fiscal year.

The Local Allocations Division is responsible for the administration of certain appropriations for assistance 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

1. 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.
2. Acquisition of housing facilities at colleges: Chapter 46, Statutes of 1946 (First Extraordinary Session).
3. School Building Aid: Chapter 1575, Statutes of 1947; and Chapter 24, Statutes of 1948.
4. Aid for educational facilities for cerebral palsied children: Chapter 1167, Statutes of 1949.
5. Earthquake Damage Program: Chapter 21, Statutes of 1952 (Second Extraordinary Session).
6. School Building Aid: Chapter 26, Statutes of 1952 (Second Extraordinary Session).

Postwar Unemployment and Construction Fund

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

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

Public School Building Loan Fund

1. School Building Aid: Chapter 1389, Statutes of 1949.

School Building Aid Fund

1. School Building Aid: State School Building Aid Law of 1952, Chapter 27, Statutes of 1952 (Second Extraordinary Session).

The following tabulation shows the amounts requested for support of the Local Allocations Division by funds, together with estimated expenditures during the current year and percentage of increase or decrease :

Item	Fund	Estimated expenditure 1952-53	Budget request 1953-54	Percent increase
132	General -----	\$58,390 (14.3%)	\$51,164 (11.8%)	—12.4
133	Postwar Unemployment and Construction Fund -----	25,383 (6.2%)	26,450 (6.1%)	4.2
134	School Building Loan Fund--	267,110 (65.4%)	201,624 (46.5%)	—24.5
135	School Building Aid Fund----	57,795 (14.1%)	154,361 (35.6%)	167.1
		<u>\$408,678 (100%)</u>	<u>\$433,599 (100%)</u>	6.1

The increase in the total expenditure program by object of expenditure is as follows :

Item of increase	Amount	Percent increase
Salaries and wages -----	\$20,305	6.0
Operating expense -----	2,129	3.3
Equipment -----	2,487	72.8
Total increase -----	\$24,921	6.1

A total of 10 new positions are requested for the budget year. Five additional positions are requested for the expanded school building aid program and five additional accounting positions to strengthen the fiscal examination required in existing programs and to eliminate a backlog in this field. Six positions authorized for the current year are being deleted resulting in a net increase of four positions for the budget year. The positions established for the earthquake damage program are being dropped at the end of the current year. Based on the present estimates of activities for the budget year and man hour requirements to adequately perform these functions, we believe requests are reasonable. The increase in the amount requested for operating expenses will provide additional travel money. The amount requested for equipment will provide for additional positions, new files, and for the replacement of two automobiles.

The agency during the current year has developed work load estimates on all programs under its jurisdiction. It has also estimated the time required to process various phases of these programs. Records are presently being maintained to provide an experience factor, and these estimates and personnel requirements should be adjusted if shown possible by these records.

An organization study by the Management Analysis Section is in process. We believe this study should be followed by continual efforts to review and simplify procedural processes where possible. We wish also

to repeat our recommendation made in our analysis of the 1952-53 Budget that manuals of procedure be developed for each new program assigned by the Legislature to this agency for administration. Agency responsibilities in respect to the program should be clearly stated and estimates of the total cost and time required to complete each program should be prepared at the outset and amended as required by policy changes or amendments to basic legislation.

We recommend that the amounts requested under Items 132, 133, 134 and 135 for support of the Local Allocations Division be approved as submitted.

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

ITEM 136 of the Budget Bill

Budget page 454
Budget line No. 7

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

Amount requested	\$101,908
Estimated to be expended in 1952-53 Fiscal Year	100,879
Increase (1.0 percent)	\$1,029

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$1,183	\$1,183	---	454	67
Operating expense	—806	—806	---	455	8
Equipment	652	652	---	455	11
Total increase	\$1,029	\$1,029	---		

RECOMMENDATIONS

Amount budgeted	\$101,908
Legislative Auditor's recommendation	101,908
Reduction	None

ANALYSIS

The support budget for this division in 1953-54 contemplates the same level of operation as experienced during 1952-53. The over-all increase of \$1,029, or 1 percent, is due almost entirely to merit salary increases on existing positions.

No new positions are proposed. Operating expenses appear in line as budgeted.

We recommend approval of the budget as submitted.

**Department of Finance
STATE AGRICULTURAL SOCIETY**

ITEM 137 of the Budget Bill

Budget page 456
Budget line No. 29

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

Amount requested	\$1,906,394
Estimated to be expended in 1952-53 Fiscal Year	1,889,163
Increase (0.9 percent)	\$17,231

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$123,447	\$123,447	---	460	49
Operating expense	26,021	26,021	---	460	50
Equipment	14,657	14,657	---	460	51
Plus:					
Elimination of reimbursements	100,000	100,000	---	460	55
Total increase	\$17,231	\$17,231	---		

RECOMMENDATIONS

Amount budgeted	\$1,906,394
Legislative Auditor's recommendation	1,906,394
Reduction	None

ANALYSIS

Fiscal year	Comparison of Expenditures and Revenues			Revenues as percentage of expenditures
	Expenditures	Revenues	Deficit	
1947-48	\$1,134,483	\$927,623	\$206,860	81.8
1948-49	1,507,315	944,681	562,634	62.7
1949-50	1,762,768	1,005,235	757,533	57.1
1950-51	1,563,402	928,210	635,192	59.4
1951-52	1,754,149	1,166,849	587,300	66.5
1952-53	1,925,163	1,240,709	684,454	64.4
1953-54	1,943,394	1,305,500	637,894	67.2

The above table indicates that for 1953-54 the operating deficit will be \$637,894. This is \$46,560, or 6.8 percent less than the estimated deficit for 1952-53. While initially this may appear indicative of some improvement from the standpoint that the fair will apparently lose less money in 1953-54, we are reminded that on the basis of the budget submitted in 1952-53 the deficit was anticipated to be \$637,375, or almost identical in amount to the present forecast. It nevertheless is now indicated to be \$684,454 or a \$47,079 greater loss than originally forecast.

Total expenditures are budgeted at \$1,943,394. This is \$18,231, or 0.9 percent more than the \$1,925,163 estimated for 1952-53.

Revenues are scheduled at \$1,305,500. This is \$64,791, or 5.2 percent more than the \$1,240,709 scheduled for 1952-53.

While the present budget forecast represents a small improvement from a financial standpoint, in our opinion, there remains much room for improvement to substantially reduce the deficit figure of \$637,894.

It is noted that the percentage which revenues bear to expenditures is up to 67.2 percent. If this can be achieved it will reflect the greatest percentage of recovery since 1947-48 when the figure stood at 81.8 percent.

The following table reflects the annual per capita cost of the deficit at the fair when measured by the total number of paid adult attendance:

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid adult attendance</i>	<i>Per capita cost of deficit</i>
1947-48 -----	\$206,860	481,660	\$0.43
1948-49 -----	562,634	395,650	1.42
1949-50 -----	757,533	482,833	1.57
1950-51 -----	635,192	405,912	1.56
1951-52 -----	587,300	481,862	1.22
1952-53 -----	684,454	481,575	1.42
Totals -----	\$3,433,973	2,629,492	Average: \$1.31

In addition to showing what direct loss is sustained to get each paying customer through the front gate at the fair, it is also interesting to note that there is little difference in the total number of paid adult admissions between the years 1947-48, 1949-50, 1951-52, and 1952-53.

One interpretation of this factor is that the pulling power or attraction and educational value of the fair in the minds of those who have to pay to see the fair has not materially improved. From this aspect the fair may be said to have reached a saturation point, in spite of a larger potential audience arising from the population growth in the basic area which the fair serves.

We believe this factor should be seriously considered when evaluating the need for moving the fair to a new site.

Revenues

Revenues by sources, together with increases, are scheduled as follows:

	<i>Actual 1951-52</i>	<i>Estimated 1952-53</i>	<i>Estimated 1953-54</i>	<i>Increase over 1952-53</i>	
				<i>Amount</i>	<i>Percent</i>
Admissions:					
Grounds -----	\$202,382	\$241,492	\$240,000	—\$1,492	—0.6
Grandstand, afternoon	61,449	74,111	72,000	—2,111	—2.8
Grandstand, evening	71,137	69,467	70,000	533	0.8
Horse show -----	24,526	24,624	25,000	376	1.5
Totals, admissions	\$359,494	\$409,694	\$407,000	—\$2,694	—0.7
Entry fees:					
Exhibits -----	\$21,429	\$25,929	\$23,000	—\$2,929	—11.3
Races -----	13,880	3,030	3,000	—30	—1.0
Horse show stake	6,920	7,285	7,500	215	3.0
Totals, entry fees	\$42,229	\$36,244	\$33,500	—\$2,744	—7.6
Rental of facilities:					
Exhibit space -----	\$58,279	\$96,450	\$125,000	\$28,550	29.6
Concessions -----	220,193	202,148	210,000	7,852	3.9
Stalls -----	3,792	2,500	2,500	---	---
Horse show stalls	2,854	3,079	3,000	—79	—2.6
Buildings -----	80,191	55,000	95,000	40,000	72.7
Equipment -----	1,800	2,000	2,000	---	---
Totals, rental of facilities	\$367,829	\$361,177	\$437,500	\$76,323	21.1
Pari-Mutuel wagering:					
Parking -----	\$350,681	\$379,852	\$375,000	—\$4,852	—1.3
Livestock feed sales	27,676	28,742	27,500	—1,242	—4.3
Miscellaneous -----	18,144	20,000	20,000	---	---
Escheated warrants	596	5,000	5,000	---	---
-----	200	---	---	---	---
Totals -----	\$1,166,849	\$1,240,709	\$1,305,500	\$64,791	5.2

The total increase of \$64,791, or 5.2 percent, in revenues is accounted for by substantial increases in revenue from rental of exhibit space, \$28,550; rental of concessions, \$7,852; rental of buildings, \$40,000, offset by decreases in revenues from most other sources.

Passes

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

The following table reflects the potential loss of revenue, fostered by a continuation of the "pass" system:

Comparison of Passes Issued and Honored and Revenue Values

	No. issued	No. honored	Value	Pass value percentage of admission revenue
1947-48 -----	269,169	131,230	\$65,615	17.2
1948-49 -----	437,880	126,185	63,092	19.3
1949-50 -----	447,828	131,899	57,188	16.9
1950-51 -----	447,546	136,071	59,049	16.4
1951-52 -----	298,500	166,185	77,334	18.9
1952-53 -----	332,900	176,100	100,718	24.7

The above table indicates that the dollar value of passes honored in 1950-51, 1951-52, and 1952-53, has increased in each of these fiscal periods when compared to the preceding period.

Likewise, the relationship in the value of honored passes to total admissions revenue has increased.

The relative distribution of honored passes and their values are reflected in the following table:

Function	1950-51		1951-52		1952-53	
	Number	Value	Number	Value	Number	Value
Grounds -----	112,347	\$47,186	137,688	\$57,829	131,400	\$65,700
Horse show -----	3,891	1,946	3,651	1,826	6,329	3,164
Races -----	12,509	6,255	15,927	13,219	22,877	18,988
Night show -----	7,324	3,662	8,919	4,460	15,501	12,866
Totals -----	136,071	\$59,049	166,185	\$77,334	176,107	\$100,718

Salaries and Wages

Salaries and wages are scheduled at \$789,290 for 1953-54. This is a decrease of \$131,676, or 14.3 percent below the amount of \$920,966 scheduled for 1952-53. The decline in expenditures for salaries and wages is due primarily to a downward revision in budgeted costs for temporary help in the amount of \$87,000 and overtime in the amount of \$40,000 in the operations function. These two decreases, totaling \$127,000 represent a 36.6 percent decline in the 1952-53 cost of \$347,000 for the stated purposes.

The bulk of expenditures for salaries and wages are reflected in payments for temporary help and overtime. Temporary help for 1953-54 is scheduled at \$382,500. This is a decrease of \$92,435, or 22.5 percent less than the 1952-53 experience of \$474,935. Attention is directed to the fact that this latter figure is \$100,977, or 27.0 percent more than the original 1952-53 figure of \$373,958 budgeted for this purpose.

Failure to stay within budgeted funds by such a large margin may well contribute to the sizable financial deficiencies experienced in the operation of this enterprise.

The distribution of temporary help costs are shown by function in the following table:

Distribution of Temporary Help Costs				
<i>Function</i>	<i>1947-48</i>	<i>1948-49</i>	<i>1949-50</i>	<i>1950-51</i>
Administration -----	\$13,166	\$15,752	\$14,186	\$11,878
Exhibits and horse show -----	2,636	25,985	39,392	32,175
Operations:				
Operations -----	267,726	244,577	213,899	125,808
Interim activities -----	---	---	15,000	15,000
Promotions:				
Admissions -----	94,356	30,326	44,500	43,367
Public information -----	---	14,823	17,041	17,404
Concessions -----	487	5,141	4,574	1,813
Commercial space -----	---	---	6,700	5,032
Attractions and special events:				
Special events -----	---	1,943	10,950	8,244
Attractions -----	---	10,000	11,002	10,085
Racing -----	---	57,881	60,699	54,803
Totals -----	\$378,371	\$406,428	\$437,943	\$325,609
Salaries and wages less overtime and temporary help -----	\$225,318	\$216,406	\$232,745	\$291,461
Percentage of salaries and wages to temporary help -----	59.5	53.2	53.1	89.5
<i>Function</i>	<i>1951-52</i>	<i>1952-53</i>	<i>1953-54</i>	
Administration -----	\$16,468	\$18,020	\$19,000	
Exhibits and horse show -----	38,895	55,441	55,500	
Operations:				
Operations -----	196,134	222,000	135,000	
Interim activities -----	15,000	15,000	15,000	
Promotions:				
Admissions -----	51,470	52,470	52,500	
Public information -----	23,024	23,880	24,000	
Concessions -----	1,015	1,200	1,200	
Commercial space -----	6,722	9,333	3,000	
Attractions and special events:				
Special events -----	8,873	11,130	11,000	
Attractions -----	2,998	3,500	3,500	
Racing -----	59,386	64,161	64,000	
Totals -----	\$351,577	\$476,135	\$383,700	
Salaries and wages less overtime and temporary help -----	\$315,021	\$307,514	\$320,566	
Percentage of salaries and wages to temporary help -----	89.6	64.6	83.5	

The improvement in budgeted costs for both temporary help and overtime is a noteworthy improvement and the agency should make every effort to realize these forecasts.

A composite picture of overtime costs is reflected in the following table:

<i>Function</i>	Distribution of Overtime Costs			
	1947-48	1948-49	1949-50	1950-51
Administration	\$4,521	\$4,046	\$3,566	\$4,141
Exhibits and horse show.....	2,636	465	1,793	875
Operations	113,521	82,504	72,050	62,486
Promotions	2,873	429	1,361	800
Concessions and commercial space.....	---	360	141	189
Attractions and special events.....	---	2,900	4,000	1,074
Totals	\$123,551	\$90,704	\$82,911	\$69,565
Salaries and wages less overtime and temporary help.....	\$225,318	\$216,406	\$232,745	\$291,461
Overtime as percentage of salaries and wages.....	54.8	41.9	35.6	23.9
<i>Function</i>	1951-52	1952-53	1953-54	
Administration	\$6,691	\$5,190	\$6,000	
Exhibits and horse show.....	754	1,060	1,300	
Operations	86,364	125,000	80,000	
Promotions	526	954	1,000	
Concessions and commercial space.....	300	310	300	
Attractions and special events.....	2,000	2,650	2,500	
Totals	\$96,635	\$135,164	\$91,100	
Salaries and wages less overtime and temporary help.....	\$315,021	\$307,514	\$320,566	
Overtime as percentage of salaries and wages.....	30.7	44.0	28.4	

Expenditures for overtime in 1953-54 are scheduled at \$91,100, which is \$44,064, or 32.6 percent below the \$135,164 scheduled in 1952-53. Here again, substantial improvement in budgeted costs is reflected.

As pointed out in our analysis of previous budgets, this type of expenditure is in a sense a nonproductive type of expense in that it merely pays a premium for what would otherwise be accomplished at a normal level of wages.

Proposed New Positions

A total of two new positions are proposed. These are:

- 1 Exhibit supervisor (Budget page 459, line 57)..... \$6,360
- 1 Intermediate stenographer-clerk (Budget page 459, line 58) -- 2,916

These positions are requested under the function of commercial space and the cost of these positions is scheduled to be offset by increased revenues.

We recommend approval of the request.

Operating Expenses

Operating expenses are forecast at \$1,087,392 for 1953-54. This is \$26,021 or 2.5 percent above the amount of \$1,061,371 scheduled for 1952-53.

The distribution of operating expenses and the increase therein by function is shown in the following table:

<i>Function</i>	<i>1950-51</i>	<i>1951-52</i>	<i>1952-53</i>
Administration	\$55,481	\$51,581	\$60,418
Exhibits and horse show	273,900	277,641	316,286
Operations	253,244	262,347	254,305
Promotions	54,763	60,096	77,840
Concessions and commercial space	10,971	6,439	7,450
Attractions and special events	133,638	134,606	157,300
Racing	162,690	182,257	187,772
Totals	\$944,687	\$974,967	\$1,061,371

<i>Function</i>	<i>1953-54</i>	<i>Increase over 1952-53</i>	
		<i>Amount</i>	<i>Percent</i>
Administration	\$61,917	\$1,499	2.5
Exhibits and horse show	329,425	13,139	4.2
Operations	251,975	—2,330	—0.9
Promotions	78,100	260	0.3
Concessions and commercial space	8,600	1,150	15.4
Attractions and special events	155,600	—1,700	—1.1
Racing	201,775	14,003	7.5
Totals	\$1,087,392	\$26,021	2.5

The over-all increase of \$26,021 in operating expenses is shown above to be primarily attributable to a \$13,139 increase in the exhibits and horse show function and a \$14,003 increase in the racing function.

The following table reflects the distribution of those items of operating expense scheduled to increase \$1,000 or more.

Items of Increase in Excess of \$1,000 Operating Expense		
<i>Function and Item</i>	<i>Increase 1953-54 over 1952-53</i>	<i>Percent</i>
Administration		
Pro-rata administrative costs	\$1,399	5.8
Exhibits and horse show		
Premiums—general	8,770	5.3
Premiums—junior division	3,170	12.3
Operations		
Watchman and cleanup contract	1,859	2.8
State police service	1,045	10.5
Attractions and special events		
Free attractions	1,000	4.7
Racing		
Race purses	10,735	7.5
Breeder's fee	1,114	22.8
Rent equipment	1,452	5.6
Totals	\$30,544	

The major items of increase in the above table are indicated to be \$8,770 in general premiums, \$3,170 in junior division premiums, and \$10,735 in race purses.

Fashion Show

Included under the function of exhibits and horse show is an item of expenditure for operating expenses for a fashion show reflected on page 457, line 66, of the budget in the amount of \$19,000.

Although the budgeted cost of this item is only \$19,000, the actual cost of this item, because of other costs related to it but included in other items, is approximately \$33,000. The total revenue produced by this show is approximately \$4,600. Thus the staging of this event entails a direct loss of \$28,400 on the basis of the foregoing figures.

We believe that this is the type of activity which from a financial viewpoint should either be eliminated entirely or curtailed to the extent that it becomes self-sustaining.

Several reasons support our recommendation in this matter.

In the first place, this show was started on a subsidized basis in order to give representation to an important California industry at the State Fair in an attempt to provide the industry with a factual showing of what the State Fair could mean to it on a participating basis. It was anticipated that after the industry became aware of the benefits to be derived that the interest thus stimulated would result in a situation where it would no longer be necessary to subsidize its participation in the fair. Several years have elapsed, with the amount of the direct financial loss to the fair increasing yearly until it has assumed the present significant proportions.

It appears that there has been a failure on the part of the industry to lend its organized support to the show. A substantial amount of time and money is expended each year to get industry to submit representative offerings of merchandise to secure a well-rounded showing of fashions even on the present subsidized basis.

A representative of our office attended a recent meeting between some interested industry members and officials of the State Fair relative to the problem and its financial aspects. Although the industry representatives in attendance urged continuance of the show and reiterated its value by relating the importance of the advertising value to them from the judging aspects of the show, no direct substantial financial solution was offered except suggestions that would entail a great deal of additional time and expenditures on the part of the State Fair, on the premise that possibly the entire cost of the presentation could thus be recovered.

We believe that with space at a premium at the present site and other potential exhibitors available, little further consideration should be given to a continuation of deficit financing of this activity.

We therefore recommend that fair management be precluded from expending any sums for the production of a fashion show unless such show be so organized and financed that the revenues produced shall be at least equal to all of the expenses incurred in staging such production.

Equipment

Expenditures for equipment appear in line as budgeted.

Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS—STATE AGRICULTURAL
SOCIETY CONTINGENT FUND

ITEM 138 of the Budget Bill

Budget page 461
 Budget line No. 46

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

Amount requested	\$510,000
Estimated to be expended in 1952-53 Fiscal Year	300,000
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Increase (70.7 percent)	\$210,000

RECOMMENDATIONS

Amount budgeted	\$510,000
Legislative Auditor's recommendation	510,000
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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 request.

Department of Finance
SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 139 of the Budget Bill

Budget page 462
 Budget line No. 8

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

Amount requested	\$119,504
Estimated to be expended in 1952-53 Fiscal Year	111,539
<hr/>	
Increase (7.1 percent)	\$7,965

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$6,504	\$1,092	\$5,412	464	9
Operating expense	1,681	271	1,410	464	10
Equipment	-220	-220	---	464	11
<hr/>					
Total increase	\$7,965	\$1,143	\$6,822		

RECOMMENDATIONS

Amount budgeted	\$119,504
Legislative Auditor's recommendation	119,504
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Reduction	None

ANALYSIS

The total support budget for this facility is scheduled to increase \$7,965, or 7.1 percent.

Salaries and wages are increased \$6,504. This represents \$2,892 as the merit salary increase for 24.5 authorized positions, plus \$5,412 for two proposed new positions, less an increase in salary savings in the amount of \$1,800.

The two new proposed positions are those of a watchman and a janitor, at a total salary cost of \$5,412.

These positions are required to provide maintenance and custodial supervision over a new exhibit area of approximately 11,000 square feet.

We recommend approval of the request.

Operating expense and equipment requests appear in line as budgeted.

**Department of Finance—Division of Fairs and Expositions
SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 140 of the Budget Bill

Budget page 464
Budget line No. 25

For Maintenance and Operation of Real Property Acquired for Parking Lot Purposes From the Sixth District Agricultural Association Fund

Amount requested	\$2,000
Estimated to be expended in 1952-53 Fiscal Year	4,902
	<hr/>
Decrease (59.2 percent)	\$2,902

RECOMMENDATIONS

Amount budgeted	\$2,000
Legislative Auditor's recommendation	2,000
	<hr/>
Reduction	None

ANALYSIS

The amount requested is to provide for maintenance on the parking lot facility and represents a reduction of \$2,902 or 59.2 percent below 1952-53 expenditures.

We recommend approval of the request.

**Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS—SIXTH DISTRICT
AGRICULTURAL ASSOCIATION**

ITEM 141 of the Budget Bill

Budget page 464
Budget line No. 59

For Augmentation of Sixth District Agricultural Association Fund From the Fair and Exposition Fund

Amount requested	\$16,000
Estimated to be expended in 1952-53 Fiscal Year	120,000
	<hr/>
Decrease (86.7 percent)	\$104,000

RECOMMENDATIONS

Amount budgeted	\$16,000
Legislative Auditor's recommendation	16,000
	<hr/>
Reduction	None

ANALYSIS

The amount requested is necessary to augment the Sixth District Agricultural Association Fund in order to provide for the support item for the Sixth District Agricultural Association if this activity is to be continued.

We recommend approval of the request.

**Department of Finance
DIVISION OF STATE LANDS**

ITEM 142 of the Budget Bill

Budget page 469
Budget line No. 7

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

Amount requested	\$260,315
Estimated to be expended in 1952-53 Fiscal Year	223,604
Increase (16.4 percent)	<u>\$36,711</u>

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$2,104	\$2,104	---	470	59
Operating expense	31,200	21,200	\$10,000	470	83
Equipment	97	97	---	471	9
Plus:					
Decreased reimbursements	3,310	3,310	---	471	13
Total increase	\$36,711	\$26,711	\$10,000		

RECOMMENDATIONS

Amount budgeted	\$260,315
Legislative Auditor's recommendation	260,315
Reduction	None

ANALYSIS

The amount of \$260,315 requested from the State Lands Act Fund for expenditure in the 1953-54 Fiscal Year represents an increase of \$36,711 or 16.4 percent over estimated expenditures from the State Lands Act Fund during the current year. The gross expenditure program of \$430,445 represents an increase of \$33,401 or 8.4 percent over estimated gross expenditures for the current year. Though reimbursements for tidelands administration are estimated to increase slightly, total reimbursements are scheduled to decrease by \$3,310 during the budget year.

Salaries and wages are scheduled to increase in the amount of \$2,104 or 0.7 percent. No new positions are requested and normal salary adjustments are partially offset by a decrease in temporary help and an increase in estimated salary savings.

Operating expenses are scheduled to increase \$31,200 or 37.2 percent over estimated current year expenditures. This increase is the result primarily of transferring the amount of \$15,000 for defense of quiet title actions and \$5,000 for the index of state lands under United States jurisdiction from "Other Current Expense" to the support budget; and the addition of a new item of operating expense of \$10,000 for geophysical exploration.

This new item of operating expense is requested to enable the State to explore the possibilities of oil and gas production on lands it proposes to lease. Heretofore bidders have made their own exploration and have refused to furnish the State with the results of their exploratory work. The present arrangement has been unsatisfactory because all bidders have not had the same exploratory information and, more important, the State is uninformed as to the possible productivity, and lacks some of the basic information with which to judge the validity of bids received. We believe the addition of this item is in the interest of the State.

Equipment requested seems in line with requirements.

We recommend approval of the budget as submitted.

Revenues to the State Lands Act Fund are scheduled to increase only slightly from an estimated \$1,009,056 in the current fiscal year to \$1,011,995 in the 1953-54 Fiscal Year. Revenue to this fund in both the current and budget years represents a sharp decline from actual revenues of \$1,400,150 in the 1951-52 Fiscal Year. This decline is the result of a sharp decline in the sale of gas produced from state lands since the completion of pipe lines bringing in gas from Texas. Mineral royalties are anticipated to decline because of lack of production in the marginal Owens Lake Basin.

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, 1952	-----	\$44,689,986
Revenue 1952-53 (estimated)	-----	10,739,213
Revenue 1953-54 (estimated)	-----	11,234,713
Expenditures from Special Deposit Fund 1952-53, 1953-54 (estimated)	-----	<u>—351,047</u>
Estimated total impounded moneys June 30, 1954	-----	\$66,312,865

Prior to October 1, 1950, the impounded money has been deposited with the State Treasurer. Since October 1, 1950, revenues from mineral leases have been 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 lands, are deposited in the State Lands Act 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 or School Land 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—TIDELANDS CONTROVERSY**

ITEM 143 of the Budget Bill

Budget page 471
Budget line No. 46

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

Amount requested	-----	\$50,000
Estimated to be expended in 1952-53 Fiscal Year	-----	80,000
Decrease (37.5 percent)	-----	<u>\$30,000</u>

RECOMMENDATIONS

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

ANALYSIS

The amount requested will provide funds for the State to continue its efforts to regain control of its marginal sea area through congressional action. The amount requested represents a reduction of \$30,000 from estimated expenditures during the current year, as it is anticipated the judicial phase of this case will be concluded during the current year.

We recommend approval as submitted.

Department of Finance

DIVISION OF STATE LANDS—ARIZONA-CALIFORNIA BOUNDARY

ITEM 144 of the Budget Bill

Budget page 471
Budget line No. 84

*For Expenses in Connection With the Arizona-California Colorado River
Boundary Determination From the State Lands Act Fund*

Amount requested	\$10,000
Estimated to be expended in 1952-53 Fiscal Year	None
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Increase	\$10,000

RECOMMENDATIONS

Amount budgeted	\$10,000
Legislative Auditor's recommendation	10,000
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Reduction	None

ANALYSIS

This is a new item. The amount requested will be used to defray legal expenses and to secure technical assistance in defending the State's interests along the Colorado River boundary.

The State has been asked to join in a program developed by federal agencies relating to the use of federal and state lands as a game refuge. No consideration was given to the boundary problems between Arizona and California which should be settled before any determinations are made as to the use of the lands for fishing and wildlife purposes. Basic engineering data will have to be developed upon which an interstate compact might be reached between Arizona and California in setting the common boundary between the states.

We recommend approval as requested.

Department of Finance

NAPA STATE FARM

ITEM 145 of the Budget Bill

Budget page 473
Budget line No. 7

*For Support of the Napa State Farm, Department of Finance, From the
General Fund*

Amount requested	\$36,231
Estimated to be expended in 1952-53 Fiscal Year	35,953
<hr/>	
Increase (0.8 percent)	\$278

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$2,130	\$2,130	---	473	35
Operating expense	---	---	---	473	51
Equipment	250	250	---	473	57
Plus:					
Decreased reimbursements	2,158	2,158	---	473	62
Total increase	\$278	\$278	---		

RECOMMENDATIONS

Amount budgeted	\$36,231
Legislative Auditor's recommendation	36,231
Reduction	None

ANALYSIS

The amount of \$36,231 requested for the support of Napa State Farm for the 1953-54 Fiscal Year is an increase of \$278 or 0.8 percent over estimated expenditures for the current year.

No additional positions are requested. Temporary help and overtime have been reduced in the amount of \$2,130 due to a discontinuance of meat-raising projects during the current year. This is offset by a reduction in estimated reimbursements. Additional farm equipment in the amount of \$250 with minor adjustments accounts for the entire proposed increase.

Revenue for the General Fund from farm operations for the 1953-54 Fiscal Year is estimated at \$38,000, which is the same as that estimated for the current year and \$220 less than actual revenue during the 1951-52 Fiscal Year.

The budget as submitted seems in line with requirements if the present level of farm operations is to be continued. We wish to again point out that we do not believe that revenues justify the State continuing this activity. We recommend therefore that consideration be given to legislation which would authorize the Director of Finance to liquidate in an orderly manner present farming activities, and further authorize the disposition of this property to the extent possible without jeopardizing the State's water interest involved.

FRANCHISE TAX BOARD

ITEM 146 of the Budget Bill

Budget page 474
Budget line No. 18

For Support of Franchise Tax Board From the General Fund

Amount requested	\$3,947,368
Estimated to be expended in 1952-53 Fiscal Year	3,558,954
Increase (10.9 percent)	\$388,414

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$324,024	\$292,071	\$31,953	481	9
Operating expense -----	46,245	46,245	---	481	10
Equipment -----	18,145	18,145	---	481	11
Total increase -----	\$388,414	\$356,461	\$31,953		

RECOMMENDATIONS

Amount budgeted -----	\$3,947,368
Legislative Auditor's recommendation -----	3,834,876
Reduction -----	\$112,492

ANALYSIS

A summary of our recommended reductions is as follows:

	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
Administration—collections			
6 Field representatives -----	\$22,140	475	78
1 Senior account clerk -----	3,242	475	79
3 Intermediate account clerks -----	8,250	475	80
1 Intermediate stenographer -----	2,796	476	7
8 Junior typist-clerks -----	20,000	476	9
Administration—special investigations			
1 Investigator-reporter -----	5,232	476	45
Administration—collections			
3 automobiles -----	4,800	476	70
Personal Income Tax—headquarters			
1 Income and franchise tax examiner II -----	4,740	479	15
2 Junior accountant auditors -----	7,080	479	16
Personal Income Tax, Los Angeles			
1 Income tax examiner III -----	5,772	479	74
6 Income and franchise tax auditors II -----	28,440	479	76
Total reductions -----	\$112,492		

Budget Revision, 1952-53

While the foregoing analysis indicates an increase of 10.9 percent over the amount estimated to be expended in 1952-53, we do not believe that in the case of this agency this comparison presents the true picture, since an allocation from the Emergency Fund of \$325,025 or over 10 percent of the amount of the support appropriation authorized by the Budget Act of 1952 for the 1952-53 Fiscal Year has not been taken into consideration. We believe that, in a case like this, the most significant comparison is between the amounts authorized by the Budget Act of 1952, that is, the support appropriation of \$3,031,202 plus the allocation from the Salary Increase Fund of \$204,489, or a total of \$3,235,691, and the amount requested for 1953-54, which comparison is shown by categories in the following:

	<i>Total</i>	<i>Salaries and wages</i>	<i>Operating expense</i>	<i>Equipment</i>
Requested for 1953-54 ..	\$3,947,368	\$3,329,664	\$557,643	\$60,061
Authorized for 1952-53 ..	3,235,691	2,741,599	468,684	25,408
Increase -----	\$711,677	\$588,065	\$88,959	\$34,653
Percent increase -----	22.0	21.4	19.0	136.4

Of the total increase of \$711,677 between the amount authorized for 1952-53 and that requested for 1953-54, \$388,414 or 54.6 percent is detailed in the current printed budget, while the remainder of \$323,263 is shown in total only, being the difference between the \$325,025 (budget p. 474, line 19) under 1952-53 and the —\$1,762 on line 23 in the same column on the same page, without any detail as to the items included or any justification for the increase. This part of the increase is not subject to the normal budgetary review process, including scrutiny by legislative committees. We recognize that an emergency fund to meet unforeseen contingencies is needed to give the necessary flexibility to the financing of state operations because of the time lag involved between the preparation and approval of the budget and the actual expenditure of the money, but we believe that these emergency increases should be shown as part of the total increase requested, with appropriate justification in the budget for the succeeding year, along with other increases requested, and we have accordingly prepared our analysis on this basis.

The total increase of \$711,677 between the amount authorized by the Budget Act of 1952 and that requested is shown in the following by categories and by method of authorization:

	Total	Salaries and wages	Operating expense	Equipment
Allocation from Emergency Fund for 1952-53 -----	\$323,263	\$264,041	\$42,714	\$16,508
Budgeted for 1953-54 -----	388,414	324,024	46,245	18,145
Total -----	\$711,677	\$588,065	\$88,959	\$34,653

The increase of \$588,065 in salaries and wages is composed of the following:

Explanation	Total	From emer- gency fund	Budgeted 1953-54
Increase in temporary help, gross -----	\$196,211	\$141,893	\$54,318
Temporary help converted to permanent positions -----	—14,050	—14,050	---
Increase in permanent positions -----	262,960	106,672	156,288
Merit salary increases -----	90,311	---	90,311
Decrease in salary savings -----	52,633	29,526	23,107
Total -----	\$588,065	\$264,041	\$324,024

The increase in number of permanent positions over and above those authorized by the Budget Act of 1952 was as follows:

Authorized by Budget Act of 1952 for 1952-53 -----	667
Increase in 1952-53 positions	
Allocations from Emergency Fund -----	48
Conversion of temporary help -----	4
	52
Established for 1952-53 -----	719
Additional requested, 1953-54 -----	49
	768
Total requested,, 1953-54 -----	768

This represents an increase of 101 positions or 15.1 percent over the total authorized by the Budget Act of 1952.

The corresponding data for man-years of temporary help is as follows:

Authorized by Budget Act of 1952.....		75.8
Emergency fund increase.....	55.6	
Less converted to permanent positions.....	4.6	51.0
Established for 1952-53.....		126.8
Additional requested, 1953-54.....		23.4
Total requested, 1953-54.....		150.2

This represents an increase of 74.4 man-years or 98.2 percent over the number authorized by the Budget Act of 1952.

Table 1 which follows shows by operating units the permanent positions authorized by the Budget Act of 1952 for 1952-53 (column 1), the budget revision increases (column 2), the total established positions for the 1952-53 Fiscal Year as they appear in the 1953-54 printed budget (column 3), the increases requested for 1953-54 (column 4), and the total requested for 1953-54 (column 5). In this table the positions shown in column 1 have been allocated to the units in which the corresponding positions appear in the 1953-54 Budget. Table 2 shows the same information for man-years of temporary help.

Table 1—Permanent Positions, 1952-53 and 1953-54

	1952-53			1953-54	
	Per Budget Act of 1952	Budget revision increases	Total established	Requested increase	Total requested
Operating unit	(1)	(2)	(3)	(4)	(5)
Administration					
Executive	6	1	7	1	8
Accounting	62	10	72	4	76
Statistical	18	---	18	---	18
Collections	44	19	63	---	63
Legal	14	---	14	---	14
Appeals and review.....	9	---	9	1	10
Special investigations	5	---	5	1	6
Total administration	158	30	188	7	195
Franchise tax					
Headquarters	57	3	60	8	68
Los Angeles	25	---	25	---	25
San Francisco	12	---	12	---	12
Total franchise tax.....	94	3	97	8	105
Personal income tax					
Headquarters	259	19	278	19	297
Los Angeles	84	---	84	12	96
San Francisco	72	---	72	3	75
Total personal income tax.....	415	19	434	34	468
Total	667	52	719	49	768

Table 2—Man-years of Temporary Help, 1952-53 and 1953-54

<i>Operating unit</i>	<i>1952-53</i>			<i>1953-54</i>	
	<i>Per Budget Act of 1952</i>	<i>Budget revision increases</i>	<i>Total established</i>	<i>Requested increase</i>	<i>Total requested</i>
	(1)	(2)	(3)	(4)	(5)
Administration					
Accounting	16.6	22.6	39.2	3.5	42.7
Statistical	2.0	2.0	4.0	—	4.0
Franchise tax	5.6	—4.6	1.0	1.0	2.0
Income tax					
Headquarters	42.1	29.5	71.6	17.9	89.5
Los Angeles	5.2	0.9	6.1	0.5	6.6
San Francisco	4.3	0.6	4.9	0.5	5.4
Total	75.8	51.0	126.8	23.4	150.2

Of the additional positions shown in column 2 of table 1, the one for administration, executive, and the three in Franchise Tax, headquarters, were established out of funds authorized for temporary help. The position in the executive unit is an auditor III, engaged in compiling cost data, and the other three are intermediate clerical, two of them to expire June 30, 1954. We see no objection to the establishment of these four positions.

The remaining 48 permanent positions in column 2 of table 1, as well as the 51 additional man-years of temporary help shown in column 2 of table 2, were all established out of the allotment from the Emergency Fund, the justification being an increase in the number of personal income tax returns over and above the estimates upon which the original 1952-53 Budget was based.

Table 3 which follows gives certain data on personal income tax returns over a six-year period. Column 1 shows the income year to which the return relates; column 2 the due date of the return; column 3 the original estimate of the number of returns to be received which is the work load figure used in budgeting and is made about 18 months in advance of the due date of the return; column 4 the actual number of returns received or the latest available revised estimate; column 5 the percentage underestimated, that is, the percent by which the number in column 4 exceeds that in column 3; column 6 the percent of the annual increase in the filings shown in column 4; and column 7 the fiscal year in which the return is due, which is the year during which the great bulk is filed.

Table 3—Personal Income Tax Returns by Years

<i>Income year</i>	<i>Due date of returns</i>	<i>Number of returns</i>		<i>Percent under-estimated</i>	<i>Percent of annual increase in actual filings</i>	<i>Fiscal year in which returns are filed</i>
		<i>Original estimate</i>	<i>Actual or revised estimate</i>			
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948	4-15-49	---	972,784	---	---	1948-49
1949	4-15-50	1,360,000	1,543,548	13.5	58.7	1949-50
1950	4-15-51	1,650,000	1,813,603	9.9	17.5	1950-51
1951	4-15-52	1,750,000	2,225,000	27.1	22.7	1951-52
1952	4-15-53	1,885,000	2,600,000 *	37.9	16.9	1952-53
1953	4-15-54	2,850,000	2,850,000 *	---	9.6	1953-54

* Estimated.

The budget revision for 1952-53 was prompted by the fact that very early in that fiscal year it became apparent that the 1951 returns due April 15, 1952, most of which had already been received, would exceed the estimate by about 27 percent. This, in turn, led to a drastic upward revision of the estimate for 1952 returns due April 15, 1953, which had apparently been underestimated by 37.9 percent.

All of the increases in personnel, both permanent and temporary for 1952-53, were of junior or intermediate clerical grade, with the exception of one senior clerical position and six field representatives in collections, and except for minor adjustments in temporary help only three units were involved: accounting, collections and personal income tax, headquarters.

The increased workload in the accounting section is measured in general by the underestimate of 37.9 percent in 1952 returns due April 15, 1953, most of which will be processed before July 1, 1953. The clerical personnel originally authorized for this work and the increases are as follows:

	<i>Total</i>	<i>Permanent</i>	<i>Temporary</i>
Originally authorized for 1952-53-----	58.6	42.0	16.6
Increase for 1952-53 (55.6%)-----	32.6	10.0	22.6
Total established for 1952-53-----	91.2	52.0	39.2

The increase of 55.6 percent in personnel appears more than ample in view of the fact that the returns are estimated to increase 37.9 percent over previous estimates. It is stated that there are elements of workload in the accounting section, namely, the year-round bookkeeping and mailing operations referred to on budget page 475, lines 17 to 25 inclusive, which have been increasing at a rate faster than the number of returns, but the data available on this point are inconclusive.

The increased workload for 1952-53 in personal income tax, headquarters, due to previous underestimation, is measured by the increase of 27.1 percent shown in Table 3, column 5, for the returns for the 1951 income year, since these returns in general are not processed by that division until the fall of 1952 or during the 1952-53 Fiscal Year.

The clerical personnel originally authorized for this work and the increases are as follows:

	<i>Total</i>	<i>Permanent</i>	<i>Temporary</i>
Originally authorized for 1952-53-----	230.1	188.0	42.1
Increase for 1952-53 (21.1%)-----	48.5	19.0	29.5
Total established for 1952-53-----	278.6	207.0	71.6

This increase does not appear excessive in view of the increase of 27.1 percent in returns involved.

The increase of 19 shown in column 2 of Table 1 for the collection section is in a somewhat different category from the other two in that no temporary help is involved; the increase includes seven positions above the junior or intermediate clerical level and 15 of the 19 positions are in field offices.

The workload of the collection section does not relate itself as directly to the number of returns filed as does that of the other two sections previously discussed, but the only unforeseen increase in returns which could affect its workload for 1952-53 is the 27.1 percent shown in column

26,000 exempt corporation returns as provided by Chapter 344, Statutes of 1951.

We recommend the establishment of the examiner II position on a one-year basis only, to terminate June 30, 1954, at which time the program should again be reviewed to determine whether additional technical help is necessary on a permanent basis, since we believe there is a possibility that it can be carried on after that date without any increase in staff.

The other personnel increases requested are all for a one-year period only, to terminate June 30, 1954, to carry on special programs and we recommend their establishment on this basis.

Personal Income Tax Headquarters

Sixteen additional permanent clerical positions (budget page 479, lines 17 to 22, inclusive) and 17.9 additional man-years of temporary clerical help are requested to process the estimated increase in tax returns for that year. This is an increase in clerical staff of 12.2 percent as compared with an estimated increase in tax returns of 16.9 percent and appears reasonable.

1 *Income and franchise tax auditor II* ----- \$4,740

This position (budget page 479, line 15) is requested to process an increasing number of refund claims. We recommend disapproval of the position, since sufficient justification has not been presented to justify an additional position at this level for this type of work.

2 *Junior accountant auditors* ----- \$7,080

These are requested (budget page 479, line 16) to maintain a 50 percent audit of "small" returns which was started in 1951-52. The "small" returns are those in the lower income brackets where the tax averages about \$10 per return. Returns in this category for the income year 1949, which were being audited during 1951-52, totaled about 800,000, the 50 percent audit, accordingly, being of some 400,000 returns. It is estimated that the audit produced about \$35,000 in revenue, or less than 10 cents per return, at a direct salary cost of about \$15,000. We do not believe that this is sufficient to warrant the expansion of the program. We accordingly recommend deleting these two positions and suggest that the extent of the program be reduced from 50 percent to 40 percent or such other coverage as is possible with existing staff and that audits of this kind be made on a more selective basis.

Personal Income Tax, Los Angeles

1 *Income tax examiner III* ----- \$5,772

6 *Income and franchise tax auditors II* ----- \$28,440

The requested increase in examiner and auditor personnel for the Los Angeles area by grades and units is as follows:

Grade	Unit	No.
III	Review, Los Angeles	1
II	Field audit, Los Angeles	2
II	Residence and withholding, Los Angeles	2
II	San Bernardino branch	1
II	Bakersfield branch	1
Total		7

In general, the work load of the examiners in the field is measured by the number of large returns filed and is related to the returns filed three years previously; that is, returns for the income year 1949 filed in the spring of 1950 will constitute the major part of the work load for the Fiscal Year 1953-54. The following table shows the number of personal income tax returns filed for the income years 1947, 1948, 1949 and 1950, segregated as between taxable returns with net income of \$7,000 and over and all others:

Table 5—Personal Income Tax Returns by Size and Fiscal Year

Income year	Number of returns			Work load year
	Total	Net income \$7,000 or over	All other	
1947	784,709	173,360	611,349	1951-52
1948	836,932	153,358	683,574	1952-53
1949	1,421,847	172,736	1,249,111	1953-54
1950	1,607,156	216,610	1,390,546	1954-55

The foregoing figures were taken from the published annual reports of the Franchise Tax Board and do not include delinquent returns which are included in the figures shown in table 3.

The 1951 Legislature authorized an increase in the technical field staff from 85 to 102, an increase of 17 or 20 percent. This staff was for 1951-52 and was related to 3,360 large returns for 1947. As table 5 indicates, there are 172,736 large returns for 1949, which will constitute the work load for 1953-54, a slight decline in work load since 1951-52.

Accordingly, we recommend against increasing the staff in the Los Angeles area by seven examiners at this time.

Another reason for recommending against increasing the examiner staff at this time is that we believe the staff should be justified on an over-all state-wide basis according to definite concepts of work load rather than unit by unit or locality by locality as was done in this instance.

Otherwise there is no assurance that the agency is not overstaffed in some localities while perhaps being understaffed in others.

Operating Expenses, All Divisions

Table 6 shows a comparison between the total for all five divisions of the operating expenses authorized for 1952-53 by the Budget Act of 1952 as shown in the printed budget for that year with the corresponding amount requested for 1953-54.

Table 6—Total Operating Expenses, 1952-53, 1953-54 and Comparisons

	1952-53	1953-54	Increase
Printing	\$103,089	\$156,815	\$53,726
Rent, building	129,553	132,241	2,688
Postage	89,133	118,480	29,347
Office	55,833	58,052	2,219
Travel—intrastate	31,507	34,732	3,225
Telephone exchange charges	15,732	15,915	183
Travel—out of state	19,800	15,068	—4,732
Automobile mileage	13,956	12,173	—1,783
Automobile operation	4,274	8,178	3,904
Long distance telephone	3,119	2,103	—1,016
Membership in Federation of Tax Administrators	2,000	2,000	---
Teletype and telegraph	688	1,121	433
Equipment rental	---	765	765
Total	\$468,684	\$557,643	\$88,959

The major part of the increase of \$88,959 is accounted for by printing and postage, the large increases in these two items being due to the increase in returns. The increase in automobile operation is due to the proposed purchase of five additional cars which will decrease the private car mileage.

We recommend no change in the operating expenses as budgeted except such as may be related to any adjustments made by the Legislature in personnel or equipment items.

Equipment, All Divisions

Total equipment requested for 1953-54 of \$60,061 for all divisions represents the following:

Replacements		
Office equipment -----	\$12,386	
Automobiles (2) -----	1,600	
		<u>\$13,986</u>
Additional		
Office equipment for proposed new positions -----	\$11,422	
Automobiles (5) -----	8,000	
Summary punch for statistical unit -----	2,430	
105 filing cabinets, Personal Income Tax Division, head- quarters -----	11,445	
Miscellaneous -----	12,778	
		<u>46,075</u>
Total -----		<u>\$60,061</u>

The summary punch for the statistical unit is requested as a substitute for equipment formerly rented and purchase has been recommended by the Management Analysis Section of the Department of Finance.

Of the additional automobiles, two are requested for the special investigation section as a substitute for private car mileage and three for the six additional field representative positions set up for the collection division from the emergency fund for 1952-53.

3 Automobiles ----- \$4,800

We recommend deletion of the three automobiles included in the total of \$8,000 (budget page 476, line 70) for the new collection section positions, since we have elsewhere recommended deletion of these positions.

The Franchise Tax Board operates two cars in Sacramento and we believe these might well be transferred to the Department of Finance pool and cars requisitioned from that pool as needed.

GENERAL SUMMARY

At present the field activities of the agency are organized on a divisional basis, there being three divisions in each area, a Personal Income Tax Division, a Franchise Tax Division and a Collection Division, each with a separate field chief reporting to his corresponding division head in Sacramento. Under this plan of organization, the field operations of the agency are to a great degree conducted independently of one another and we believe that a more economical and effective administration might result from a different type of organization, with a chief of field operations in headquarters having line authority over all field personnel and

an area chief in each of the area offices responsible for all activities in his area and reporting direct to the chief of field operations in Sacramento.

The position of chief of the Franchise Tax Division in headquarters is now vacant because of the retirement of its former occupant and we are informed that the position of principal income tax supervisor in San Francisco will shortly be vacant for a like reason.

We recommend that before either of these positions is filled a study be made by the Management Analysis Section of the Department of Finance looking toward a possible reorganization of the agency along the lines suggested, using the present position of assistant executive officer as a chief of field operations, since we believe that under such a plan there is a possibility that one or possibly both of the vacant positions could be eliminated.

Such a reorganization, if determined to be feasible, should lead to a greater degree of integration of the field operations of this agency in line with our general recommendation on this subject made elsewhere in this analysis.

Out-of-state Audit

The 1950 Legislature authorized an increase in the budget of the Franchise Tax Division of \$65,000 including eight additional auditors for a more intensive audit of taxpayers doing business both within and without California where the allocation of income attributable to California is a factor in determining tax due. Since many of these corporations have their headquarters in the east where tax returns are prepared and supporting records kept, it was contemplated that four of the eight positions be assigned to work in New York and Chicago out of permanent offices maintained by the Board of Equalization in those cities.

Table 7 which follows summarizes the results attributable to the eastern audit program for the two years of operation: The data in the table is taken from reports supplied to this office by the agency, except that costs have been adjusted to include all direct expenditures made at the out-of-state offices exclusive of those attributable to work in process at the end of the period and also includes an item of overhead estimated at 36 percent of the total direct expenditures, this being the percentage developed for all Franchise Tax Division audit operations in a cost of operations study made by the agency for 1951-52. It should also be noted that the amounts shown in column 3 as net revenue do not include interest and are based upon proposed assessments as billed without any adjustment for any amounts cancelled as a result of protest filed or any provision for collection losses.

Table 7. Franchise Tax Board—Eastern Audit

	<i>Number of completed cases</i>	<i>Direct field audit hours</i>	<i>Net revenue (proposed assessments)</i>	<i>Total costs</i>	<i>Revenue per dollar of cost (3 ÷ 4)</i>	<i>Cost per hour (4 ÷ 2)</i>
	(1)	(2)	(3)	(4)	(5)	(6)
1950-51						
New York	69	2,348	\$307,233	\$22,949	\$13.39	\$9.77
Chicago	52	1,019	183,842	10,714	17.16	10.51
Total	121	3,367	\$491,075	\$33,663	\$14.59	\$10.00
1951-52						
New York	63	1,894	\$317,621	\$20,668	\$15.37	\$10.91
Chicago	40	1,667	634,616	14,757	43.00	8.85
Total	103	3,561	\$952,237	\$35,425	\$26.88	\$9.95
Two-year period						
New York	132	4,242	\$624,854	\$43,617	\$14.33	\$10.28
Chicago	92	2,686	818,458	25,471	32.13	9.48
Total	224	6,928	\$1,443,312	\$69,088	\$20.89	\$9.97

These tables indicate that for 1950-51 the program produced \$14.59 in proposed assessments for each dollar of cost, \$13.39 in New York and \$17.16 in Chicago, and that the average cost per audit hour was \$10, while in 1951-52 it produced \$26.88 for each dollar of cost, \$15.37 in New York and \$43 in Chicago.

Costs per audit hour of the Board of Equalization sales tax auditors stationed in New York and Chicago were \$6.23 in 1950-51 and \$8.19 for 1951-52.

Table 7 indicates that net revenue in 1951-52 was almost double that for 1950-51 due to the large increase in Chicago where the revenue jumped from \$183,842 to \$634,616.

Included in the 40 audits completed in Chicago in 1951-52 which produced \$634,616 of net revenue were three audits which took 324 field audit hours to make or 19.4 percent of the total, and which accounted for \$523,164 in net revenue or 82.4 percent of the total.

Audit working papers of the Department of Finance indicate that for the audits completed in 1950-51 assessments representing about 40 percent of the additional revenue in New York and 75 percent in Chicago are under protest and that of the amounts not protested not all has been collected.

We believe that the records of the out-of-state audit program are good as far as they go but that there should also be made available an analysis at the end of each year of the assessments representing the total revenue, showing the amount not final, the amount under protest, the amount collected, and the amount canceled as a result of protests, since only in this way can a true evaluation of the out-of-state audit program be made.

We have previously recommended that the out-of-state audit program be continued as a permanent part of the enforcement process but recommend continuous review and analysis of costs and results.

Files, Personal Income Tax Division, Headquarters

At present, the Personal Income Tax Division has 754 five-drawer, legal size, metal filing cabinets in its headquarters' office in Sacramento with an additional 54 authorized for 1952-53 which have not yet been ordered and is requesting an additional 105 at a cost of \$11,445 for

1953-54, or a total of 913 on hand, authorized or requested. At present prices of \$109 per cabinet, this represents an investment of approximately \$100,000.

Most of the cabinets are used to house tax returns which, under present procedures, are kept in active files for four years before being transferred to inactive storage on shelves to be later destroyed. Not only are the files expensive but the space in which they are housed is costly, particularly in view of the small amount of tax liability per return in a high percentage of cases. Of the returns for the income year 1950, for example, 86.5 percent or about 1,400,000 returns were from the group reporting no tax or tax based on net income of less than \$7,000 per year. The average tax per return for this group amounted to \$10.51.

We believe a study should be made of the entire procedure being used for these small returns, including that of filing, which is in line with records management studies recommended in the report on that subject by the Assembly Interim Committee on Governmental Reorganization issued in March, 1952.

STATE TREASURER

ITEM 147 of the Budget Bill

Budget page 482
Budget line No. 7

For Support of the State Treasurer From the General Fund

Amount requested	\$281,484
Estimated to be expended in 1952-53 Fiscal Year	279,479
Increase (0.7 percent)	\$2,005

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	---	---	---	483	32
Operating expense	\$1,045	\$1,045	---	483	50
Equipment	960	960	---	483	57
Total increase	\$2,005	\$2,005	---		

RECOMMENDATIONS

Amount budgeted	\$281,484
Legislative Auditor's recommendation	281,484
Reduction	None

ANALYSIS

There is no anticipated change of any significance in the office of the State Treasurer for the Fiscal Year 1953-54.

Only two items show a major increase. Fiscal agency fees show an increase of \$1,000 for 1953-54. We recommend approval of the amount of \$3,065 to be used for the purchase of a car for the State Treasurer on the basis that it has been the policy of the Legislature to provide elective officials with heavy cars. Statutory provisions governing the use and management of state-owned cars exempt elective officials from these rules.

We recommend approval of the amount budgeted.