

Hastings College of Law—Continued

\$42,000 to pay for the cost of maintenance and operation of the physical plant which is in line with the policy established by the Legislature in the 1954 Session.

The total budget for 1955-56 is \$261,465, or \$212,465 more than the state appropriation. This amount will be financed by an estimated \$84,841 in revenues from student fees, investment income, and receipts from the Federal Government for education of veterans, and by drawing on the college surplus funds to the extent of \$127,624. These surplus funds were built up largely during the immediate postwar period when receipts per student from the Federal Government for G.I. students were in excess of the cost per student. The accumulated surplus at the end of the 1955-56 Fiscal Year will be \$374,276, or perhaps enough to carry the college at approximately this level of state support for three more years.

We recommend approval of the budget as submitted.

BOARD OF CONTROL

ITEM 106 of the Budget Bill

Budget page 398
Budget line No. 7

For Support of the Board of Control From the General Fund

Amount requested	\$23,458
Estimated to be expended in 1954-55 Fiscal Year	23,370
<hr/>	
Increase (0.4 percent)	\$88

Summary of Increase

	INCREASE DUE TO			Budget page	Line No.
	Total increase	Work load or salary adjustments	New services		
Salaries and wages	\$190	\$190	---	398	45
Operating expense	---	---	---	398	59
Equipment	-102	-102	---	398	65
<hr/>					
Total increase	\$88	\$88	---	398	67

RECOMMENDATIONS

Amount budgeted	\$23,458
Legislative Auditor's recommendation	23,458
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Reduction	None

ANALYSIS

The budget request for support of the Board of Control in the 1955-56 Fiscal Year is based on the present level of service. The small increase over the current budget is occasioned by adjustments in salaries which are partially offset by a decrease in proposed expenditures for equipment.

We recommend approval of the item as budgeted.

STATE CONTROLLER

ITEM 107 of the Budget Bill

Budget page 400
Budget line No. 21

For Support of the State Controller From the General Fund

Amount requested	\$2,336,619
Estimated to be expended in 1954-55 Fiscal Year	2,251,191
Increase (3.8 percent)	\$85,428

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$23,587	\$23,587	---	409	41
Operating expense	44,049	44,049	---	409	42
Equipment	15,665	15,665	---	409	43
Less:					
Decreased reimburse- ments	5,710	5,710	---	409	46-47
Decreased appropriations from other funds	3,877	3,877	---	409	51
Less:					
Increased appropriations from other funds	—7,260	—7,260	---	409	52-53
Total increase	\$85,428	\$85,428	---	409	49

RECOMMENDATIONS

Amount budgeted	\$2,336,619
Legislative Auditor's recommendation	2,249,719
Reduction	\$86,900

As provided in Senate Concurrent Resolution No. 90 of the 1953 Session of the Legislature, the Joint Legislative Budget Committee was directed to employ an independent firm of public accountants to make an examination of the adequacy of the existing accounting and auditing procedures of the State and a review of the basis upon which the Legislature should receive a regular post-audit report on the administration.

This examination, which was made for the Budget Committee by the firm of Price Waterhouse & Co. and reported on December 3, 1954, included an examination of all of the accounting and auditing facilities and procedures of the fiscal control agencies of the State, and of seven of the major functional departments.

Included in the report were recommendations of the firm for changes in both organization and procedure to provide a more economical and effective system of fiscal controls and reporting. One of the basic recommendations of the report was the abolition of the office of Controller and the transfer of its present functions to other agencies, largely to the Department of Finance for accounting and control and to an independent auditor general reporting to the Legislature for post-audit and independent review.

This office has carefully reviewed the report of Price Waterhouse & Co. and is in accord with all of the major recommendations contained therein. However, because the basic recommendations would require constitutional amendment and are of such a nature that they warrant careful study by the Legislature and by the affected agencies, we are

State Controller—Continued

led to make other interim recommendations with respect to the Controller's office which we believe would be improvements and which would in no way affect a legislative decision to act upon the basic recommendations contained in the report of Price Waterhouse & Co.

ANALYSIS

Summary of Recommended Reductions

<i>Salaries</i>	<i>Amount</i>	<i>Budget</i>	
Claim audits		<i>Page</i>	<i>Line</i>
Supervising claim auditor (2)-----	\$9,500	405	16
Claim auditors (9)-----	33,500	404	56
Intermediate account clerks (2)-----	5,500	404	61
Supervising calculating machine operator (1)-----	4,100	404	62
Calculating machine operator (6)-----	20,900	404	60
Subtotal -----	\$73,500		
Field audit unit			
Accountant-auditor I (3)-----	12,300	404	74
Equipment			
Automobile—replacement -----	1,100	405	41
Total -----	\$86,900		

This office has in the past maintained that the organization of the State Controller's Office should be subject to closer scrutiny and that there are areas within the Controller's operation in which further economies can be effected. In this budget the Controller has requested an increase of approximately \$85,000 over the current year's estimated expenditures. The particular items of increase appear to be justified. They are due to normal salary adjustments, increased workload in the Divisions of Disbursements and Inheritance and Gift Tax and to certain program changes. It is with respect to the program changes that we wish to direct attention. The program changes affect the Divisions of Accounting, Disbursements and Audits and are concerned with two of the chief activities performed in the Controller's office: maintaining control accounts and the pre-audit function.

Mechanization of Control Accounts—Division of Accounting

During the current fiscal year the Controller's Office and the Department of Finance have studied and laid out the procedure for placing the control accounts on punched cards and producing the required reports and financial data from those punch cards. This procedural change would shift the maintenance of control accounts from bookkeeping machines in the Division of Accounting to tabulating equipment in the Division of Disbursements. The elimination of the bookkeeping machine operators and certain clerical positions in the Division of Accounting is reflected in the proposed budget for 1955-56. Certain necessary additional positions have been added to the staff of the Division of Disbursements. The progress made thus far in this change is commendable and we are in complete agreement with the objective.

With respect to the mechanization of control accounts we believe that the procedural change demands the combination of the separate Divisions of Accounting and Disbursements into one Division of Accounting and Disbursements. We recommend, therefore, that:

State Controller—Continued

1. The Legislature request a study by the Department of Finance and the Controller to accomplish that reorganization.
2. The Legislature request the Personnel Board to study the classifications of the positions involved.

We are not recommending reductions in working or supervisory personnel until the new mechanized procedure is installed and until a thorough study has been made. That study, we believe, should be made prior to the 1956 Budget Session.

Combination of the Division of Accounting and the Division of Disbursements would permit the reduction of supervisory positions and overhead costs. Since the primary function of the Division of Accounting will be combined with the disbursement operations, the supervision of these activities does not require separate division administrations. One division should make for more efficient processing of documents under the new procedure.

Such a combined organization is not new to California State Government. On a smaller scale, similar activities of accounting and disbursements are combined in the Department of Finance in the Division of Accounts and Disbursements.

The number of positions in the Division of Accounting has been reduced from 61 to 47 as a result of the mechanization of control accounts. The main accounting responsibilities concerning approvals, transfers, coding and other such activities which require judgment and manual checking still reside in the Bureau of Control Accounts. In spite of the remaining responsibilities and in view of the size of the division, we believe further economies can be made in supervisory personnel.

One of the by-products of the machine operation is producing reports on the tabulating machines. The reports are presently compiled manually by the Bureau of Financial Analysis. The change in procedure will eliminate all the manual work and leave only such activities as special analyses and changes in format to be performed by the bureau staff. In view of the significant reduction in work, we believe the size of the staff can be reduced at least by four positions. The study we propose should determine the necessary staff.

In the Bureau of Control Accounts, we are equally confident that the new procedure will permit the further refinement in the control account work. If the size of this bureau is further reduced, the reasons for maintaining a separate division for the activities of financial analysis, control accounts and unclaimed property are completely eliminated. Certainly the functions of unclaimed property do not add sufficient weight to the responsibilities of the Division of Accounting to justify a separate division. The Bureau of Unclaimed Property which controls and administers unclaimed bank deposits, estates of deceased persons, and other classes of unclaimed or abandoned property is not related to the basic responsibility of the Division of Accounting. This small bureau of six positions could be placed elsewhere in the Controller's Office if it was decided it should not be included in the new combined division.

State Controller—Continued

Pre-audit Function—Claim Audit Unit—Audits Division

The Controller has reorganized the Claim Audit Unit in the Audits Division with the effect of reducing the number of levels of supervision and the number of positions. In line with our analysis of the Audits Division last year, we believe this change is an improvement.

However, aside from the organization of the Claims Audit Unit and processing of claims, there is a more basic question which needs to be raised. We question the duplication by the Audits Division of certain checks which are already performed by the agencies. We believe that the Controller may appropriately check to determine (1) if the appropriation to be charged is in accordance with statute and (2) that the items or services purchased are in accordance with the appropriation, but we feel he should go no further.

We recommend that the Controller accept the certification of the agency that (1) the supporting invoices are legitimate and in proper order and that (2) there is an invoice document for everyone listed on the face sheet. All of these determinations the Controller is now making are processed by the agencies and the Department of Finance. In many cases the Controller must rely completely on certifications of the agencies. Price Waterhouse & Co. in its report to the Legislative Budget Committee on "Accounting and Auditing for the State of California" (page A-25) has the following to say on the matter:

"It seems to us to be entirely unnecessary for the claims presented to be supported by invoices, purchase orders, contracts, etc. The State Controller should rely, as he now does in part, on the affidavits or approvals by the officials of the agencies. The attachment to the claims of this data, and the rechecking thereof, furnishes no real assurance as to the propriety of the transaction."

Under the present procedure, the agencies prepare the claims; their staffs are of sufficient size and competency to perform an accurate job. Many of these items and services purchased are specifically appropriated for in the budget or authorized and approved by the Department of Finance and purchased by the Purchasing Division. Following the agencies' review of the claims, the Controller reviews them. Finally the Division of Audits in the course of its post-audit responsibility reviews the accounting systems of the agencies to determine whether the proper checks against fraud and inaccuracy exist and sample checks some of the claims. The Division of Audits has all the pertinent documents at its disposal, which frequently the Controller does not, when it makes its post-audit. Therefore, the Division of Audits, and the agencies in the first instance, can fully determine the propriety of a transaction. It is for this reason, we feel that the the Controller's check of the supporting invoices and the rechecking of all the calculations is a completely unnecessary and duplicating activity. We suggest that with half the existing Claim Audit Unit staff the Controller can satisfy his statutory responsibilities.

Pay Roll Audit—Field Audits Unit

In addition to our interest in the above mentioned program changes, we renew a recommendation we made in our last year's analysis. We

State Controller—Continued

recommended last year that the three auditors reviewing disbursements made under the Uniform State Pay Roll System should be eliminated. This function, we believe, is entirely unnecessary in view of the built-in-controls within the disbursement system and the subsequent audit by the Division of Audits.

We understand that the three auditors who perform this audit are now a part of the Field Audits Unit whereas formerly they were a part of the Claim Audit Unit. The auditors are located in the Sacramento, Los Angeles and San Francisco disbursing offices where they audit pay rolls produced by machine methods.

We believe the Controller should have proper controls within his own office so that one division does not check work already checked by another. The Disbursements Division reviews the documents before processing. The processing consists of a complete machine operation with all calculations made by machine and the warrant produced by punch card equipment. The auditors check extensions and verify the totals already produced by machine, check the supporting documents which are certified by the agencies. Changes in personnel authorizations are approved by the Department of Finance and the Personnel Board. Finally, the pay rolls are subject to a post-audit by the Department of Finance. We believe that the machine proofs and checking in the Disbursements Division, plus approvals by the Department of Finance and the Personnel Board plus the post-audit by the Division of Audits provide sufficient review of the pay roll activities and that a further check by the Controller's audit staff is unnecessary.

Therefore, we again recommend that the entire activity of auditing the pay roll by the Field Audit Unit be discontinued and the three positions of accountant-auditor I be deleted from the budget.

Automobiles

The budget request for equipment includes an item of \$1,100 for replacement of an automobile (Budget page 405, line 41). We recommend deletion of this amount with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency from the state pool on a day to day basis or monthly assignment basis.

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from broad fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in this report.

To support the above recommendation in respect to the specific request of the Controller's Office, we have made an analysis of idle car time for the automobiles the agency now operates.

State Controller—Continued

An examination of the Monthly Travel Log Summary maintained by the Automotive Management Unit indicates, as contained in the following table, that the Controller's automobiles are idle a greater percentage of the time than the entire fleet of state cars of all agencies.

**Percent of Passenger Car Idle Time for Selective Months,
1953-54 Fiscal Year**

Source: Monthly travel log summaries maintained by the Automotive Management Unit

	<i>All state automobiles</i>	<i>53 automobiles, Controller's Office</i>
December -----	23.6%	26.9%
March -----	17.8	24.9
May -----	12.0	20.0

For the 21 vehicles operated by the Controller in Sacramento, the garage storage records show for May, 1954, an average of 43 percent idle car time. Our calculations of idle car time are based upon the number of working days involved, the average cars available and the total days usage of the cars.

Mailing of Warrants

One of the supplementary recommendations of the report of Price Waterhouse & Co. on "Accounting and Auditing for the State of California," was that warrants should be mailed direct to the payee by the Controller's Office. Price Waterhouse & Co. feels that better internal control would be afforded if the warrants were not mailed by those who prepare the claims. Under the present procedure the Controller draws the warrants and sends them to the agency which presented the claim and they are mailed by that agency to the payees.

We suggest that a study be made of this condition immediately so that a change in procedure can be placed into effect soon.

STATE CONTROLLER

ITEM 108 of the Budget Bill

Budget page 400
Budget line No. 36

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

Amount requested -----	\$114,039
Estimated to be expended in 1954-55 Fiscal Year -----	112,350
Increase (1.5 percent) -----	\$1,689

RECOMMENDATIONS

Amount budgeted -----	\$114,039
Legislative Auditor's recommendation -----	114,039
Reduction -----	None

ANALYSIS

Previously we have proposed that this function should be transferred from the Controller to the Board of Equalization in view of potential savings estimated at \$70,000. These savings would be secured by eliminating duplications between these two agencies. We believe that the creation of a Department of Revenue in place of the present Board of Equalization should provide opportunity to effect this transfer. We

State Controller—Continued

have recommended the establishment of a Department of Revenue also in connection with the budget request of the Board of Equalization.

STATE CONTROLLER

ITEM 109 of the Budget Bill

Budget page 400

Budget line No. 49

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

Amount requested	\$453,630
Estimated to be expended in 1954-55 Fiscal Year	445,946
Increase (1.7 percent)	\$7,684

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$8,315	\$8,315	---	412	56
Operating expense	1,834	1,834	---	412	57
Equipment	—552	—552	---	412	58
Less:					
Increased charge to General Fund	—224	—224	---	412	61
Increased charge to Motor Vehicle Transportation Tax Fund	—1,689	—1,689	---	412	62
Total increase	\$7,684	\$7,684	---	399	31

RECOMMENDATIONS

Amount budgeted	\$453,630
Legislative Auditor's recommendation	444,530
Reduction	\$9,100

ANALYSIS

Summary of Recommended Reduction

<i>Equipment</i>	<i>Amount</i>	<i>Budget Page</i>	<i>Line</i>
Tax Collection and Refund Division			
Automobile—replacement (2)	\$2,200	411	25
Automobile—additional (3)	3,600	411	26
Bureau of Highway Accounts and Reports			
Automobile—replacement (3)	3,300	412	42
Total—reduction	\$9,100		

The Controller has placed into effect a consolidation of two divisions, the Tax Collection Division and the Motor Vehicle Fuel Tax Refund Division, which we agree should improve administration. As the agency points out, the consolidation should strengthen office audit procedures and result in a better field audit program for these activities.

In the new division the activities of auditing and accounting have been combined for both activities under one supervisor and the field investigations of both activities have been placed under the director of one supervisor. The 1955-56 Fiscal Year budget shows a reduction in temporary help. It should be noted that four positions, three senior account clerks and one intermediate file clerk have been changed from temporary to permanent positions. This change is justified by the work

State Controller—Continued

load and should make the organization more effective. The net effect of the consolidation has been a reduction in temporary help.

Three positions of field representative were added last year to the Motor Vehicle Fuel Tax Refund Division which are included in the new division. Vehicles for these field positions were not provided in last year's budget but are requested this year. These additional vehicles are required for one representative in Fresno and two in Los Angeles.

The budget request for equipment includes an item of \$5,500 for replacement and \$3,600 for additional automobiles. We recommend deletion of these amounts with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency from the state pool either on a day to day basis or monthly assignment basis.

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from broad fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in the introduction to this report.

State Controller

TAX-DEEDED LANDS DIVISION

ITEM 110 of the Budget Bill

Budget page 400
Budget line No. 62

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

Amount requested	\$180,872
Estimated to be expended in 1954-55 Fiscal Year	172,645
Increase (4.8 percent)	\$8,227

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	—\$4,698	—\$4,698	---	413	32
Operating expense	557	557	---	413	53
Equipment	2,482	2,482	---	413	60
Plus:					
Decreased reimburse- ments	10,000	10,000	---	413	65
Less:					
Increased appropriation from other funds	—114	—114	---	413	68
Total increase	\$8,227	\$8,227	---	399	40

RECOMMENDATIONS

Amount budgeted	\$180,872
Legislative Auditor's recommendation	173,412
Reduction	\$7,460

Tax-deeded Lands Division—Continued
ANALYSIS

Recommendations

1. That legislation be enacted to:
 - a. Transfer the functions of the Tax-deeded Lands Division to the General Fund.
 - b. Deposit all redemption fees in the General Fund.
 - c. Transfer the balance remaining in the State Redemption Tax Fund to the General Fund.
2. That the proposed program for state-support of the abstract and index service for counties be disapproved and that the position of district manager be deleted for a reduction of \$6,360.
3. That the request for replacement automobile at a cost of \$1,100 be deleted.
4. That the Department of Finance conduct a study in conjunction with the Controller and the Legislative Auditor of the Tax-deeded Lands Division with the purpose of consolidating the offices of the division into three locations at Sacramento, Los Angeles and Oakland.

Recommendation No. 1

The Tax-deeded Lands Division is supported from fees collected from the redemptioner of tax sold and tax-deeded land and from the purchase price paid to the county of tax-deeded lands. The law provides for a redemption fee of \$2 on each separately valued parcel of property redeemed; the fee is included in the cost of redemption and is paid by the redemptioner. Also, there is deducted from the purchase price of deeded property a fee of \$2 for each separately valued parcel of tax-deeded property sold. This fee is paid by the county. Presently, all fees collected are deposited in the State Redemption Tax Fund. From these moneys the operating costs of the division are paid.

The Tax-deeded Lands Division performs the following functions under the direction of the State Controller.

1. Administers the general procedures for tax sales, tax deeds and redemptions of lands deeded to the State for nonpayment of taxes.
2. Enters into leases for the rental of the tax-deeded property.
3. Advises county officials regarding the levying and collection of tax on real property.
4. Renders service to the counties by setting up an abstract and index of tax-deeded lands.

We recommend that this function be under the General Fund and the balance in the special fund and future fees to be collected be deposited to the General Fund. We can see no reason why this agency should be separate and apart just because its source of finance is directly related to the fees it charges for the specific service it renders. We believe these activities are no less general in nature and beneficial to the State as a whole than the activities of the County Budgets and Reports Division which is financed from the General Fund. We see no reason why a fund of over one-half million dollars should accumulate and lie unused when many similar functions of general State Government are in need of support. The level of service of the tax-deeded lands program should be geared to the State's general interest and the need

Tax-deeded Lands Division—Continued

for the service rather than by the fees collected and the surplus on hand.

It should also be noted that this activity and others that are financed from special funds demand much attention from the Controller and his administrative staff. The Controller and his staff are supported from the General Fund. The deposit of the redemption tax fees to the General Fund will help offset these costs to the general taxpayer.

Eliminating the Redemption Tax Fund will also serve to simplify state accounting and auditing by reducing the number of special funds. A principal recommendation of the firm of Price Waterhouse and Company on the accounting practices of the State, was the reduction in the number of special funds.

Recommendation No. 2

The work load of the division has been steadily decreasing in the past few years. At the time when the work load did not justify some of the experienced personnel in the regular work of the division, contracts were arranged with various counties for the preparation of abstracts of property tax delinquencies. This work has been done on a reimbursement basis with the contracting county remitting the full amount of the salary as well as the expenses of each employee supplied by the Controller.

There are a number of counties that have available personnel to do the work but need experienced supervision in order to prepare an accurate abstract. The Controller proposes to provide this supervision and assistance to counties that have the personnel and to make the cost of supervision a charge against the fees collected without reimbursement by the county. The agency proposed to furnish this service without reimbursement because the local boards of supervisors are unwilling to pay for it.

While we recognize some value to the division in having completed abstracts in every county, we believe this service should be reimbursable. The benefits of completed abstracts go directly to the counties; the boards of supervisors should be sufficiently interested in the value of the service to pay the nominal charges for experienced supervision. Nor do we feel that providing free service to some counties while others pay is an equitable program. Can we be assured that after the free program begins the contracting counties will be willing to continue their contracts and pay for the service?

We recommend deletion of the new position of district manager and disapproval of the proposed nonreimbursable program.

Recommendation No. 3

The budget request for equipment includes an item of \$1,100 for replacement of automobiles (Budget page 413, line 58). We recommend deletion of this amount with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency

Tax-deeded Lands Division—Continued

from the state pool either on a day-to-day basis or monthly assignment basis.

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from broad fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in the introduction to this report.

Recommendation No. 4

Since the work load of the Tax-deeded Lands Division is gradually declining, we are of the opinion that study should be given to consolidation of offices as well as reductions in staff. Rented offices are maintained in Los Angeles, Sacramento, Oakland, Fresno, Ventura and Riverside. We suggest that it would be possible to operate the limited program out of at most three offices: Sacramento, Oakland and Los Angeles.

A major activity of the division is concerned with land that is delinquent but not tax deeded. The staff attempts to effect redemption of the tax delinquent land before it becomes deeded to the State. The volume and exact nature of this work is not easily measurable, but a thorough study should develop the relationship of this activity to the organizational structure. This work is done largely in the county seats. It would appear that this work could be conducted out of three central offices.

The branch offices maintain the records on all the tax-deeded land held by the State. Almost all of this tax-deeded property contained in the records of the division is inactive because it is unsaleable. Since the local offices now handle the records of property located in several counties, no serious additional burden would be imposed upon the public by centralizing these records at three principal locations.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND

ITEM 111 of the Budget Bill

Budget page 401
Budget line No. 7

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

Amount requested	\$15,964
Estimated to be expended in 1954-55 Fiscal Year	19,623
Decrease (18.6 percent)	<u>\$3,659</u>

RECOMMENDATIONS

Amount budgeted	\$15,964
Legislative Auditor's recommendation	15,964
Reduction	<u>None</u>

Additional Support—Continued
ANALYSIS

The accounting and auditing performed by the State Controller on these aid programs to local governmental agencies are performed under the authority of the Construction and Employment Act, Chapter 20, Statutes of 1946 and the Postwar Planning and Acquisition Aid Act, Chapter 47, Statutes of 1944. These programs are gradually coming to an end. The balances available for application as of June 30, 1954, were:

Chapter 20 -----	\$2,523,887
Chapter 47 -----	615,027

The availability of the appropriations was extended so that the funds are available for application until June 30, 1955, and for payment of claims to June 30, 1956.

The work load is decreasing as is evidenced by the 18.6 percent decrease in accounting and auditing costs.

We recommend approval of the amounts budgeted.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM PUBLIC SCHOOL BUILDING LOAN FUND

ITEM 112 of the Budget Bill

Budget page 401
Budget line No. 24

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

Amount requested -----	\$42,209
Estimated to be expended in 1954-55 Fiscal Year -----	41,596
Increase (1.5 percent) -----	\$613

RECOMMENDATIONS

Amount budgeted -----	\$42,209
Legislative Auditor's recommendation -----	42,209
Reduction -----	None

ANALYSIS

The accounting and auditing of school building aid to impoverished school districts is performed by the State Controller in accordance with Chapter 1389, Statutes of 1949. This program, financed by a \$250,000,000 bond issue, is in its later stages. By the end of the 1953-54 Fiscal Year, less than \$7,000,000 remained available for further apportionment. The audit time required for this activity has not dropped off as yet, however. The audit man-years estimated for 1955-56 for this program remain the same as the current year when the time was estimated at four years.

Approval of the amount budgeted is recommended.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM THE STATE SCHOOL BUILDING AID FUND

ITEM 113 of the Budget Bill

Budget page 401

Budget line No. 35

For Additional Support of the State Controller Payable From the

State School Building Aid Fund

Amount requested	\$21,121
Estimated to be expended in 1954-55 Fiscal Year	14,439
	\$6,682

RECOMMENDATIONS

Amount budgeted	\$21,121
Legislative Auditor's recommendation	21,121
	None

ANALYSIS

This program provides state assistance in financing school construction where school districts have insufficient bond capacity to provide needed facilities. A state bond issue and a legislative appropriation totaling \$185,000,000 were authorized in 1952. There is an unobligated balance of approximately \$109,000,000 in this fund.

The accounting and auditing activity is increasing which explains the increase of \$6,682 or 46 percent for this function. This increase is related to the actual staff utilized in accounting and the man-years necessary to audit the completed projects.

We recommend approval of the amount requested.

BOARD OF EQUALIZATION

General Activities

ITEM 114 of the Budget Bill

Budget page 416

Budget line No. 14

55-56

For Support of Board of Equalization From the General Fund

Amount requested	\$11,034,923
Estimated to be expended in 1954-55 Fiscal Year	12,042,239
	\$1,007,316

RECOMMENDATIONS

Amount budgeted	\$11,034,923
Legislative Auditor's recommendation	10,462,179
	\$572,744

Board of Equalization—Continued
ANALYSIS

A summary of our recommended reductions is as follows:

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Automobile replacements:			
General administration, (5)-----	\$6,400	419	41
Assessment standards, (4)-----	4,200	423	7
Sales tax districts, (3)-----	3,150	426	71
1 Public information officer-administration-----	7,356	418	46
1 Associate research technician-research and statistics---	6,060	419	76
70 Positions and related operating expenses,			
Division of Assessment Standards-----	472,210	423	17
Bureau of Tax Assessment			
3 Auditor III-----	22,068	428	74
6 Auditor II-----	36,360	428	75
3 Accountant-auditor I-----	14,940	428	76
Total-----	\$572,744		

The decrease of \$1,007,316, shown on budget page 416, line 14, in the amount requested for 1955-56 from that estimated to be expended during 1954-55 is due to the transfer of all alcoholic beverage control functions from the Board of Equalization to the new Department of Alcoholic Beverage Control on January 1, 1955.

The amount which would have been expended by the Board of Equalization for all programs except alcoholic beverage control had the separation been made on July 1, 1954, can be approximated by reducing the estimated 1954-55 expenditures by \$1,306,787, the amount transferred to the Department of Alcoholic Beverage Control on January 1, 1955, as shown on budget page 416, line 50, which in theory at least represented one-half of the cost of a full year's operation of the alcoholic beverage control function for 1954-55, and is computed as follows:

Estimated to be expended for 1954-55, including	
one-half year's expenditures for alcoholic beverage control-----	\$12,042,239
Less one-half year's expenditures for alcoholic beverage control-----	1,306,787
Remainder, all other programs, 1954-55-----	\$10,735,452

A comparison of this amount with the amount requested for 1955-56 is as follows:

Amount requested, 1955-56-----	\$11,034,923
Estimated to be expended during 1954-55-----	10,735,452
Increase (2.8 percent)-----	\$299,471

We believe that the indicated increase of \$299,471 is a reasonably accurate estimate of the amount of increase requested by the Board of Equalization for its remaining functions for 1955-56.

A reconciliation of the total authorized General Fund positions for 1954-55 as shown in the 1954-55 printed budget, and as shown in the current budget, page 429, line 40, is as follows:

Board of Equalization—Continued

Total, per 1954-55 printed budget-----	2,571.1
Less deleted by Legislature-----	27
Total authorized 1954-55-----	2,544.1
Less deleted by Department of Finance, net-----	2.9
Remainder available-----	2,541.2
Added for contract mapping—wholly reimbursable-----	12
Total-----	2,553.2
Transferred to Department of Alcoholic Beverage Control, January 1, 1955-----	439
Total per current budget, page 429, line 10-----	2,114.2

The increase in expenditures for 1954-55 over those authorized by the Budget Act of 1954 for that period represented by the allocation from the Emergency Fund of \$30,803 (budget page 416, line 51) consists entirely of rent for space in the building at 2229 Grove Street in Oakland. No rent was budgeted for this space originally since it was contemplated that acquisition of the building by the State would eliminate the necessity therefor, but such acquisition has met with unforeseen delay.

Automobile Replacements

The budget request for equipment includes the following amounts for replacement of automobiles:

<i>Division</i>	<i>No.</i>	<i>Amount</i>	<i>Budget page</i>	<i>Line No.</i>
General Administration-----	5	\$6,400	419	41
Assessment Standards-----	4	4,200	423	7
Sales Tax, districts-----	3	3,150	426	71
Total-----	12	\$13,750		

ANALYSIS

We recommend deletion of this amount with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency from the state pool either on a day-to-day basis or monthly assignment basis.

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from broad fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in the latter part of this report, under the analysis for Control Section 3.

In the budget for the General Fund operations of the Board of Equalization for 1954-55, the Legislature adopted our recommendation for the deletion of funds for the replacement of 31 automobiles, including provision for four possible wrecks, leaving a remainder of 27 identifiable vehicles, with the further stipulation that,

Board of Equalization—Continued

- (a) All vehicles owned by the Board of Equalization in the Sacramento area and as many as necessary in the Woodland, Marysville, and Stockton districts be transferred to other parts of the State to meet the need for replacements in the more remote areas,
- (b) All needs of the agency for transportation in the Sacramento area and any needs for additional transportation in the Woodland, Marysville, and Stockton districts be met by use of cars in the state pool, operated by the Department of Finance in Sacramento, on a rental basis for which additional funds were provided, and
- (c) The 27 cars scheduled for replacement, plus any wrecks, be transferred to the Department of Finance pool during the 1954-55 Fiscal Year.

To date 13 of the cars have been surrendered to the state pool for replacement.

General Administration

We recommend that the position of Public Information Officer, Budget page 418, line 46, \$7,356, be abolished.

This is a position in the Los Angeles office, directly responsible to the board member elected from that district; the only one of its kind in the organization, and we believe that the single deputy for each member allowed by the Constitution is sufficient to meet the requirements of Section 15623 of the Government Code.

A reconciliation between the positions authorized for 1954-55 for general administration by the Budget Act of 1954, and those shown for 1954-55 in the current budget is as follows:

Total per 1954-55 budget.....	72.5
Less clerical positions in accounting office transferred to Department of Alcoholic Beverage Control on January 1, 1955.....	3
Remainder	69.5
Add new positions created by transfer and conversion of positions from Sales Tax Division:	
Associate administrative analyst, executive.....	1
Assistant tax counsel, legal.....	1
Total per 1955-56 budget.....	71.5

One of the junior tax counsel positions, budget page 418, line 51, is to be abolished at June 30, 1955, which brings the total authorized positions for 1955-56, shown on budget page 419, line 12, to 70.5, before recommended 1955-56 adjustments.

Research and Statistics

We recommend deletion of funds for one additional associate research technician, budget page 419, line 76, \$6,060.

In general, we believe that research activities in operating agencies should be limited to those directly related to the operations of the agency, and to the extent that additional staff is needed for research of this character we believe it could be provided by administrative action; by conversion of an existing position in some other unit, rather

Board of Equalization—Continued

than by a budget increase, and we would raise no objection to the latter procedure upon approval of the Department of Finance.

Service Division

A reconciliation between the positions authorized for 1954-55, by the Budget Act of 1954, and those shown for that year in the current budget is as follows:

Authorized by the 1954 budget.....	119
Add:	
Established by transfer from Division of Assessment Standards.....	1
Established for mailing—to be abolished when mechanical equipment arrives	1
Total	121
Less:	
Transferred to Department of Alcoholic Beverage Control January 1, 1955	6
Authorized 1954-55 by current budget, page 421, line 32.....	115

Division of Assessment Standards

Positions authorized for 1954-55, per the 1954-55 budget and as shown for that year in the current budget, are reconciled as follows:

Authorized per 1954-55 budget.....	114
Added since for contract mapping (wholly reimbursable by counties)	12
Total	126
Less one appraiser position abolished and transferred to Service Division as an accounting-tabulating supervisor II.....	1
Authorized 1954-55 per current budget, page 421, line 32.....	125

The increase of \$53,061 in the amount requested for 1955-56 over that estimated to be expended during 1954-55, represents the following:

Normal salary adjustments.....	\$16,300
Decrease in salary savings due to decreased vacancies.....	40,000
Increase in operating expenses, chiefly automobile operation and printing	4,284
Decrease in equipment.....	—7,523
Net increase	\$53,061

The Division of Assessment Standards carries on two distinct operations, a contract mapping service for counties which is paid for by the counties and is thus operated at no cost to the State, and its state functions which are to equalize between counties the assessment of local property for purposes of taxation.

The authorized staff, by functions, and the total expenditures which include only the costs of the state functions are as follows for a five-year period, including the budget year:

Fiscal year	Authorized positions			Expenditures	
	Contract mapping	State functions	Total	Per year	Increase over prior year
1951-52.....	28	25	53	\$168,885	—\$14,089
1952-53.....	21	20	41	142,485	—26,400
1953-54.....	24	91	115	265,912	123,427
1954-55.....	36	89	125	575,882	309,970
1955-56.....	36	89	125	628,943	53,061

Board of Equalization—Continued

The Budget Act of 1953 added 70 additional positions for purposes of carrying out the provisions of Section 1831 of the Revenue and Taxation Code (Ch. 1466, Statutes of 1949), as follows:

Principal appraisers	2
Senior appraisers	10
Associate appraisers	16
Assistant appraisers	17
Junior appraisers	21
<hr/>	
Total technical	66
Clerical	4
<hr/>	
Total	70

These additional positions were not all filled immediately and some are still vacant at the present time so that the full cost of the expanded program will not be realized until 1955-56. Accordingly, the increased cost to the State, disregarding for the moment price increases and increases in salary levels, would appear to be the difference between the proposed expenditures for 1955-56 of \$628,943 and the actual expenditures for 1952-53 of \$142,485, or \$486,458. Probably not over 10 percent of this increase is due to price and salary increases.

The authorized staff for 1955-56, as shown in the printed budget, page 422, is as follows:

Chief of division	1
Assistant chief of division	1
Appraisers and related classes	73
Auditor and statistician	2
Draftsman and delineators	4
Clerical	8
<hr/>	
Total	89

This staff is engaged at present in making sample appraisals in all counties of the State in order to determine the relationship between assessed values and market values of property pursuant to Section 1831 of the Revenue and Taxation Code.

According to a report issued by the Board of Equalization in June, 1954, on property tax assessment practices in California, there were 817½ full-time appraisers in the various county assessors' offices in the State on or about January 1, 1953. These were distributed among the major counties as follows:

Los Angeles	201
San Francisco	71
Alameda	60
San Diego	55
San Bernardino	34
Stanislaus	30
San Mateo	23
Santa Clara	22
Sonoma	21.5
All other counties, less than 20 each	300
<hr/>	
Total	817.5

The same report also indicates that an additional 1402.5 seasonal appraisers were employed by the various county assessors during

Board of Equalization—Continued

1951-52 of which 871 were in Los Angeles County, 73 in Alameda, 71 in San Diego, and none in San Francisco.

We recommend deletion of the equivalent of the 70 additional positions established in 1953, and related expenses, amounting to \$472,210, for the following reasons:

The legislative history of Chapter 1466, Statutes of 1949, including two successive postponements of the effective date of its provisions appear to indicate a considerable reluctance on the part of the Legislature to accept its provisions as the final answer to the problem of intercounty equalization of assessment levels.

The present expanded program is directed toward the measurement of assessment ratios in the various counties to be reported upon in July, 1955.

Once these ratios have been developed and reported upon we see no reason to continue the program at its present level until the Legislature has had an opportunity to study the findings and consider their application to the problem on a long-range basis.

The present staff of appraisers in the Division of Assessment Standards is approximately 5 percent of that of the combined staffs of appraisers of all of the county assessors in the State, if we assume that the seasonal appraisers are the equivalent of half-time employees. Such a staff at the state level appears excessive for purposes of a one-half of 1 percent sample of all property assessments on the county rolls.

The report of the Board of Equalization on property tax assessment practices in California issued in June, 1954, shows that considerable improvement has been made in property tax assessment practices in the counties in recent years. Continued improvement in these practices does not require the cooperation of a large staff at the state level.

Sales Tax, Headquarters

Positions authorized for 1954-55 as shown in the 1954-55 printed Budget and those shown in the current Budget for the 1954-55 Fiscal Year are as follows:

Per 1954-55 printed Budget.....	388.5
Less auditors deleted by legislative action.....	3.0
Remainder	385.5
Add transferred from district offices for out-of-state staff.....	6.0
Total per current budget, page 245, line 36.....	391.5

The corresponding total budgeted for 1955-56 is 401.5, an increase of 10, which represents the transfer from district offices to the out-of-state audit staff of the following:

Auditor III	1
Auditor II	9
Total	10

We believe that as long as the out-of-state audit program continues to show greater returns per dollar of cost than the corresponding in-state program, such a change in emphasis is justified. By reference to Table I it will be noted that the out-of-state program returned \$2.90 per dollar of cost as compared to \$1.52 for the in-state program for

Board of Equalization—Continued

1953-54, while for the four-year period ended June 30, 1954, the comparison was \$3.72 as against \$1.56.

The out-of-state audit work is performed by men permanently stationed in Chicago and New York, working under the direct supervision of the headquarters staff in Sacramento.

Organization charts and a distribution of the staff by class of position as of December 17, 1954, were furnished us by the agency. From these we have computed the distribution of the salary cost by units for the 1954-55 Fiscal Year, using the average salaries by class of position as shown in the printed budget, pages 424-425.

The distribution of the number of positions and salary costs for 1954-55, by sections, is as follows:

	<i>No. of positions</i>	<i>Salaries</i>
Office of State Sales Tax Administrator.....	4	\$32,025
Legal section.....	8	50,195
Collections section.....	36	134,551
Procedures section.....	9	52,854
Hearing officer.....	1	8,112
Office of principal auditor.....	2	13,465
Personnel clerks.....	3	9,855
Audit section.....	174	835,790
"Compliance" section.....	154.5	545,181
Total.....	391.5	\$1,682,028

The personnel clerks, the audit section and the "compliance" section are under the supervision of the principal auditor.

The audit section is further subdivided into the following units:

	<i>No. of positions</i>	<i>Salaries</i>
Audit section supervisor.....	2	\$12,225
Audit review, intra-state audits.....	16	83,289
Auto use tax.....	24	108,106
Petitions and refunds.....	19	114,124
Checking and billing.....	39	145,828
Audit requests and statistics.....	35	150,207
Out-of-state audits, review and supervision.....	15	79,268
Chicago staff.....	12	72,570
New York staff.....	12	70,173
Total.....	174	\$835,790

The "compliance" section is further subdivided into the following units:

	<i>No. of positions</i>	<i>Salaries</i>
Compliance section supervisor.....	1	\$8,112
Tax return review.....	34	136,229
Ledgers.....	30	101,037
Master files.....	54	180,351
Alphabetical files.....	16.5	55,658
Permits.....	19	63,794
Total.....	154.5	\$545,181

Board of Equalization—Continued

We have felt justified in showing the organization of the headquarters office of the Sales Tax Division in considerable detail since it represents a costly operation which consists largely of review and service activities and would appear to merit further study, particularly from the standpoint of manpower utilization.

A study made several years ago by this office indicated that costs of administration of the sales tax in California were higher than those in any other major sales tax state measured either in terms of costs per account or costs per \$1,000 of taxable sales. Costs in four of the larger states for 1948-49 were as follows:

	<i>Per \$1,000 of taxable sales</i>	<i>Per account</i>
California -----	\$0.64	\$28.00
Illinois -----	.31	21.02
Michigan -----	.29	15.73
Washington -----	.37	11.21

Costs in Michigan and Washington included costs of all taxes administered by the Department of Revenue and the Tax Commission, respectively.

Comparable costs in California for 1953-54 were \$0.65 and \$36.80, respectively.

No doubt the high costs of the headquarters office in California is a contributing factor in California's relatively high costs.

Sales Tax, Districts

Total cost of sales tax administration in California including all overhead, is computed by the agency to be as follows, for 1953-54:

	<i>Amount</i>	<i>Percent</i>
Field audit program -----	\$5,734,877	56.8
Compliance program -----	4,366,096	43.2
Total -----	\$10,100,973	100.0

The audits completed during 1953-54 consumed 878,150 hours of direct field audit time, the equivalent of about 488 man-years and cost \$5,613,722 as shown in Table 1. The difference between this amount and the total of \$5,374,877 shown above represents fluctuations in work in process at the beginning and end of the year.

The agency estimates that during a three-year period within which a deficiency may be assessed, the program covers about 39 percent of the total number of taxpayers, 68 percent of the total tax base and locates about 75 percent of the potential additional revenue not reported.

This is in terms of the taxpayers which become "ripe for audit" during the period either because they go out of business or have been in business three years since starting or since last audited.

In evaluating such a program as this we think the primary consideration should be the amount of net revenue produced per dollar of cost. This is shown in the aggregate for the last fiscal year and the last four fiscal years by administrative district in Tables 1 and 2.

Board of Equalization—Continued

Table 1. Sales Tax Field Audit Revenue and Cost, by Districts, 1953-54

<i>District</i>	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
San Bernardino -----	\$513,943	\$300,886	\$1.71
Stockton -----	328,413	192,726	1.70
Los Angeles -----	3,722,277	2,251,733	1.65
Fresno -----	385,841	236,398	1.63
Oakland -----	760,341	468,322	1.62
Marysville -----	170,163	107,195	1.59
Santa Barbara -----	145,895	98,370	1.48
Santa Rosa -----	243,733	176,968	1.38
Sacramento -----	189,888	138,888	1.37
San Francisco -----	930,080	683,655	1.36
Redding -----	87,044	67,066	1.30
Woodland -----	150,011	118,021	1.27
San Jose -----	336,761	289,552	1.16
San Diego -----	275,089	286,359	.96
Totals, California -----	\$8,239,479	\$5,416,139	\$1.52
Out-of-state -----	572,934	197,588	2.90
Totals -----	\$8,812,413	\$5,613,722	\$1.57

Table 2. Sales Tax Field Audit Revenue and Cost, by Districts, for Four Years Ended June 30, 1954

<i>District</i>	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
Stockton -----	\$1,220,279	\$706,915	\$1.73
Fresno -----	1,463,785	881,826	1.66
San Francisco -----	4,228,679	2,555,734	1.65
San Bernardino -----	1,698,837	1,039,968	1.63
Los Angeles -----	13,093,893	8,159,129	1.60
Oakland -----	2,670,892	1,688,638	1.58
Marysville -----	655,739	423,090	1.55
Redding -----	388,701	251,121	1.55
San Jose -----	1,560,526	1,050,991	1.48
Santa Rosa -----	904,548	629,987	1.44
Woodland -----	555,008	392,508	1.41
Sacramento -----	630,872	475,709	1.33
Santa Barbara -----	437,947	354,982	1.23
San Diego -----	1,219,946	1,064,248	1.15
Totals, California -----	\$30,729,652	\$19,674,846	\$1.56
Out-of-state -----	2,886,493	775,434	3.72
Totals -----	\$33,616,145	\$20,450,280	\$1.64

The most significant fact to us which these tables disclose is the variation shown over a four-year period (Table 2) in the revenue produced per dollar of cost as between districts throughout the State. In San Diego, for example, the program produced only 15 percent more than it cost over the four-year period, whereas in Stockton it produced 73 percent more than it cost; the net profit per dollar of cost, so to speak, being almost five times as great in Stockton as in San Diego.

There is another type of analysis which we think is even more significant and that is an analysis by size of deficiency per audit hour. Given such an analysis and given the cost per audit hour it is possible to determine how much of the program is profitable and how much is not and given such information a tax agency should be in a position

Board of Equalization—Continued

to take steps to determine why certain audits are unprofitable and to divert audit manpower into more profitable channels.

This type of analysis was first made of the Sales Tax Audit program by this office for the year 1948-49, commented on in our 1951-52 analysis, and described in a special report issued in July, 1951, and so far as we know is the first analysis of its kind ever attempted of any similar tax audit program.

A similar analysis was made of the audit results for 1950-51, commented upon in our 1952-53 Budget Analysis and further summarized in Table 5 on page 236 of our 1954-55 analysis. This analysis indicates that 56.56 percent of the total time was spent on audits no one of which produced revenue equivalent to its cost of \$4.74 per hour. The total revenue produced by this group amounted to \$402,955, at a cost of \$2,452,265 or a net loss of \$2,049,310.

This type of analysis for the alcoholic beverage taxes is shown in Tables 5, 6, and 7 under the heading Alcoholic Beverage Control Division, Bureau of Tax Assessment, which follows, while that for the remaining taxes is shown in Tables 9, 10, and 11 in our analysis of Item 115, Division of Highway Taxes.

In the absence of any current data for such an analysis of the sales tax audit program we estimate that the distribution of the sales tax audit results for 1953-54 were as follows, exclusive of those from audits made out of State:

Table 3. Audit Hours, Net Revenue and Audit Costs, by Class of Audit, Excluding Those Made Out of State, as Estimated for 1953-54

Class of audit	Audit hours		Net revenue		Cost	Excess of net revenue over cost
	Number	Percent	Amount	Percent		
Refunds and deficiencies under \$6.06 per hour----	515,145	61.64	\$665,750	8.08	\$3,338,507	—\$2,672,757
Deficiencies over \$6.06 per hour----	320,587	38.36	7,573,729	91.92	2,077,632	5,496,097
Total -----	835,732	100.00	\$8,239,479	100.00	\$5,416,139	\$2,823,340

In making the foregoing analysis we have distributed the total hours, net revenue, and costs as between audits with deficiencies of over \$6.06 per hour and all others in the same ratio as shown by our analysis of audits for 1950-51. The actual cost per audit hour for 1953-54 was \$6.48, but we were unable to make a more precise estimate than that based on a deficiency of \$6.06 per hour.

This analysis indicates that almost 62 percent of the total audit effort, probably more if we were able to make a more accurate estimate or if actual data had been available, is devoted to audits which produced \$665,750 in net revenue and cost \$4,448,507 to make, or a loss of \$2,672,757.

Obviously the State would have been better off had these audits not been made.

Tax administrators often maintain that the most important results of an audit program are the improvement of future self-assessments. We grant that this argument may have some validity as it relates

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to audits of taxpayers where a substantial deficiency is disclosed, and for practical purposes we would define a substantial deficiency as one which exceeds the cost of making the audit. We cannot agree, however, that audits of taxpayers who are reporting substantially the correct amounts of tax can effect any appreciable improvement in future self-assessments. We think that most of these audits are unnecessary and that either the agency should direct its program into more profitable channels so that this ratio is substantially reduced, or that the audit staff should be cut back progressively each year until the percentage does show a reduction.

The keys to diverting the total audit effort into more profitable channels and thus reducing the percentage of time spent on non-profitable audits would appear to be better selection and better methods of conducting the audits themselves, with particular emphasis on speedy termination of unprofitable cases.

A good selection process involves much more than a mere mechanical segregation of cases by size and class of business. It involves bringing to bear, at the point where the actual field assignment is to be made, the best experience and talent of the agency, both statistical and practical. A preliminary screening by an actual inspection of records by the best qualified personnel available before commencement of any field audit might well be an integral part of a good selection process.

The sample sales tax audit program completed recently by the staff of the Board of Equalization involves an estimate of what the total "tax change" would be from 100 percent auditing. Its conclusions are based on an analysis of results during the three years ended December 31, 1952. It classifies all taxpayers into 17 different groups or "cells," by size and class of business and attempts to show by the statistical method known as "marginal analysis" to what extent it is theoretically profitable to audit each cell before reaching the point of diminishing returns. As a study of conditions which existed during a past period and as a clue to redeployment of staff the report has value. However, it does not furnish positive justification for any increase in the audit staff since its conclusions are predicated on the assumption that there will be no improvement in methods of selection of accounts within each cell nor of audit techniques, a limitation which the author of the study is careful to point out in several places in his published reports. We cannot agree that the ultimate in effectiveness has been achieved by the Board of Equalization either in methods of selection within cells or in audit techniques.

The study does not measure nor furnish means of remedying the condition which our analysis has brought to light, namely, the fact that the major portion of the staff's time at present is devoted to sub-marginal audits; i.e., those which do not pay their way.

A part of the study consisted of an audit of 2,061 active accounts selected on a random sample basis, the sampling ratio for each of the 15 "cells" included ranging from 0.4 percent to 20 percent. We have constructed the following table, based on an analysis of the results of these audits, by expanding the sample, cell by cell, to cover the universe sampled, and using a cost per hour of \$5.67, the same as that used by the agency in its study.

Board of Equalization—Continued

Table 4. Analysis of Estimated Audit Results for Three-year Period Ended December 31, 1952, of Accounts Not Audited During That Period, Based on Random Sample Audits

	Number of audits		Audit hours		Revenue	Cost	Excess of revenue over cost
	Number	Percent	Number	Percent			
Refunds -----	4,680	4.8	100,095	5.1	—\$444,906	\$567,538	—\$1,012,444
Deficiencies less than cost ----	76,115	77.4	1,231,474	62.2	1,933,425	6,982,458	—5,049,033
Subtotal ---	80,795	82.2	1,331,569	67.3	\$1,488,519	\$7,549,996	—\$6,061,477
Deficiencies more than cost ----	17,468	17.8	649,300	32.7	11,797,669	3,681,531	8,116,138
Totals ----	98,263	100.0	1,980,869	100.0	\$13,286,188	\$11,231,527	\$2,054,661

The distribution of the audits, profit wise, in the foregoing table bears a striking similarity to that in Table 3.

Another factor which distorts the result of the sample audit study is the use of so-called "tax change" or "misplaced tax" rather than net revenue as the measuring device. Under this concept, refunds are added to deficiencies rather than deducted.

This is comparable to a department store constructing its profit and loss statement by adding its returned merchandise to its gross sales in order to determine the effectiveness of its management. We recognize the fact that good tax administration requires the granting of refunds where discovered or where claimed, but we do not believe that the desirability of auditing for refunds should be measured by the same yardstick as is used for auditing for revenue, namely, dollar amount of change per audit hour.

In any statistical or accounting study of a tax audit program, we believe refunds should be handled in one of two ways; either deducted from deficiencies according to the familiar accounting concept of net revenue as we have done in all of our tabulations, and which we regard as the simple practical solution, or handled as an entirely separate part of the study all the way along the line.

Alcoholic Beverage Control Division, Bureau of Tax Assessment

This is the only unit of the Alcoholic Beverage Control Division remaining with the Board of Equalization as the result of the passage of Proposition No. 3, on November 2, 1954. Under Article XX, Section 22 of the Constitution as it now reads, the power to assess and collect excise taxes remains with the Board of Equalization.

We believe a more appropriate title for this unit, under the changed conditions, would be Alcoholic Beverage Tax Division.

This bureau had 68 positions authorized by the Budget Act of 1954, but 14 of these were transferred to the Department of Alcoholic Beverage Control on January 1, 1955, to provide staff for the off-sale general license fee audit activity of that agency. These positions were as follows:

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	No.
Auditor III	3
Auditor II	7
Accountant-auditor I	3
Intermediate stenographer-clerk	1
Total	14

The functions of the bureau are to assess and collect the excise taxes which are imposed on wholesale distributions of beer, wine, and distilled spirits by manufacturers, importers, and other wholesalers. The taxes on beer and wine yield about \$4,000,000 per year while those on distilled spirits yield about \$16,000,000. These taxes are collected from four groups of taxpayers of which there were 1,222 at a recent date distributed by class of tax, as follows:

Distilled spirits excise tax:	
All classes of wholesalers of distilled spirits	314
Beer and wine excise tax:	
Beer and wine importers	535
Wineries	357
Breweries	16
Total	908
Total	1,222

Under Section 24520 of the Business and Professions Code (Alcoholic Beverage Control Act) taxpayers are required to post security for payment of the tax and under Section 24523 a taxpayer's license " * * * shall be automatically suspended upon cancellation of his bond, or if the bond becomes void or unenforceable for any reason, or if the taxpayer fails to pay any taxes or penalties due * * * " under the law. Under the Constitution as it now reads, the Department of Alcoholic Beverage Control has the responsibility for issuing, suspending, and revoking all licenses for the manufacture, importation, and sale of intoxicating liquors including those of nonretailers, the latter including all the taxpayers responsible for payment of the excise tax.

The primary purpose in licensing nonretailers is to safeguard the revenues of the State, and we believe it would be more logical for the responsibility for licensing this group to rest with the tax agency rather than the Department of Alcoholic Beverage Control, and we recommend that the Constitution be amended to so provide. In the meantime, effective enforcement of the two code sections previously mentioned will require close cooperation between the two agencies, and perhaps some duplication in record keeping.

The audit activity of this bureau involves two operations. The first consists of the recording and tracing of all movements of distilled spirits within the State, including all imports, and the recording and tracing of all beer and wine imports. Information as to movements is compiled from weekly or monthly reports required from various classes of licensees and by the use of punched card equipment, each taxpayer's potential sales volume is thus established, which is reconciled periodically with the sales actually reported on tax returns. Any discrepancies are investigated, by field inspections, if necessary. Lists of discrepancies, by individual taxpayers, are forwarded to field personnel every three months for investigation and apparently their investiga-

Board of Equalization—Continued

tion is not a time consuming job. The bulk of the work is a headquarters operation, carried on largely by clerical personnel.

The other phase of the audit activity consists in actual field examination of taxpayers' records, using as the basis, where applicable, the records of potential sales volume previously compiled, as described in the foregoing.

It is the objective to audit all distilled spirits taxpayers and breweries once every six months and all wineries and beer and wine importers once each year, thus achieving 100 percent coverage of all taxpayers involved.

During the year ended June 30, 1954, audits were completed as follows:

<i>Excise tax</i>	<i>No. of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Excess of cost over net revenue</i>
Distilled spirits ----	455	21,414	\$33,030	\$134,691	\$101,661
Beer and wine-----	966	16,551	6,859	103,280	96,421
Totals -----	1,421	37,965	\$39,889	\$237,971	\$198,082

The costs shown include all overhead items, some of which, such as contributions to the employees' retirement system and services by the Personnel Board, etc., are not included in the support budget of the agency but are properly included in such a compilation as this.

From the foregoing it appears that the 1,421 audits completed at a cost of \$237,971 produced only \$39,889 in revenue, the cost exceeding the revenue by \$198,082. Thus it cost six dollars for every dollar of revenue produced. In the case of the distilled spirits audits it cost four dollars for every dollar of revenue produced while for the beer and wine audits it cost \$15 to produce one dollar of revenue.

In Tables 5, 6, and 7 which follow, the audits are further classified into four groups, those which produced refunds, those which produced no change, those which produced deficiencies, but where no single audit produced revenue to equal its costs, and those which produced deficiencies in excess of cost in every case.

Table 5. Distilled Spirits Audits Completed, 1953-54

<i>Class of audit</i>	<i>Number of audits</i>		<i>Audit hours</i>		<i>Net revenue</i>	<i>Total cost</i>	<i>Excess of cost over net revenue</i>
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>			
Refunds -----	56	12.3	3,438	16.1	—\$2,193	\$21,625	\$23,818
No change -----	164	36.1	1,987	9.3	---	12,498	12,498
Deficiencies less than cost ----	224	49.2	14,315	66.8	13,409	90,038	76,629
Subtotals ---	444	97.6	19,740	92.2	\$11,216	\$124,161	\$112,945
Deficiencies more than cost ----	11	2.4	1,674	7.8	21,814	10,530	—11,284
Totals -----	455	100.0	21,414	100.0	\$33,030	\$134,691	\$101,661

Board of Equalization—Continued

Table 6. Beer and Wine Audits Completed, 1953-54

Class of audit	Number of audits		Audit hours		Net revenue	Total cost	Excess of cost over net revenue
	Number	Percent	Number	Percent			
Refunds -----	189	19.6	4,770	28.8	—\$5,595	\$29,762	\$35,357
No change -----	498	51.6	3,510	21.2	---	21,904	21,904
Deficiencies less than cost -----	257	26.5	7,991	48.3	8,306	49,864	41,558
Subtotals ---	944	97.7	16,271	98.3	\$2,711	\$101,530	\$98,819
Deficiencies more than cost -----	22	2.3	280	1.7	4,148	1,750	—2,398
Totals -----	966	100.0	16,551	100.0	\$6,859	\$103,280	\$96,421

Table 7. Distilled Spirits and Beer and Wine Audits Completed, 1954-55

Class of audit	Number of audits		Audit hours		Net revenue	Total cost	Excess of cost over net revenue
	Number	Percent	Number	Percent			
Refunds -----	245	17.2	8,208	21.6	—\$7,788	\$51,387	\$59,175
No change -----	662	46.6	5,497	14.5	---	34,402	34,402
Deficiencies less than cost -----	481	33.9	22,306	58.8	21,715	139,902	118,187
Subtotals ---	1,388	97.7	36,011	94.9	\$13,927	\$225,691	\$211,764
Deficiencies more than cost -----	33	2.3	1,954	5.1	25,962	12,280	—13,682
Totals -----	1,421	100.0	37,965	100.0	\$39,889	\$237,971	\$198,082

These tables indicate that from the standpoint of direct revenue produced 92.2 percent of the total time spent on distilled spirits audits, 98.3 percent of the total time spent on beer and wine audits, or 94.9 percent of the time spent on the combined total, produced net revenue of \$13,927, at a cost of \$225,691, an excess of cost over revenue of \$211,764.

Obviously, such an expenditure as this cannot be justified on the grounds of the direct revenue produced since only 33 audits involving 5.1 percent of the total time, at a total cost of \$12,280 showed any profit; the amount being \$13,682. These audits involved 1,954 audit hours, the equivalent of about one man-year of an auditor's time, while the nonprofitable group involved 36,011 audit hours, or the equivalent of about 20 man-years.

Since this audit activity is not a revenue producer its only value would appear to be for policing purposes; purposes which we believe can be achieved satisfactorily at substantially less cost, with more emphasis on sampling. *We accordingly recommend that it be reduced by approximately one-third by the abolition of the following positions.*

	Number	Amount	Budget page	Line number
Auditor III -----	3	\$22,068	428	74
Auditor II -----	6	36,360	428	75
Accountant-auditor I -----	3	14,940	428	76
Totals -----	12	\$73,368		

Board of Equalization—Continued

Centralized Revenue Administration

We have previously recommended the establishment of a Department of Revenue and Taxation to be headed by a single director appointed by and responsible directly to the Governor to which should be transferred the responsibility for the administration of all major state taxes, including those now administered by the Board of Equalization, and are in general agreement with the plan for state organization recommended for a Department of Revenue presented to a subcommittee of the Assembly Interim Committee on Government Organization by the Chief Administrative Analyst of the Department of Finance on January 10, 1955.

In a report presented verbally to the same subcommittee at the same time by Louis J. Kroeger and Associates, personnel and management consultants of San Francisco and Los Angeles, a form of organization for such a department was recommended which it was stated could reduce costs of state tax administration by as much as \$2,725,000 per year. We have not had an opportunity to analyze the recommendations contained in this report since it is not yet available for general distribution.

We have long been aware of certain shortcomings in the operations of the Board of Equalization which we believe are due to management deficiencies inherent in the agency as presently constituted and which we believe can be cured only by a major reorganization such as that proposed.

Some of the most important of these from the budgetary standpoint are:

1. Lack of strong unified centralized administrative control at the top level.
2. Unnecessary duplications of field office facilities predicated upon a district organization based on the geographical boundaries of the existing equalization districts from which the four board members are elected.
3. Too much emphasis on the "service" aspects of tax administration at the expense of efficiency and economy, which manifests itself in such ways as the multiplicity of district and branch offices, the philosophy which stresses the "educational" value of the field audit program at the expense of the revenue producing aspects and in other ways.
4. Lack of consistent standards for the establishment of district and branch offices, or for the proper functioning of such offices.
5. Lack of an over-all staffing pattern for field offices.
6. Lack of a clearly understood policy covering the proper objectives of the field audit program.
7. Lack of adequate standards or statistical or cost data for evaluation of the problems of manpower utilization.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 115 of the Budget Bill

Budget page 146
Budget line No. 21

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

Amount requested	\$783,787
Estimated to be expended in 1954-55 Fiscal Year	759,989
Increase (3.1 percent)	\$23,798

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$35,579	\$35,579	---	431	69
Operating expense	7,075	7,075	---	431	70
Equipment	11,248	11,248	---	431	71
Total expenditures for support	\$53,902	\$53,902	---	431	73
Increased reimbursement from Motor Vehicle Fuel Fund (Budget Bill Item 117)	—30,104	—30,104	---	431	75
Net increase	\$23,798	\$23,798	---		

RECOMMENDATIONS

Amount budgeted	\$783,787
Legislative Auditor's recommendation	752,031
Reduction	\$31,756

ANALYSIS

A summary of our recommended reductions is as follows:

	<i>Amount</i>	<i>Budget</i>	<i>Line</i>
2 Intermediate stenographer-clerks	\$5,832	430	52
2 Auditor II	11,874	431	12
1 Accountant-auditor I	4,834	431	13
1 Intermediate stenographer-clerk	2,916	431	29
Replacement of six automobiles	6,300	431	52
Total	\$31,756		

This division assesses the motor vehicle transportation license tax (truck tax) and the motor vehicle fuel license tax (gasoline tax), assesses and collects the use fuel tax (diesel tax) and administers the Itinerant Merchants Act. The State Controller collects the first two taxes and makes refunds of gasoline taxes where the gasoline is used for nonhighway purposes, although this division of the Board of Equalization handles all other details of administration for these two taxes such as processing current tax returns and field auditing.

It appears to us that this separation of responsibility for details of administration of the truck tax and the gasoline tax between two agencies, the Board of Equalization and the State Controller, serves no useful purpose and merely adds to the costs of administration, and that substantial savings would result if all details of adminis-

Division of Highway Taxes—Continued

tration were handled by a single agency, as is the case with the sales tax, the personal income tax, the bank and corporation tax and the unemployment insurance tax.

The increase of \$3,630 in amounts estimated to be expended for 1954-55, over that authorized by the Budget Act of 1954 shown in the current budget, page 417, line 7, as an emergency authorization, is for temporary help to assist in integrating the filing operations of the three taxes administered by this division, a nonrecurring operation.

The budget as approved for 1954-55 showed 214 authorized positions for this division, whereas the current budget shows 216 as authorized for 1954-55. The increase in two results from a transfer of two clerical positions from the sales tax division, district offices, with a corresponding decrease in the budget of that division.

Authorized positions in headquarters of 79, shown on budget page 430, line 50, represents a decrease of nine from the 84 shown in the preceding year's budget, and is accounted for by the transfer of three auditors and six field representatives from headquarters to the districts as part of the program to decentralize the field work involved in administration of the use fuel tax.

The increase of \$53,902 in the total expenditure for support as requested for 1955-56 represents the following:

Salaries

3 additional clerical positions -----	\$8,748
Normal salary increases for existing positions -----	18,106
Decrease in salary savings due to anticipated reduction in employee turnover -----	8,725
Total salaries -----	\$35,579
Operating expenses -----	7,075
Equipment—additional -----	2,612
Equipment—replacements -----	8,636
Total -----	\$53,902

Total expenditures budgeted for support of the Division of Highway Taxes for 1955-56 are \$1,509,489 (Budget page 431, line 58), which are apportioned among funds, as follows:

Motor Vehicle Transportation Tax Fund (Budget page 416, line 21)	\$783,787
Motor Vehicle Fuel Fund (Budget page 416, line 35) -----	704,057
Itinerant Merchants Fund (Budget page 416, line 28) -----	21,645
Total -----	\$1,509,489

Revenue from the "truck tax" is deposited in the first fund, and the balance after deducting refunds and cost of administration is transferred to the Highway Users Tax Fund for highway purposes. A similar procedure is followed with respect to revenue from the "gasoline tax" and the use fuel tax, except that they are deposited in the Motor Vehicle Fuel Fund in the first instance. There would appear to be no need for two "feeder funds" for the Highway Users Tax Fund in the case of these three taxes. We recommend that the Motor Vehicle Transportation Tax Fund be abolished and that reve-

Division of Highway Taxes—Continued

nues from the "truck tax" be deposited in the Motor Vehicle Fuel Fund.

Audit Activities

Audit activities are carried on of five groups of taxpayers and licensees, as shown in Table 8.

Table 8. Summary of Audits Completed, Division of Highway Taxes, 1953-54

<i>Type of Tax</i>	<i>Number of audits</i>	<i>Audit hours</i>	<i>Adjusted gross revenue</i>	<i>Estimated total cost</i>	<i>Excess of revenue over cost</i>
Gasoline tax:					
Fully licensed distributors	263	12,666	\$29,088	\$78,022	—\$48,934
Limited licensed distributors	53	2,115	7,336	13,028	—5,692
Producers and brokers	338	3,449	---	21,246	—21,246
Total gasoline tax	654	18,230	\$36,424	\$112,296	—\$75,872
Transportation tax	5,383	45,873	817,284	365,608	451,676
Use fuel tax	2,397	22,073	301,453	209,473	91,980
Total all taxes	8,434	86,176	\$1,155,161	\$687,377	\$467,784

Fully licensed distributors under the gasoline tax are the manufacturers of gasoline who pay the tax as wholesalers. There were 173 of these on September 30, 1954, of which only about 100 are taxpayers. The seven major oil companies pay about 78 percent of the total gasoline tax and the 18 largest distributors, including the former, pay about 96 percent of the total.

Limited licensed distributors of whom there were 280 at September 30, 1954, are dealers in liquified petroleum gas who are licensed to purchase these products "ex-tax" from the producers. Most of it is sold for heating and industrial purposes in containers from which it cannot be withdrawn for use in motor vehicles. It is taxable only when sold in receptacles which permit its withdrawal for use in motor vehicles. Less than 2 percent of the total motor vehicle fuel license tax is paid by limited licensed distributors.

Producers and brokers, of which there were 27 producers and 1,724 brokers at September 30, 1954, are not taxpayers. They are licensed and audited for purposes of controlling movements of all taxable petroleum products involved in the over-all distribution of motor vehicle fuel.

Transportation tax licensees, of which there are about 25,000, pay a tax measured by gross receipts, whereas use fuel tax licensees, of which there are about 8,000, pay a gallonage tax on diesel fuel.

Tables 9, 10, and 11 which follow, further analyze these five groups of audits by classifying them into those producing refunds, those producing no change, those producing deficiencies of less than cost and those producing deficiencies of more than cost.

Division of Highway Taxes—Continued

Table 9. Motor Vehicle Fuel Tax Audits Completed, 1953-54

	Number of audits		Audit hours		Revenue	Total cost	Excess of revenue over cost
	Number	Percent	Number	Percent			
Fully licensed distributors:							
Refunds ----	6	2.3	952	7.5	—\$1,725	\$5,864	—\$7,589
No change --	225	85.6	6,655	52.5	---	40,995	—40,995
Deficiencies less than cost -----	19	7.2	4,251	33.6	5,644	26,186	—20,542
Subtotal --	250	95.1	11,858	93.6	\$3,919	\$73,045	—\$69,126
Deficiencies more than cost -----	13	4.9	808	6.4	25,169	4,977	20,192
Total ---	263	100.0	12,666	100.0	\$29,088	\$78,022	—\$48,934
Limited licensed distributors:							
Refunds ----	8	15.1	221	10.4	—\$6,637	\$1,361	—\$7,998
No change --	23	43.4	386	18.3	---	2,378	—2,378
Deficiencies less than cost -----	13	24.5	962	45.5	2,742	5,926	—3,184
Subtotal --	44	83.0	1,569	74.2	—\$3,895	\$9,665	—\$13,560
Deficiencies more than cost -----	9	17.0	546	25.8	11,231	3,363	7,868
Total ---	53	100.0	2,115	100.0	\$7,336	\$18,028	—\$5,692
Producers and brokers:							
Total, all no change ---	338	100.0	3,449	100.0	---	\$21,246	—\$21,246
Combined total:							
Refunds ----	14	2.1	1,173	6.4	—\$8,362	\$7,225	—\$15,587
No change --	586	89.6	10,490	57.6	---	64,619	—64,619
Deficiencies less than cost -----	32	4.9	5,213	28.6	8,386	32,112	—23,726
Subtotal --	632	96.6	16,876	92.6	\$24	\$108,956	—\$103,932
Deficiencies more than cost -----	22	3.4	1,354	7.4	36,400	8,340	28,060
Total ---	654	100.0	18,230	100.0	\$36,424	\$112,296	—\$75,872

Cost of making the various classes of motor vehicle fuel (gasoline tax) audits shown in table 9 is estimated by the agency at \$6.16 per hour for 1953-54. On this basis all of the programs cost more than they produced in the form of direct revenue, and there were only 22 out of a total of 654 audits which showed a "profit," i.e., where the revenue exceeded the cost.

Obviously, these programs cannot be justified on the basis of direct revenue produced, but only on the grounds that they tend to safe-

Division of Highway Taxes—Continued

guard total self-assessments. For this purpose we think a sampling should suffice, particularly in the case of fully licensed distributors where the audit coverage is 100 percent.

The equivalent of 10.1 man-years of direct audit time was expended on these programs during 1953-54 as follows:

	Audit hours	Man- years
Fully licensed distributors -----	12,666	7.0
Limited licensed distributors -----	2,115	1.2
Producers and brokers -----	3,449	1.9
Total -----	18,230	10.1

We recommend that the audit program be reduced by the deletion of three auditor positions, with particular emphasis on reducing the audit coverage of fully licensed distributors, to be accomplished by abolishing the following existing positions:

	Number	Amount	Budget page	Line No.
Auditor II -----	2	\$11,874	431	12
Accountant-auditor I -----	1	4,834	431	13
	3	\$16,708		

Table 10. Transportation Tax Audits Completed, 1953-54

	Number of audits		Audit hours		Revenue	Total cost	Excess of revenue over cost
	Number	Percent	Number	Percent			
Refunds -----	257	4.8	2,634	5.7	—\$29,687	\$20,993	—\$50,680
No change -----	2,375	44.1	11,126	24.3	---	88,674	—88,674
Deficiencies less than cost ---	1,314	24.4	14,146	30.8	45,181	112,744	—67,563
Subtotal --	3,946	73.3	27,906	60.8	\$15,494	\$222,411	—\$206,917
Deficiencies more than cost ---	1,437	26.7	17,967	39.2	801,790	143,197	658,593
Total -----	5,383	100.0	45,873	100.0	\$317,284	\$365,608	\$451,676

Table 11. Use Fuel Tax Audits Completed, 1953-54

	Number of audits		Audit hours		Revenue	Total cost	Excess of revenue over cost
	Number	Percent	Number	Percent			
Refunds -----	70	2.9	795	3.6	—\$3,316	\$7,541	—\$10,857
No change -----	532	22.2	3,068	13.9	---	29,117	—29,117
Deficiencies less than cost ---	841	35.1	9,447	42.8	33,160	89,654	—56,494
Subtotals --	1,443	60.2	13,310	60.3	\$29,844	\$126,312	—\$96,468
Deficiencies more than cost ---	954	39.8	8,763	39.7	271,609	83,161	188,448
Totals -----	2,397	100.0	22,073	100.0	\$301,453	\$209,473	\$91,980

Distribution of the foregoing audits by classes was estimated for the full year on the basis of the actual distribution recorded for the last six months of the fiscal year.

Division of Highway Taxes—Continued

Cost per hour of transportation tax audits, Table 10, was estimated by the agency at \$7.97, and for use fuel tax audits, Table 11, at \$9.49 for 1953-54.

In both instances the programs showed an over-all profit although in each instance about 60 percent of the total direct audit time was spent on audits which cost more to make than the revenue which they produced.

We believe that this percentage of nonproductive audit time can be substantially reduced by better selection of taxpayers for audit and by improved audit procedures and recommend that data comparable to that shown in Tables 10 and 11 be compiled for 1955-56 and submitted to the Legislative Auditor and the Department of Finance in time for study in connection with the budget request for 1956-57. We make a like recommendation as to the data contained in Table 9 relating to Motor Vehicle Fuel Tax Audits.

Automobile Replacements

The budget request for equipment includes \$6,300 for the replacement of six automobiles. Budget page 431, line 52. We recommend deletion of this amount with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency from the state pool either on a day-to-day basis or monthly assignment basis.

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from broad fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in the latter part of this report, under the Analysis for Control Section 3.

In approving the budget for the Division of Highway Taxes for 1954-55 the Legislature deleted funds for the replacement of six automobiles and accepted our recommendation that in lieu thereof these cars be transferred to the state pool, which in turn would furnish equivalent transportation on a rental basis. As this is written, none of the six cars has been surrendered to the state pool.

2 Intermediate stenographer-clerks	\$5,832
1 Intermediate stenographer-clerk	2,916

We recommend deletion of funds for these three positions, the first two for headquarters, Budget page 430, line 52, and the last for districts, Budget page 431, line 29.

Our reason for this recommendation is that there is no clear showing that they are directly related to work load increases. Furthermore, as pointed out in the preceding sections related to auditing, there are indications that the audit activity could be curtailed without any loss of revenue.

Division of Highway Taxes—Continued

We believe that if a real need for any or all of these three positions should develop on a work load basis, they can be established administratively through the abolition of existing auditor positions, and that accordingly no additional funds should be provided for the establishment of these additional positions at this time.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 116 of the Budget Bill

Budget page 416
Budget line No. 28

For Additional Support of Division of Highway Taxes From the Itinerant Merchants Fund

Amount requested	\$21,645
Estimated to be expended in 1954-55 Fiscal Year	21,645
Increase	None

RECOMMENDATIONS

Amount budgeted	\$21,645
Legislative Auditor's recommendation	21,645
Reduction	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of licensing itinerant merchants (Sections 16300-16451 of the Business and Professions Code), the expenditures for personnel, operating expenses and equipment being paid out of that fund in the first instance and included in the detailed budget data supporting Item 115 of the Budget Bill.

The amount authorized for 1954-55 by the Budget Act of 1954, \$23,251, exceeded the amount currently estimated to be expended for that year, or \$21,645, by \$1,606, due to anticipated savings during the current fiscal year.

Revenue for the Itinerant Merchants Fund, estimated at \$27,000 per year for the current and budget years (Budget page 432, line 18) consists entirely of license fees and is expected to exceed expenditures for these years by about \$4,000 per year, resulting in a fund balance at June 30, 1956, of \$10,064 (Budget page 432, line 27).

There have been no changes in the program as budgeted for 1954-55 and we recommend approval of the budget as submitted.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 117 of the Budget Bill

Budget page 416
Budget line No. 35

For Additional Support of Division of Highway Taxes From the Motor Vehicle Fuel Fund

Amount requested	\$704,057
Estimated to be expended in 1954-55 Fiscal Year	673,953
Increase (4.5 percent)	\$30,104

Division of Highway Taxes—Continued

RECOMMENDATIONS

Amount budgeted	\$704,057
Legislative Auditor's recommendation	704,057
Reduction	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the Motor Vehicle Fuel License Tax Law (gasoline tax) and the Use Fuel Tax Law (diesel tax) by the Division of Highway Taxes, the expenditures for which are included with those of the first named fund in the total of \$1,509,489, as detailed on budget pages 430 and 431.

The increase of \$30,104 represents this fund's share of the increased work load of the Division of Highway Taxes, the operations of which are described in detail in our analysis of the preceding item, 115 of the Budget Bill.

The emergency authorization of \$43,832, shown on budget page 417, line 34, for 1954-55, represents an increase over the amount originally authorized for that year due to a redistribution of costs among the various funds involved in the operation of the Board of Equalization. It does not represent any increase in over-all Board of Equalization costs since in effect it is offset by decreases in the total costs attributable to the other two funds, the General Fund and the Motor Transportation Tax Fund.

If the adjustments recommended by us under Item 115 are approved, it will be necessary to adjust this item for the Motor Vehicle Fuel Fund's share. We believe this can be done most effectively by the Department of Finance at the time of final approval of the Budget Bill.

Subject to the foregoing, we recommend approval of the budget as submitted.

Department of Finance
GENERAL ACTIVITIES

ITEM 118 of the Budget Bill

Budget page 435
Budget line No. 20

For Support of Department of Finance From the General Fund

Amount requested	\$5,850,471
Estimated to be expended in 1954-55 Fiscal Year	5,730,599
Increase (2.1 percent)	\$119,872

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$188,834	\$188,834	---	452	9
Operating expense	—57,829	—57,829	---	452	10
Equipment	2,376	2,376	---	452	11
Less:					
Increased reimbursements	—7,522	—7,522	---	452	14
Less:					
Increased other appropriations	—5,987	—5,987	---		
Total increases	\$119,872	\$119,872	---		

Department of Finance—Continued

RECOMMENDATIONS

Amount budgeted	\$5,850,471
Legislative Auditor's recommendation	5,837,187
<hr/>	
Reduction	\$13,284

ANALYSIS

Apart from normal salary adjustments, the only significant change results from proposed new positions for the Purchasing Division which will be discussed separately, and the increased expenditure for maintenance of new facilities. Reimbursements also show an increase. These changes for maintenance of new facilities are explained as follows:

	<i>Amount increase</i>	<i>Amount decrease</i>
Maintenance expenditure		
New Employment Building	\$203,575	---
Full year costs		
Personnel Board Building	45,066	---
Agriculture Building and Annex	44,704	---
	<hr/>	<hr/>
	\$293,345	---
Reimbursements		
Employment Building	\$210,000	---
Department of Agriculture and Annex	50,000	---
	<hr/>	<hr/>
Total increase reimbursement	\$260,000	---
Gerber Building	---	\$27,416
Social Welfare Building	---	5,372
Warehouse 23d and R	---	8,100
		<hr/>
Net increase reimbursement	\$219,112	\$40,888

To furnish maintenance for the new employment building, 58 new positions are proposed in the budget requested for the 1955-56 Fiscal Year. The salaries and wages for these new positions and related expenses are reimbursed. The above table shows increased expenditures of \$203,575 for the new employment building and reimbursements of \$210,000.

Local Allocations Division

The total proposed expenditure program by funds is as follows:

<i>Fund</i>	<i>Amount</i>	<i>Item No.</i>
General Fund	\$13,957	118
Postwar Unemployment and Construction Fund	30,319	120
Public School Building Loan Fund	119,833	121
School Building Aid Fund	317,148	122

A total amount of \$481,257 is requested from all funds for the support of the Local Allocations Division for the Fiscal Year 1955-56. This amount represents an increase of \$1,223 or 0.3 percent over the amount estimated for expenditure in the current fiscal year. This slight increase is due to salary adjustments.

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:

Department of Finance—Continued

General Fund

1. Aid to local agencies for emergency veterans' housing: Chap. 29, Stats. of 1946 (1st Ex. Sess.); Chap. 1, Stats. of 1946 (2d Ex. Sess.); Chap. 391, Stats. of 1947; and Chap. 1547, Stats. of 1947.
2. Acquisition of housing facilities at colleges: Chap. 46, Stats. of 1946 (1st Ex. Sess.).
3. School building aid: Chap. 1575, Stats. of 1947; and Chap. 24, Stats. of 1948.
4. Aid for educational facilities for cerebral palsied children: Chap. 1167, Stats. of 1949.

Postwar Unemployment and Construction Fund

1. Aid to local agencies for postwar plans and sites: Chap. 47, Stats. of 1944 (4th Ex. Sess.). (Funds available for application until June 30, 1955, and for payment until June 30, 1956.)
2. Aid to local agencies for postwar construction: Chap. 20, Stats. of 1946 (1st Ex. Sess.). (Funds available for application until June 30, 1955, and for payment until June 30, 1956.)

Public School Building Loan Fund

1. School building aid: Chap. 1389, Stats. of 1949. (Program to continue as long as funds are available.)

State School Building Aid Fund

1. School building aid: Chap. 27, Stats. of 1952 (2d Ex. Sess.). (Chap. 19 Education Code.) (Program to continue as long as funds are available.)

Purchasing Division

Summary of Recommended Reductions

		<i>Budget</i>	<i>Line</i>
		<i>Page</i>	<i>No.</i>
Assistant purchasing specification analyst (1)-----	\$5,772	443	13
Junior buyer (1)-----	4,740	443	14
Intermediate typist-clerk (1)-----	2,772	443	15
Total -----	\$13,284		

The Purchasing Division requests in its 1955-56 Fiscal Year Budget an increase of \$40,000 over the current year's estimated expenditures. This increase consists of normal salary adjustments, proposed new positions, increased operating expenses for the testing and standards program and some furnishings for a lobby and bid-opening conference room.

New Positions

We recommend disapproval of the three new positions requested for the 1955-56 Fiscal Year. Although we are interested in encouraging the standards program for which the specification analyst has been requested, we believe the recommendations of the Senate Special Committee on Governmental Administration are sound and should be studied before any new positions are allowed. After considerable study and hearings the committee recommends:

Department of Finance—Continued

1. That the branch offices be eliminated and the necessary staff and activities be consolidated with the central office.
2. That the procedures of the division be reviewed with an aim toward eliminating and reducing the vast amount of detail and paper work it is now performing.

The Senate Committee's investigation revealed that purchasing for the State is highly centralized in the main office of the division in Sacramento. The branch offices in San Francisco and Los Angeles serve the agencies in their respective areas by making small item purchases and processing and transmitting purchase orders to Sacramento. The vast amount of dollar and bulk purchases are handled through contracts drawn up in Sacramento. As more and more items are handled by state-wide contracts the job of the branch offices should decrease. Many contracts are drawn so that the using agency can order direct from the supplier on a subpurchase order.

Further, the branch offices have very limited jurisdiction. On most purchases, approval must be obtained from Sacramento. A purchase request placed with the purchasing office in Los Angeles must come to Sacramento for approval; the request is then returned to the Los Angeles purchasing office which makes the purchase or sends it back to the agency for it to place the order.

Evidence of the concentration of work in Sacramento is provided by the distribution of buyers. Of the 11 senior or principal buyers in the division, seven are in Sacramento. There are 20 buyers in all; 10 are in Sacramento and five each in San Francisco and Los Angeles. More specialization is practiced in making assignments to buyers in Sacramento. The smaller staffs of buyers in both the San Francisco and Los Angeles branch offices have the responsibility for knowledge of all categories of items purchased by the State, the same as the larger staff in Sacramento. Thus, each buyer in the branch offices must be informed on perhaps twice as many items as the buyer in Sacramento.

We are aware of the fact that it has been the policy of the Purchasing Division to expand the contract program to cover more of the State's purchases. This policy merely accentuates the concentration in Sacramento and lessens the duties of the branch offices.

It is the practice of the Purchasing Division to put purchases out for bid in amounts as small as 50 cents. Moreover, 24.3 percent of the bids let are for less than \$25. Nearly 60 percent are for amounts under \$100 and only 13.5 percent are for more than \$500. Such practice adds a tremendous burden of detail to the purchasing operation. It seems inconceivable to us that any significant saving can result from bids for single purchases of \$50 or even \$100. Perhaps the answer lies in permitting the agencies more discretion in the amounts they can purchase direct plus a change in policy by the Purchasing Division to raise its minimum for bids and exercise more discretion in what is placed out to bid.

Study of the recommendations of the committee, we believe, will show that there are areas for important organizational and procedural changes. If such changes are made, the work load on all buyers will be

Department of Finance—Continued

lightened plus the fact that many positions will be available for reassignment to Sacramento. While we suspect that a reorganization would result in some surplus positions, we do not recommend any cut-backs at this time. We recognize the need for more emphasis on specifications work. Some of the positions available for reassignment might also be used to maintain a catalogue library, to provide economic analysis of the market and to assist the buyers in keeping up in new materials. Therefore, until these recommendations receive adequate study and some changes are made, we recommend disapproval of these new positions.

Increase in Testing and Standards Program

One phase of the program to develop standards and specifications for the various materials and goods used by the State has been the laboratory testing of items purchased by the State. This part of the standards program has been in effect for several years. In the past, much of the testing has been done by the Division of Highways in its laboratories and by the Department of Public Health. The Division of Highways makes a charge for its testing services which the Department of Public Health has heretofore performed the service free. With the expansion of the testing program reimbursement will be made for tests run by the Department of Public Health.

The increase of \$11,000 in this program will expand the testing already done in certain fields and permit exploratory work in other fields. However, the largest portion of the money budgeted will go toward a greater sample testing of the materials purchased in large quantities such as detergents, paints, janitorial supplies, paper products and rubber and plastic goods. Generally, we believe this program is sound and that the increase is necessary to assure the State that the merchandise it is receiving is the quality contracted for.

Furnishings for the Lobby and Bid-Opening-Conference Room

Approximately \$1,000 has been requested to furnish a lobby and bid-opening conference room adjacent to the offices of the Purchasing Division in State Office Building No. 1. The physical arrangements of the offices of the Purchasing Division has not permitted a satisfactory reception room for receiving vendors or a place where bids can be opened. Alterations are being planned to provide space for these purposes.

Some alteration of the physical arrangement is necessary to provide adequate space for receiving salesmen. However, in view of our proposal to study the consolidation of the offices, we believe that a major change should either await the disposition of the proposal or be made in light of the possible consolidation. If an office change is made before the proposal is studied, the alterations should be made so as to permit expansion of the number of buyers in Sacramento.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 119 of the Budget Bill

Budget page 435
Budget line No. 32

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

Amount requested	\$72,500
Estimated to be expended in 1954-55 Fiscal Year	72,500
<hr/>	
Increase	None

RECOMMENDATIONS

Amount budgeted	\$72,500
Legislative Auditor's recommendation	72,500
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Reduction	None

ANALYSIS

The amount of \$72,500 is requested from the Fair and Exposition Fund for support of the Audits Division. This represents the estimated amount necessary to provide adequate audits of fair activities during the budget year.

The appropriation supplements the amount of \$712,633 incorporated as a part of the general support of the Department of Finance for the Division of Audits by Item 118 of the Budget Bill.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 120 of the Budget Bill

Budget page 435
Budget line No. 37

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

Amount requested	\$30,319
Estimated to be expended in 1954-55 Fiscal Year	44,163
<hr/>	
Decrease (31.2 percent)	\$13,844

RECOMMENDATIONS

Amount budgeted	\$30,319
Legislative Auditor's recommendation	30,319
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Reduction	None

ANALYSIS

The amount of \$30,319 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocation Division, by Item 118 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 118.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 121 of the Budget Bill

Budget page 435
Budget line No. 52

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

Amount requested	\$119,833
Estimated to be expended in 1954-55 Fiscal Year	140,650
Decrease (14.7 percent)	<u>\$20,817</u>

RECOMMENDATIONS

Amount budgeted	\$119,833
Legislative Auditor's recommendation	<u>119,833</u>
Reduction	None

ANALYSIS

The amount of \$119,833 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 118 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 118.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 122 of the Budget Bill

Budget page 435
Budget line No. 64

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

Amount requested	\$317,148
Estimated to be expended in 1954-55 Fiscal Year	276,500
Increase (14.7 percent)	<u>\$40,648</u>

RECOMMENDATIONS

Amount budgeted	\$317,148
Legislative Auditor's recommendation	<u>317,148</u>
Reduction	None

ANALYSIS

The amount of \$317,148 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 118 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 118.

We recommend approval.

Department of Finance
AUTOMOBILE LIABILITY INSURANCE

ITEM 123 of the Budget Bill

Budget page 436
Budget line No. 7

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

Amount requested	\$223,596
Estimated to be expended in 1954-55 Fiscal Year	236,020
Decrease (5.3 percent)	<u>\$12,424</u>

RECOMMENDATIONS

Amount budgeted	\$223,596
Legislative Auditor's recommendation	<u>223,596</u>
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 present policy is a three-year contract with a basic rate of \$26.80 per unit plus contingent liability, bringing the total rate per vehicle to approximately \$27.30. The basic rate has been reduced from \$33.50 through the accident experience of the State's vehicles.

The budget shows an allocation from the Emergency Fund of \$30,772 for the current fiscal year. We are informed that this allocation was placed in the budget in anticipation of a need which has not yet arisen. It now appears that the amount will not be used but that it will be available on a contingency basis pending the final payments for insurance for this fiscal year.

We recommend approval as requested.

Department of Finance
PUBLIC LIABILITY INSURANCE

ITEM 124 of the Budget Bill

Budget page 436
Budget line No. 16

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

Amount requested	\$2,500
Estimated to be expended in 1954-55 Fiscal Year	2,500
Increase	None

RECOMMENDATIONS

Amount budgeted	\$2,500
Legislative Auditor's recommendation	<u>2,500</u>
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.

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

ITEM 125 of the Budget Bill Budget page 436
Budget line No. 31

For Distribution of State Documents to Libraries From the General Fund

Amount requested	\$50,000
Estimated to be expended in 1954-55 Fiscal Year	50,000
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Increase	None

RECOMMENDATIONS

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

ANALYSIS

The amount of \$50,000 is requested to provide for additional printing costs and the cost of distribution of state documents to libraries as required by law.

We recommend approval.

**Department of Finance
MAINTENANCE OF UNION CEMETERY IN SAN MATEO**

ITEM 126 of the Budget Bill Budget page 436
Budget line No. 56

For Maintenance of Union Cemetery in San Mateo From the General Fund

Amount requested	\$2,000
Estimated to be expended in 1954-55 Fiscal Year	1,500
<hr/>	
Increase (33.3 percent)	\$500

RECOMMENDATIONS

Amount budgeted	\$2,000
Legislative Auditor's recommendation	2,000
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Reduction	None

ANALYSIS

The amount requested will provide contract services for the maintenance of Union Cemetery in San Mateo County.

The increase of \$500 over the present contract price was requested by San Mateo County which informed the Department of Finance it could not continue to maintain the cemetery at the present level of \$1,500 per year.

We recommend approval as requested.

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

ITEM 127 of the Budget Bill

Budget page 455
Budget line No. 7

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

Amount requested	\$106,591
Estimated to be expended in 1954-55 Fiscal Year	105,648
<hr/>	
Increase (0.9 percent)	\$948

Summary of Increase

	Total Increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$1,387	\$1,387	---	455	72
Operating expense	268	268	---	456	18
Equipment	-707	-707	---	456	24
<hr/>					
Total increase	\$948	\$948	---	456	31

RECOMMENDATIONS

Amount budgeted	\$106,591
Legislative Auditor's recommendation	None
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Reduction	\$106,591

ANALYSIS

We recommend that:

The Division of Fairs and Expositions be eliminated;

The budgetary control and the operations supervision of the district, county and citrus fairs be taken over by the Division of Budgets and Accounts, Department of Finance;

The capital outlay program supervision of the fairs be absorbed by the Construction Analysis Section, Division of Budgets and Accounts.

Elsewhere in this budget analysis we have made the recommendation that each county, district and citrus fair submit a detailed annual budget following the format of those submitted by the State Fair and other state agencies, and that these budgets be included in the regular annual state budget for review by the Legislature.

We have further recommend that the staff of the Division of Budgets and Accounts, Department of Finance, be augmented to provide the same type and degree of review accorded other agencies. In accordance with this, we recommend that the staff of the Division of Budget and Accounts be augmented by the following positions:

	<i>Estimate</i>
1 Senior budget analyst	\$7,356
2 Associate budget analysts	12,120
1 Semisenior accountant	6,060
1 Senior stenographer-clerk	3,372
<hr/>	
	\$28,908

The salaries and wages item as budgeted for the Division of Fairs and Expositions, Fiscal Year 1955-56, is \$89,601. As presently constituted this division is supported from the Fair and Exposition Fund,

Division of Fairs and Expositions—Continued

We recommend that capital outlay expenditures be reviewed by the Construction Analysis Section of the Division of Budgets and Accounts.

In view of contemplated reduced appropriations for capital outlay during the Fiscal Year 1955-56, we feel that the work load involved in reviewing proposed capital outlay allocations for fairs can be absorbed by the presently constituted staff of the Construction Analysis Section.

Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS

ITEM 128 of the Budget Bill

Budget page 457
Budget line No. 28

For Support of the California State Fair and Exposition From the State Fair Fund

Amount requested	\$1,907,241
Estimated to be expended in 1954-55 Fiscal Year	1,921,428
Decrease (0.7 percent)	<u>\$14,187</u>

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$182,383	\$182,383	---	462	9
Operating expense	143,022	143,022	---	462	10
Equipment	12,396	12,396	---	462	11
Plus:					
Decreased reimbursements	323,614	323,614	---	462	15
Total increase	<u>\$14,187</u>	<u>\$14,187</u>	---		

RECOMMENDATIONS

Amount budgeted	\$1,907,241
Legislative Auditor's recommendation	1,905,997
Reduction	<u>\$1,244</u>

ANALYSIS

Comparison of Expenditures and Revenues

Fiscal year	Expenditures	Revenues	Deficit	Revenues as percent of expenditures
1952-53	\$1,890,797	\$1,265,236	\$625,561	66.9
1953-54	1,895,223	1,352,177	543,046	71.3
1954-55	1,964,428	1,281,100	683,328	65.2
1955-56	1,949,241	1,283,095	666,146	65.8

The above table indicates that the operating deficits for 1955-56 will be \$666,146. The percentage that revenues bear to expenditures is scheduled to be 65.8 percent which leaves the operation as far distant from a self-sustaining basis as it has been for the past five years.

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.

Division of Fairs and Expositions—Continued

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid adult attendance</i>	<i>Per capita cost of deficit</i>
1951-52 -----	\$587,300	\$481,862	\$1.22
1952-53 -----	625,561	481,575	1.30
1953-54 -----	542,596	473,099	1.15
1954-55 -----	683,328	505,567	1.36

The table reflects that the fair sustained a net loss of \$1.36 on each paying customer that attended the 1954 show as compared to a loss of only \$1.15 per paid attendance for the previous 1953 show.

Items of Increase in Excess of \$1,000 Operating Expense

<i>Function and Item</i>	<i>Increase</i>	
	<i>Amount</i>	<i>Percent</i>
Exhibits and horse show		
Premiums, junior division -----	\$1,187	4.3
Wine sample collecting -----	10,545	724.7
Operations		
State police service -----	1,987	28.3
Livestock—feed -----	1,274	6.8
Maintenance and use survey of present fair grounds	15,000	---
Recurring maintenance:		
Painting -----	10,000	---
Plumbing -----	10,000	---
Electrical -----	10,000	---
Paving -----	10,000	---
Junior museum -----	2,500	---
Commercial exhibits—alterations -----	5,000	---
Alterations to counties building -----	5,000	---
Miscellaneous preparation for livestock and horse show	5,000	---
Miscellaneous alterations for pari-mutuel and racing program -----	7,500	---
Special repairs and maintenance:		
Remodel educational area -----	2,000	---
Remodel exhibits area in women's building -----	2,800	---
Alteration to art exhibit building -----	3,000	---
Preparation for special events program -----	5,000	---
Promotions		
Paid advertising -----	4,000	7.1
Racing		
Rent equipment -----	2,290	10.3
Race purses -----	15,105	9.4
Racing expense -----	1,105	7.0
Total -----	\$130,293	

Included in the request for equipment is the sum of \$1,244 for the acquisition of one replacement automobile.

We recommend deletion of this amount.

In line with a policy recommendation by this office, affecting all automotive units, both additional and replacement, it is recommended that:

1. Funds for these items be deleted from the agency support budgets.
2. The Department of Finance request an augmentation of their budget to enable them to procure sufficient vehicles and to provide the agency with necessary transportation services through a fleet management program in the automotive management section.

Division of Fairs and Expositions—Continued

3. The Department of Finance make necessary revisions in the support budgets of the agencies to delete direct related automotive operating expenses and provide an offset item for automobile mileage to permit the agency to reimburse the Department of Finance on a mileage basis for the fleet service.

Department of Finance
CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 129 of the Budget Bill Budget page 462
Budget line No. 71

For Augmentation of the State Fair Fund From the Fair and Exposition Fund

Amount requested	\$485,000
Estimated to be expended in 1954-55 Fiscal Year	495,000
Decrease (2.0 percent)	\$10,000

RECOMMENDATIONS

Amount budgeted	\$485,000
Legislative Auditor's recommendation	485,000
Reduction	None

ANALYSIS

This amount is requested to augment the State Fair Fund from the Fair and Exposition Fund in line with the budget request submitted.

Department of Finance
SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 130 of the Budget Bill Budget page 463
Budget line No. 8

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

Amount requested	\$132,709
Estimated to be expended in 1954-55 Fiscal Year	130,214
Increase (1.9 percent)	\$2,495

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$2,580	\$2,580	---	464	64
Operating expense	343	343	---	464	65
Equipment	—428	—428	---	464	66
Total increase	\$2,495	\$2,495		464	68

RECOMMENDATIONS

Amount budgeted	\$132,709
Legislative Auditor's recommendation	132,709
Reduction	None

ANALYSIS

The total support budget for the 1955-56 Fiscal Year is estimated at \$132,709, an increase of \$2,495 or 1.9 percent over estimated expenditures for 1954-55.

This budget maintains the same level of service.

Sixth District Agricultural Association—Continued

We believe that some steps should be taken to put this operation on a self-sustaining basis either through effecting economies in operating expenditures or by exploring sources of increased revenues. The 1955 Budget Bill (Item 131), provides for an appropriation of \$76,000 from the capital outlay allocations of the second balance of the Fair and Exposition Fund pursuant to Section 19626(c) of the Business and Professions Code. This sum together with \$15,000 allocated to the agency from the Fair and Exposition Fund pursuant to Section 19622, paragraph iii, of the Business and Professions Code goes to make up the operating deficit of \$91,000 estimated for the Fiscal Year 1955-56.

We further recommend that the Department of Finance make a study of the State's leasing arrangement with the Coliseum Commission as well as the State's title interest in and to the lands and improvements. This study should be initiated as soon as practicable due to the imminent date for negotiating a new lease on the part of the State.

We recommend approval of the budget as submitted.

Department of Finance

SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 131 of the Budget Bill Budget page 465
Budget line No. 33

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

Amount requested -----	\$76,000
Estimated to be expended in 1954-55 Fiscal Year -----	98,000
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Decrease (22.4 percent) -----	\$22,000

RECOMMENDATIONS

Amount budgeted -----	\$76,000
Legislative Auditor's recommendation -----	76,000
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Reduction -----	None

ANALYSIS

This amount of \$76,000 is proposed to be appropriated from the Fair and Exposition Fund to the Sixth District Agricultural Association Fund from the unexpended funds in the second balance of the Fair and Exposition Fund. It is requested to be appropriated pursuant to Section 19626(c) of the Business and Professions Code. This amount, \$76,000, together with \$15,000 allocated to this district under Section 19622(iii) of the Business and Professions Code, totals \$91,000, an amount approximately equal to the amount that expenditures are estimated to exceed revenues for the 1955-56 Fiscal Year.

We recommend approval of the request.

Department of Finance

DIVISION OF STATE LANDS

ITEM 132 of the Budget Bill Budget page 467
Budget line No. 7

For Support of Division of State Lands From the State Lands Act Fund

Amount requested -----	\$503,439
Estimated to be expended in 1954-55 Fiscal Year -----	498,880
<hr/>	
Increase (1.0 percent) -----	\$5,059

Division of State Lands—Continued

	Summary of Increase			Budget page	Line No.
	Total increase	INCREASE DUE TO			
		Work load or salary adjustments	New services		
Salaries and wages -----	—14,811	—14,811	---	468	62
Operating expense -----	—27,398	—27,398	---	469	14
Equipment -----	5,913	5,913	---	469	24
Plus decreased reimbursements -----	41,355	41,355	---	469	28
Total Increase -----	5,059	5,059	---	469	34

RECOMMENDATIONS

Amount budgeted -----	\$503,439
Legislative Auditor's recommendation -----	494,589
Reduction -----	\$8,850

ANALYSIS

The decrease in salaries and wages and operating expense is due in part to the abolishment of the following positions:

- 1 Intermediate stenographer
- 2 Assistant civil engineers
- 3 Junior civil engineers

These reductions result from a decrease in work load on the defense of Tide and Submerged Lands and the completion of the work for the Colorado Boundary Commissions.

Three additional new positions amounting to \$20,000 are requested to review present policies for the disposal of state school lands and to formulate future policy. This amount of money is estimated to be needed to locate, inspect and appraise the remaining school land subject to disposal. At present there is approximately 500,000 acres and some acreage of in lieu lands received from the Federal Government. It is our understanding that the prices being offered over the past three years exceed those set by the commission. In our opinion this survey, which includes appraisal, would give the commission a factual basis for determining disposal prices.

One additional position established for one year is requested to reduce backlog in the general leasing section.

Reimbursements show a decrease of \$41,355 due primarily to the termination of staff work which was reimbursed by the Colorado Boundary Commission. By statute this commission is abolished June 30, 1955.

The budget request for equipment includes an item of \$5,250 for replacement of automobile (Budget page 469, line 21 and an item of \$3,600 for automobile additional Budget page 469, line 22) a total of \$8,850. We recommend deletion of this amount with an appropriate adjustment of the agency budget by the Department of Finance to permit the payment of mileage for rental of cars from the state pool. We also recommend augmentation of the Purchasing Revolving Fund in an amount sufficient to permit the furnishing of adequate automotive service to the agency from the state pool either on a day to day basis or monthly assignment basis.

Division of State Lands—Continued

We are recommending similar adjustments in the budgets of other agencies where additional or replacement passenger vehicles are involved. This is part of an over-all recommendation looking toward the eventual centralized ownership of all state cars in order to achieve the maximum benefits to be derived from board fleet ownership and control, central maintenance, and extension of pool operations to the extent feasible and economical, as explained in detail in a special section in the introduction to this report.

The three major functions of the division are:

1. The administration of lands, sovereign and proprietary, belonging to the State and charged to the care of the division.
2. The protection of these lands, including their minerals, against all usurpers.
3. Duties which the Legislature may prescribe by statute or directive.

These general functions are performed by various staff groups as follows:

1. The Executive Staff
 - a. Oversees general operations, reviews transactions and makes recommendations to the State Lands Commission.
 - b. Assist the Attorney General in actions required to dispose of litigations.
2. Cadastral Section
 - a. Maps sovereign lands of the State.
 - b. Maintains index in graphic form of sovereign (wet) lands indicating the disposition and encumbrance by lease, permit or otherwise of such lands.
3. Mineral Leasing
 - a. Administration of active mineral leases such as measurement of production, computation of royalties due the State, enforcement of rule relating to drilling, lease requirements, etc.
4. General Leasing
 - a. Investigation of trespasses and purprestures of state lands.
 - b. Issuance of commercial and recreational leases, easements and rights of way.
5. Land sales and records
 - a. Handles land sales transactions and record keeping.
 - b. Assists Attorney General in handling condemnation and quiet title actions.
6. Administrative Section
 - a. Performs stenographic, filing, mimeographing and personnel duties of the operating section.
7. Accounting and Supply Section
 - a. Handles all fiscal transactions and accounting records of the division.

Impounded moneys from tideland oil royalties were released on September 30, 1954. The following table shows the distribution of these revenues.

Division of State Lands—Continued

Revenues—Distribution of State Lands Act Revenues

	1953-54	1954-55	1955-56
Tideland oil royalties:			
Impounded moneys released, 9/30/54.....	-----	\$66,728,680	-----
Revenues after, 9/30/54.....	-----	7,618,928	\$8,325,140
Oil royalties from inlands.....	\$954,024	906,323	861,007
Miscellaneous rentals, royalties, etc.....	82,070	88,204	88,204
Total revenues	\$1,036,094	\$75,342,135	\$9,274,351
Deductions:			
Transfer to Veterans Dependents Educa- tion Fund	\$150,000	\$150,000	\$150,000
Reserve for appropriation for Playa Del Rey	-----	2,000,000	-----
Division of State Lands, expenses.....	461,706	549,997	545,600
Colorado River Boundary Commission, ex- penses	28,652	121,348	-----
Total deductions	\$640,358	\$2,821,345	\$695,600
Balance available for distribution....	\$395,736	\$72,520,790	\$8,578,751
For General Fund:			
30 percent of balance.....	\$118,721	\$21,756,237	\$2,573,625
Recaptured from Beach and Park Funds	-----	13,044,502	-----
Unexpended balance in appropriations con- taining recapture provisions.....	-----	4,293,031 *	-----
Less:			
Receipts from impounded moneys trans- ferred to Capital Outlay and Savings Fund	-----	32,463,106	-----
Unexpended balances in appropriations containing recapture provisions to be transferred to Capital Outlay and Sav- ings Fund	-----	4,293,021 *	*
Net for General Fund.....	\$118,721	\$2,337,633	\$2,573,625
For State Beach Fund:			
23½ percent of balance.....	\$92,338	\$16,921,518	\$2,001,709
Less:			
Transferred to General Fund.....	-----	3,454,653	-----
Unexpended balance in appropriations containing recapture provisions to be transferred to General Fund.....	-----	721,618 *	-----
Net for State Beach Fund.....	\$92,338	\$12,745,247	\$2,001,709
For State Park Fund:			
46½ percent of balance.....	-----	\$33,843,035	\$4,003,417
Less:			
Transferred to General Fund.....	-----	9,689,849	-----
Unexpended balance in appropriations containing recapture provisions to be transferred to General Fund.....	-----	3,571,403 *	-----
Net for State Park Fund.....	-----	\$20,681,783	\$4,003,417
For Capital Outlay and Savings Fund:			
Transferred from General Fund.....	-----	\$32,463,106	-----
To be transferred from General Fund....	-----	4,293,021 *	-----
Total for Capital Outlay and Savings Fund	-----	\$36,756,127	-----

* Subject to adjustment when final expenditures are determined.

Division of State Lands—Continued

Revenues—Distribution of State Lands Act Revenues—Continued

	1953-54	1954-55	1955-56
Recapitulation of Distributions of Revenues:			
Veterans Dependents Education Fund	\$150,000	\$150,000	\$150,000
State Lands Act Fund	490,358	2,671,345	545,600
State Beach Fund	92,338	12,745,247	2,001,709
State Park Fund	184,677	20,681,783	4,003,417
General Fund	118,721	2,337,633	2,573,625
Capital Outlay and Savings Fund	-----	36,756,127 *	-----
Total revenues	\$1,036,094	\$75,342,135	\$9,274,351

* Subject to adjustment when final expenditures are determined.

FRANCHISE TAX BOARD

ITEM 133 of the Budget Bill

Budget page 472
Budget line No. 10

For Support of Franchise Tax Board From the General Fund

Amount requested	\$4,481,262
Estimated to be expended in 1954-55 Fiscal Year	4,327,980
Increase (3.5 percent)	\$153,282

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$105,535	\$66,565	\$38,970	479	9
Operating expense	47,051	44,483	2,568	479	10
Equipment	696	696	---	479	11
Total increase	\$153,282	\$111,744	\$41,538	479	13

RECOMMENDATIONS

Amount budgeted	\$4,481,262
Legislative Auditor's recommendation	4,442,292
Reduction	\$38,970

ANALYSIS

A summary of our recommended reductions is as follows:

Franchise Tax Division:	Amount	Budget	
		Page	Line
4 Out-of-state income and franchise tax examiners II	\$19,920	475	71
Personal Income Tax Division:			
3 Junior accountant-auditors, Los Angeles	11,430	477	72
2 Junior accountant-auditors, San Francisco	7,620	478	58
Total	\$38,970		

Permanent positions authorized for 1954-55 of 795, as shown in the current Budget, page 479, line 5, exceed those authorized by the Budget Act of 1954 by 9; all clerical positions in the Personal Income Tax Division headquarters. This increase was more than offset by a decrease of 11.8 man-years in temporary help.

An analysis of the increase of \$153,282, as requested, distributed among the operating divisions of the agency is shown in Table 1.

Franchise Tax Board—Continued

Table 1. Analysis of Budget Increases Requested for 1955-56,
by Category and Operating Division

Salaries	Total	Adminis- tration	Franchise tax	Personal income tax		
				Head- quarters	Los Angeles	San Francisco
1. Merit increases permanent employees	\$89,882	\$23,660	\$13,463	\$33,383	\$11,625	\$7,751
2. Increase in salary savings	-25,816	-2,829	1,088	-10,540	-9,312	-4,223
3. Decrease in temporary help (10)	-24,000	---	---	-24,000	---	---
4. Increase in temporary help (0.2)	507	---	507	---	---	---
5. Temporary help abolished (8.2)	-15,630	-6,882	---	-8,748	---	---
6. Permanent positions added in lieu of temporary help (5)	15,060	8,148	---	6,912	---	---
7. New positions for collections section (7)	20,874	20,874	---	---	---	---
8. Additional clerks (2)	5,688	---	5,688	---	---	---
9. Additional auditors (9)	38,970	---	19,920	---	11,430	7,620
Total salaries	\$105,535	\$42,971	\$40,666	-\$2,993	\$13,743	\$11,148
Operating expenses	47,051	7,761	14,881	16,788	5,687	1,934
Equipment	696	2,011	1,900	-4,712	67	1,430
Totals	\$153,282	\$52,743	\$57,447	\$9,083	\$19,497	\$14,512

The first item is uncontrollable, since it represents annual merit salary increases to those employees below the maximum for their established salary ranges.

The second, increase in salary savings, is due largely to an anticipated delay in filling some of the additional positions requested.

The third, we are informed, is due to a clerical error in compiling the Budget. If this is true, and it should be deleted, it will, of course, increase the total amount requested for 1955-56 by \$24,000.

The fourth represents a minor adjustment for temporary help in the Franchise Tax Division.

The fifth and sixth items offset, since five permanent clerical positions are being substituted for 8.2 man-years of temporary help at no increase in cost.

The seventh item is for six clerical positions and one field representative in the collections section; one field representative for Los Angeles, five intermediate typist-clerks, one each for Los Angeles, Oakland, and Sacramento and two for San Francisco, and one junior clerk for Sacramento. These positions all appear to be justified on the basis of work load and we recommend approval.

Franchise Tax Board—Continued

The eighth item is for two intermediate typist-clerks for a clerical pool in the Franchise Tax Division headquarters in Sacramento and we recommend approval on a work load basis.

We recommend disapproval of the ninth item for nine additional auditor positions for reasons indicated in our analysis of the various divisions involved.

All of the items included in the increase in operating expense of \$47,051 appear to relate to increased work load; two of the largest increases being in printing, \$18,339, and postage, \$6,298.

A total of 34 positions previously authorized on a limited term basis have been extended. We approve these extensions, which are as follows:

Franchise Tax Division:

Positions formerly authorized to June 30, 1955, extended to permanent:

For processing loyalty declarations from corporations claiming exemption from tax:	
Examiner II -----	1
Clerical -----	2
For checking sources of information for locating taxpayers:	
Accountant-auditor I -----	1
For functions related to audit control:	
Clerical -----	1

Personal Income Tax Division:

Clerical positions established in headquarters during current year on a limited term basis by reduction in temporary help extended to permanent -----	9
Clerical positions established to June 30, 1955, for federal comparison program, extended to June 30, 1957:	
Headquarters -----	11
Los Angeles -----	5
San Francisco -----	4
Total -----	34

Franchise Tax Division

4 *Out-of-state income and franchise tax examiners II* ----- \$19,920

We recommend elimination of 4 new positions in the above class, budget page 475, line 71.

It is proposed to assign these men permanently in New York and Chicago to augment the existing staff of two men now assigned at each of these locations. These men are engaged in audits of corporations which do not maintain a headquarters in California and who have income both within and without the State where the method of allocation of such income is an important factor in determining tax due to California.

It is urged that the assignment of additional men to this out-of-state audit work will be very productive of additional revenue, based on past experience, since there are many out-of-state corporations which have not been audited. We do not question these statements nor do we raise objection to assigning as many men as needed to this work provided no increase in over-all audit staff is involved in so doing at this time.

Our reason for this recommendation is that we believe that the agency should be able to demonstrate conclusively that it is making the most

Franchise Tax Board—Continued

effective possible use of its existing audit staff before any further increases are warranted and we think that there are indications that there may be room for improvement in this respect.

The data in Tables 2, 3 and 4 is based upon information compiled by the agency relating to revenue and costs attributable to the audit program of the Franchise Tax Division.

Table 2. Summary of Audit Activities, Three Years Ended June 30, 1954

<i>Class of audit</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
1951-52					
General audit	42,950	57,419	\$850,141	\$167,784	\$5.07
Allocation audit	3,186	60,172	2,507,090	192,465	13.03
Delinquents and arbitraries ..	6,928	18,413	231,417	48,354	4.79
Totals	53,064	136,004	\$3,588,648	\$408,603	\$8.78
1952-53					
General audit (Table 3)	48,606	64,405	\$3,424,210	\$201,485	\$16.99
Allocation audit (Table 4) ..	3,442	63,159	4,352,275	210,562	20.67
Delinquents and arbitraries ..	8,278	11,115	438,665	30,744	14.27
Totals	60,326	138,679	\$8,215,150	\$442,791	\$18.55
1953-54					
General audit (Table 3)	46,395	64,996	\$2,333,163	\$206,651	\$11.29
Allocation audit (Table 4) ..	3,777	73,437	5,614,215	253,022	22.19
Delinquents and arbitraries ..	8,399	12,240	371,646	35,251	10.54
Totals	58,571	150,673	\$8,319,024	\$494,924	\$16.81
3 years ended June 30, 1954					
General audit	137,951	186,820	\$6,607,514	\$575,920	\$11.47
Allocation audit	10,405	196,768	12,473,580	656,049	19.01
Delinquents and arbitraries ..	23,605	41,768	1,041,728	114,349	9.11
Totals	171,961	425,356	\$20,122,822	\$1,346,318	\$14.95

Table 3. General Audits by Location, Two Years Ended June 30, 1954

<i>Location</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
1952-53					
Sacramento	47,457	22,781	\$962,980	\$68,715	\$14.01
Los Angeles	881	27,955	2,288,486	88,975	25.72
San Francisco	268	13,669	172,744	43,795	3.94
Totals	48,606	64,405	\$3,424,210	\$201,485	\$16.99
1953-54					
Sacramento	45,205	22,632	\$545,167	\$64,863	\$8.40
Los Angeles	776	29,214	649,038	97,818	6.64
San Francisco	414	13,150	1,138,958	43,970	25.90
Totals	46,395	64,996	\$2,333,163	\$206,651	\$11.29
Two years ended June 30, 1954					
Sacramento	92,662	45,413	\$1,508,147	\$133,578	\$11.29
Los Angeles	1,657	57,169	2,937,524	186,793	15.73
San Francisco	682	26,819	1,311,702	87,765	14.95
Totals	95,001	129,401	\$5,757,373	\$408,136	\$14.11

Franchise Tax Board—Continued

Table 4. Allocation Audits by Location, Two Years Ended June 30, 1954

<i>Location</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
1952-53					
Sacramento -----	2,487	36,487	\$1,347,027	\$114,242	\$11.79
Los Angeles -----	397	11,997	964,076	39,114	24.65
San Francisco -----	251	8,536	835,522	28,180	29.65
New York -----	173	3,347	589,158	17,225	34.20
Chicago -----	134	2,792	616,492	11,800	52.25
Totals -----	3,442	63,159	\$4,352,275	\$210,561	\$20.67
1953-54					
Sacramento -----	2,845	43,539	\$1,508,624	\$135,076	\$11.17
Los Angeles -----	268	11,038	550,428	37,068	14.85
San Francisco -----	344	8,411	2,124,635	30,278	70.17
New York -----	146	4,308	751,601	21,656	34.71
Chicago -----	174	6,141	678,927	28,944	23.46
Totals -----	3,777	73,437	\$5,614,215	\$253,022	\$22.19
Two years ended June 30, 1954					
Sacramento -----	5,332	80,026	\$2,855,651	\$249,318	\$11.45
Los Angeles -----	665	23,035	1,514,504	76,182	19.88
San Francisco -----	595	16,947	2,960,157	58,458	50.64
New York -----	319	7,655	1,340,759	38,881	34.48
Chicago -----	308	8,933	1,295,419	40,744	31.79
Totals -----	7,219	136,596	\$9,966,490	\$463,583	\$21.50

The data in Table 2 indicates that over the 3-year period ended June 30, 1955, the allocation audit function, which includes all of the out-of-state audits, has been the most productive, yielding \$19.01 per dollar of cost as against \$9.11 from the "delinquents and arbitraries" function. This suggests the possibility of a shift in staff as between these two activities.

Tables 3 and 4 give a further analysis of the general audit activity and the allocation audit activity, by location, for the last two fiscal years, the only years for which such data are available. Table 4 indicates that for the two years ended June 30, 1954, the most profitable "allocation" audits have been made in San Francisco, not in New York and Chicago, and also that the Sacramento activity is the least profitable in terms of revenue per \$1 of cost, which suggests the possibility of a further shift in personnel.

The most significant comparison, however, is that between the data in Table 2 and that in Table 5 which is a summary of the audit activity in the Personal Income Tax Division for the last three fiscal years.

Table 2 indicates that over this period the Franchise Tax Division's audit program has produced \$20,122,822 in revenue at a cost of \$1,346,318, or \$14.95 per dollar of cost, whereas Table 5 indicates that the comparable program in the Personal Income Tax Division has produced \$18,064,513 in revenue at a cost of \$3,592,963, or \$5.03 per dollar of cost. It appears, therefore, that the audit program in the Franchise Tax Division is almost three times as productive in terms of

Franchise Tax Board—Continued

revenue per dollar of cost as that in the Personal Income Tax Division which suggests the need for a possible shift of emphasis between the two programs.

We think this should take place before any increase in audit staff is made in the Franchise Tax Division.

Personal Income Tax Division

3 Junior accountant-auditors, Los Angeles.....	\$11,430
2 Junior accountant-auditors, San Francisco.....	7,620

We recommend deletion of the three new junior accountant-auditor positions for Los Angeles shown on budget page 477, line 72, and the two new positions of the same class for San Francisco shown on budget page 478, line 58.

These positions are requested for use in connection with the federal comparison project and the information-at-source program in these two offices.

Similar positions were requested in 1954 but were deleted by the Legislature on our recommendation.

We approve the objectives of both programs, the first of which is a new program described in some detail in our Budget Analysis for 1954-55, pages 266-267, and the second of which has been productive of additional revenue for the last several years. We do not believe, however, that it is advisable to increase the total audit staff of the Personal Income Tax Division at this time, since we believe the agency should be able to provide the necessary technical assistance for these programs from its existing staff.

The authorized audit staff of the Personal Income Tax Division for 1955-56 is as follows:

	Head- quarters	Los Angeles	San Francisco	Total
Income tax examiner IV.....	6	3	1	10
Income tax examiner III.....	12	11	11	34
Income and franchise tax examiner II.....	36	20	22	78
Income tax examiner I.....	10	8	4	22
Junior accountant-auditor, accountant- auditor I.....	5	13	5	23
Totals.....	69	55	43	167

For cost accounting purposes the agency recognizes nine classes of audit activity as detailed in Table 8. Not because we do not believe the nine activity breakdown to be desirable but solely to save space for purposes of this particular presentation we have combined these into the four groupings shown in Table 5 which summarizes the results by fiscal years and in total for a three-year period.

Franchise Tax Board—Continued

Table 5. Summary of Audit Activities, Three Years Ended June 30, 1954

<i>Class of Audit</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
1951-52					
Headquarters, drawer audit	1,015,583	141,746	\$1,228,354	\$330,492	\$3.71
Headquarters, RAR unit	8,385	53,386	1,197,463	124,571	9.61
Headquarters, all other	62,108	31,522	582,078	79,871	7.29
Field work	15,438	205,272	2,774,538	542,691	5.11
Totals	1,101,514	431,926	\$5,782,433	\$1,077,625	\$5.37
1952-53					
Headquarters, drawer audit	1,122,991	166,875	\$1,666,803	\$404,089	\$4.12
Headquarters, RAR unit	10,741	55,003	1,069,052	135,181	7.91
Headquarters, all other	49,199	41,367	531,564	105,209	5.05
Field work	18,274	203,644	2,189,947	569,950	3.84
Totals	1,201,205	466,889	\$5,457,366	\$1,214,429	\$4.49
1953-54					
Headquarters, drawer audit	1,981,423	175,335	\$1,224,989	\$442,888	\$2.77
Headquarters, RAR unit	8,578	49,372	952,295	126,411	7.53
Headquarters, all other	41,414	44,170	640,536	115,685	5.54
Field work	20,794	212,272	4,006,894	615,925	6.51
Totals	2,052,209	481,149	\$6,824,714	\$1,300,909	\$5.25
3 years ended June 30, 1954					
Headquarters, drawer audit	4,119,997	483,956	\$4,120,146	\$1,177,469	\$3.50
Headquarters, RAR unit	27,704	157,761	3,218,810	386,163	8.34
Headquarters, all other	152,721	117,059	1,754,178	300,765	5.83
Field work	54,506	621,188	8,971,379	1,728,566	5.19
Totals	4,354,928	1,379,964	\$18,064,513	\$3,592,963	\$5.03

The "drawer audit" activity is an audit of tax returns in headquarters several years after they are filed, in alphabetical order, by file drawers, hence its name. The RAR unit makes use of federal revenue agents' reports as a basis of disclosing state tax deficiencies, while the other headquarters operations involve estates, trusts, tax credit matters, correspondence with taxpayers regarding errors in computation, etc.

As indicated in Table 5, the most productive of these on the basis of revenue per dollar of cost over the three year period has been the RAR operation, while the least productive has been the drawer audit.

A further analysis of the drawer audit activity for the same three-year period as that covered by Table 5 is given in Table 6.

Franchise Tax Board—Continued

Table 6. Estimated Costs Drawer Audit, by Class of Audit,
Three Years Ended June 30, 1954

Class of audit	Cases		Hours		Cost		Hours per case
	Number	Percent	Number	Percent	Total	Per hour	
1951-52							
Change audits	25,576	2.5%	77,960	55.0%	\$181,770	\$2.33	3.04
No change audits -----	10,870	1.1	709	.5	1,653	2.33	.06
Scanned cases	979,137	96.4	63,077	44.5	147,069	2.33	.06
Totals -----	1,015,583	100.0%	141,746	100.0%	\$330,492	\$2.33	.14
1952-53							
Change audits	37,200	3.3%	92,616	55.5%	\$224,270	\$2.42	2.49
No change audits -----	1,241	.1	834	.5	2,020	2.42	.67
Scanned cases	1,084,550	96.6	73,425	44.0	177,799	2.42	.07
Totals -----	1,122,991	100.0%	166,875	100.0%	\$404,089	\$2.42	.15
1953-54							
Change audits	41,035	2.7%	96,434	55.0%	\$243,588	\$2.53	2.35
No change audits -----	1,088	.1	877	.5	2,215	2.53	.80
Scanned cases	1,939,300	97.8	78,024	44.5	197,085	2.53	.04
Totals -----	1,981,423	100.0%	175,335	100.0%	\$442,888	\$2.53	.88
Three years ended June 30, 1954							
Change audits	103,811	2.5%	267,010	55.2%	\$649,628	\$2.43	2.57
No change audits -----	13,199	.3	2,420	.5	5,888	2.43	.18
Scanned cases	4,002,987	97.2	214,526	44.3	521,953	2.43	.05
Totals -----	4,119,997	100.0%	483,956	100.0%	\$1,177,469	\$2.43	1.17

In Table 6 use has been made of estimates furnished by the agency as to the approximate time spent on the three classes of audit work involved: "change audits," "no change audits," and "scanned cases." The first is an audit which discloses either a deficiency or a refund, the second an audit which discloses neither, while a "scanned case" is an examination of a return by an auditor which indicates that no further audit is necessary, an operation involving on the average from two to three minutes time. Nevertheless, in the aggregate, the agency spends almost half of the time devoted to the drawer audit activity to this scanning process, since only 2.5 percent of all returns handled by the drawer audit unit result in audits disclosing changes, as shown in Table 6.

This suggests the possibility that a combination of the "scanning" process with the original processing of the return might result in a saving in time with possible shifting of audit manpower to more productive activities. It is stated by the agency that it is desirable to delay the final audit of the return from two to three years in order to take advantage of the findings of completed federal audits and that this is

Franchise Tax Board—Continued

the major reason why returns are first filed and later audited through the "drawer audit" process. This would be a most compelling reason if entire reliance were placed on the federal audit program to disclose state deficiencies.

Apparently this is not the case, however.

We have been informed that all revenue directly attributable to federal audits is reflected as revenue for the "RAR" unit, as shown in Table 5.

Table 7 shows a comparison between the revenue and costs attributable to the "RAR" unit and that attributable to all other audit activities.

Table 7. Audit Activities Based on Federal Program as a Percent of Total Audit Activities, Three Years Ended June 30, 1954

	Net revenue		Cost		Revenue per \$1 of cost
	Amount	Percent	Amount	Percent	
1951-52					
RAR unit -----	\$1,197,463	20.7	\$124,571	11.6	\$9.61
All other -----	4,584,970	79.3	953,054	88.4	4.81
Total -----	\$5,782,433	100.0	\$1,077,625	100.0	\$5.37
1952-53					
RAR unit -----	\$1,069,052	19.6	\$135,181	11.1	\$7.91
All other -----	4,388,314	80.4	1,079,248	88.9	4.07
Total -----	\$5,457,366	100.0	\$1,214,429	100.0	\$4.49
1953-54					
RAR unit -----	\$952,295	13.9	\$126,411	9.7	\$7.53
All other -----	5,872,419	86.1	1,174,498	90.3	5.00
Total -----	\$6,824,714	100.0	\$1,300,909	100.0	\$5.25
3 Years ended June 30, 1954					
RAR unit -----	\$3,218,810	17.8	\$386,163	10.7	\$8.34
All other -----	14,845,703	82.2	3,206,800	89.3	4.63
Total -----	\$18,064,513	100.0	\$3,592,963	100.0	\$5.03

From this table it appears that the proportion of total audit revenues attributable to reliance on the federal audit program has decreased from 20.7 percent in 1951-52 to 13.9 percent in 1953-54, with a like drop in the proportion of total time spent on the program as indicated by the decreasing percentages of costs attributable to the "RAR" unit.

We believe these facts are an indication that it might be worthwhile for the agency to give serious consideration to a drastic change in its whole audit procedure, with the emphasis placed on final audit of each return at the earliest possible date. Such a procedure would simplify and speed up collection processes.

Franchise Tax Board—Continued

Table 8, which follows, gives information as to audit results for 1953-54 according to the nine functional breakdowns used by the agency, with revenue per dollar of cost for each function shown for each of the last three fiscal years. Distribution of total time among the nine functions was roughly comparable in the prior years to that shown for 1953-54.

Table 8. Audit Activities by Class, 1953-54, and Comparison With Prior Years as to Revenue per Dollar of Cost

Function	1953-54				Revenue per dollar of cost		
	Cases	Hours	Net revenue	Costs	1953-54	1952-53	1951-52
Headquarters:							
Drawer audit	1,981,423	175,335	\$1,224,989	\$442,888	\$2.77	\$4.12	\$3.71
RAE unit	8,578	49,372	952,295	126,411	7.53	7.91	9.61
Specialist section	29,835	29,926	555,799	79,908	6.96	6.83	7.81
Primary audit	11,579	14,244	84,737	35,777	2.37	1.16	5.48
Sacramento							
Field audit	383	3,415	52,780	10,195	5.18	8.46	2.49
Los Angeles:							
Field audit	10,356	95,557	1,272,909	267,543	4.76	4.56	4.43
Residence and withholding	947	20,825	1,093,204	61,613	17.74	4.67	22.32
San Francisco:							
Field audit	8,530	80,286	878,997	239,285	3.67	2.05	1.61
Residence and withholding	578	12,189	709,004	37,289	19.01	7.51	5.73
Totals	2,052,209	481,149	\$6,824,714	\$1,300,909	\$5.25	\$4.49	\$5.37

Cost Analysis Records

We believe that records now being maintained by the agency which permit an analysis of both revenues and costs on an activity basis are worthwhile and should be continued.

All of the data relating to audit activities contained in Tables 2 to 8, inclusive, are based on these records.

In addition to the functional analysis of the audit activities, the agency maintains a like analysis of its nonaudit activities.

Table 9, which follows, is an analysis of the nonaudit activities by division and function for 1953-54, with a comparison as to revenue per dollar of cost with the corresponding figures for prior years.

Franchise Tax Board—Continued

Table 9. Nonaudit Activities by Division and Function, 1953-54, and Comparison With Prior Years as to Revenue per Dollar of Cost

Functions, by division	1953-54			Revenue per dollar of cost			
	Cases	Hours	Net revenue	Cost	1953-54	1952-53	1951-52
Personal Income Tax Division:							
Sacramento—preliminary examination -----	24,932	78,126	\$145,016	\$93,217	\$1.56	\$0.95	\$2.23
Sacramento—information at source -----	12,898	29,315	306,784	128,771	2.38	3.86	3.09
Los Angeles—information at source -----	83,752	140,527	1,689,405	284,346	5.94	5.19	7.96
Los Angeles—miscellaneous -----	2,739	11,017	92,836	24,958	3.72	9.12	.85
San Francisco—information at source -----	84,517	120,608	1,832,179	252,680	7.25	4.11	8.91
San Francisco—miscellaneous -----	2,180	20,657	117,191	43,206	2.43	1.75	.45
Sacramento—refund claims allowed (B) -----	6,883	33,756	—809,009	92,411	—8.75	—6.66	—9.38
Service operation, all locations (B) -----	2,544,915	506,064	88,416,219	1,249,920	70.74	81.84	78.32
Totals -----	2,762,816	940,070	\$91,790,621	\$2,174,509	\$42.21	\$52.30	\$53.29
Franchise Tax Division:							
Preliminary examination -----	827	20,346	\$67,293	\$45,017	\$1.49	\$9.35	\$5.79
New accounts -----	336	4,385	117,639	9,834	11.96	7.68	12.64
Refund claims allowed (B) -----	1,094	12,922	—1,155,849	32,246	—35.84	—40.25	—123.62
Exempt corporations (B) -----		28,743		64,724			
Service and investigation (B) -----	51,520	74,104	109,478,955	191,890	570.53	687.06	493.23
Totals -----	53,777	140,500	\$108,508,038	\$343,711	\$315.70		
Grand totals -----	2,816,593	1,080,570	\$200,298,659	\$2,518,220	\$79.54		
Personal Income Tax Division:							
Enforcement activities -----	211,018	400,250	\$4,183,411	\$832,178	\$5.03		
Basic activities (B) -----	2,551,798	539,820	87,607,210	1,342,331	65.26		
Totals -----	2,762,816	940,070	\$91,790,621	\$2,174,509	\$42.21		
Franchise Tax Division:							
Enforcement activities -----	1,163	24,731	\$184,932	\$54,851	\$3.37		
Basic activities (B) -----	52,614	115,769	108,323,106	288,860	375.00		
Totals -----	53,777	140,500	\$108,508,038	\$343,711	\$315.70		
Grand totals -----	2,816,593	1,080,570	\$200,298,659	\$2,518,220	\$79.54		

Costs shown for the "exempt corporation" function in the Franchise Tax Division in Table 9 include processing of loyalty declarations from corporations claiming exemption from tax.

The "service operation" function, under Personal Income Tax, and the "service and investigation" function, under Franchise Tax, consist largely of routine processing of self-assessments, and the revenue shown for these two functions consists entirely of self-assessments.

These two functions plus the "refund claims allowed" functions plus the "exempt corporation" function under Franchise Tax Division may be regarded as the bare minimum of activities which the agency would be required to perform if it simply took what came in without any enforcement activity whatsoever, and the costs are to a large degree uncontrollable, since they are directly related to work load.

All of the other functions shown in Table 9 plus all of the audit activities, on the other hand, may be regarded as enforcement functions, the extent of which can be controlled and which are justified pretty largely on a profit basis, i. e., by the extent to which they produce additional revenue in excess of cost.

Franchise Tax Board—Continued

We think this distinction is important in evaluating the activities of any tax agency from the budgetary standpoint and one to which sufficient emphasis may not have been given in the past.

Tables 2 and 8 summarize all of the audit activities of the Franchise Tax Board so that the total revenues and costs shown in these two tables for 1953-54 plus those shown in Table 9 cover all revenues and costs involved in the agencies' operations. These are summarized in Table 10.

We think more of this type of cost information should be developed in governmental operations generally and that it should be used more extensively both as a management tool and for budgetary purposes.

Table 10. Summary of All Activities Franchise Tax Board, 1953-54

	<i>Time worked</i>			<i>Net revenue</i>	<i>Cost</i>	<i>Net revenue per \$1 of cost</i>
	<i>Cases</i>	<i>Hours</i>	<i>Man-years</i>			
Basic activities:						
Personal income tax (Table 9) ..	2,551,798	539,820	269.9	\$87,607,210	\$1,342,331	\$65.26
Franchise tax (Table 9)	52,614	115,769	57.9	108,323,106	288,860	375.00
Total	2,604,412	655,589	327.8	\$195,930,316	\$1,631,191	\$120.11
Nonaudit enforcement activities:						
Personal income tax (Table 9) ..	211,018	400,250	200.1	\$4,183,411	\$832,178	\$5.03
Franchise tax (Table 9)	1,163	24,731	12.4	184,932	54,851	3.37
Total	212,181	424,981	212.5	\$4,368,343	\$887,029	\$4.92
Audit activities:						
Personal income tax (Table 8) ..	2,052,209	481,149	240.6	\$6,824,714	\$1,300,909	\$5.25
Franchise tax (Table 2)	58,571	150,673	75.3	8,319,024	494,924	16.81
Total	2,110,780	631,822	315.9	\$15,143,738	\$1,795,833	\$8.43
Grand total ..	4,927,373	1,712,392	856.2	\$215,442,397	\$4,314,053	\$49.94

Total man-years worked during 1953-54 of 856.2, as shown in Table 10, includes temporary help, whereas the corresponding figure of 727.6 shown on Budget page 479, line 5 for 1953-54 does not.

Net revenue of \$215,422,397 shown in Table 10 will not agree with amounts shown in the Governor's Budget because of differences in timing, but the two can be reconciled.

Total costs of \$4,314,053 shown in Table 10 exceed the total of \$4,220,608 (including retirement contributions) shown on Budget page 472, line 30 for 1953-54, because of differences in the method used for estimating retirement contributions and because of the inclusion of certain overhead items which are not shown in the support budget; a pro rata of the costs of service agencies such as Personnel Board, etc., but here again the differences can be reconciled.

Despite these minor differences, however, we think the type of analysis shown in Table 10, has major significance from the standpoint of

Franchise Tax Board—Continued

both management control and budgetary control, and is worthy of careful study.

We believe a further refinement of the system used by the Franchise Tax Board in analyzing its audit activities, at least, and perhaps some of its other enforcement activities, would be desirable to indicate the proportion of time spent in each on submarginal cases, i.e., cases which produced less in revenue than their cost.

Tabulating Equipment

Equipment rental and maintenance, Budget page 474, line 49, increased from \$820 in 1954-55 to \$3,280 in 1955-56, an increase of \$2,460. This consists of two items, \$1,860 for rental of a reproducing punch, offset by a like reduction in temporary help and \$600 for servicing tabulating equipment for the last five months of the fiscal year at \$120 per month.

This equipment, which is rebuilt tabulating equipment of a kind not generally used in state service, was purchased in January, 1951, for \$20,398, including maintenance to January 31, 1956. We recommended against its purchase at that time for several reasons (pp. 235-237 of our Analysis of the 1951-52 Budget Bill), one of which was the likelihood that the equipment might become obsolete before it was worn out. Recent developments in the field of electronic computing and tabulating devices have made this a certainty.

While we do not recommend deletion of this \$600 for servicing from the 1955-56 Budget, we strongly recommend that before service charges for a full year, or \$1,440, are included in the 1956-57 Budget, consideration be given to contracting for tabulating services with the Department of Employment. That department will have one of the most modern tabulating installations in the State in operation during 1956-57 and will probably be in a position to perform tabulating service for other state agencies on a contract basis.

Centralized Revenue Administration

We are in favor of the establishment of a Department of Revenue and Taxation to be headed by a single director appointed by and responsible directly to the Governor to which should be transferred the responsibility for the administration of all major state taxes, including those now administered by the Franchise Tax Board, and are in general agreement with the plan for state organization recommended for a Department of Revenue presented to a subcommittee of the Assembly Interim Committee on Government Organization by the Chief Administrative Analyst of the Department of Finance on January 10, 1955.

Under such a department maximum effectiveness could be obtained in the audit activity, for example, from use of the pooled staffs of all existing tax agencies by shifting the emphasis between programs from time to time, as suggested in this analysis with respect to Franchise Tax and Personal Income Tax. With all state tax audit activities pooled under one head, the opportunities for increased effectiveness in manpower utilization would be increased many fold.

Franchise Tax Board—Continued

The situation presently existing in the out-of-state audit programs of the Franchise Tax Board and the Board of Equalization furnish an illustration of lack of maximum effectiveness due to separation.

The Board of Equalization has a 12-man staff in Chicago and the same in New York and proposes to increase each to 16, while the Franchise Tax Board has two men in each city and proposes to increase this to four. The men from the two agencies share office space and clerical facilities yet operate entirely independently otherwise. A combined staff as large as 20 auditors in each location would seem to justify a higher level of on-the-job supervision than would either staff operating independently. It is possible that under present conditions neither staff is receiving adequate supervision.

STATE TREASURER

ITEM 134 of the Budget Bill

Budget page 480
Budget line No. 7*For Support of the State Treasurer From the General Fund*

Amount requested	\$303,937
Estimated to be expended in 1954-55 Fiscal Year	310,814
Decrease (2.2 percent)	\$6,877

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$1,781	\$1,781	---	481	14
Operating expense	2,754	2,754	---	481	33
Equipment	—11,412	—11,412	---	481	40
Total increase	—\$6,877	—\$6,877	---	481	47

RECOMMENDATIONS

Amount budgeted	\$303,937
Legislative Auditor's recommendation	303,937
Reduction	None

ANALYSIS

The amount requested for support of the State Treasurer's office in the 1955-56 Fiscal Year has decreased \$6,877 or 2.2 percent. The decrease is due to a reduction in the amount budgeted for equipment in the budget year. During the current year two large items of equipment, bond storage lockers in the vault and equipment for warrant processing, were purchased.

In the past five years there has been a consistent increase in fiscal agency fees paid by the Treasurer. There is another increase expected in the 1955-56 Fiscal Year.

Approval of the items budgeted is recommended.

INVESTMENT OF TREASURY FUNDS

The investment of state funds has become an important function with the growth in revenues and reserves. This office has studied the organization and administration of investments for a period of time and has reported on one part of the function, the investment of state

State Treasurer—Continued

funds in office buildings in a report dated October 29, 1954. The conclusions which have been reached with respect to the larger problem of investing surplus moneys through the Surplus Money Investment Fund are of some considerable financial significance and are as follows:

1. Increased investments through the Surplus Money Investment Fund would result in decreased cash in the State Treasury, and, accordingly, the two questions are closely interrelated and must be studied together.
2. Based on experience to date investments in the Surplus Money Investment Fund could have been increased many millions of dollars with resulting increase in revenue of up to \$480,000 per year if certain changes in policy and procedures were instituted.
3. Cash on deposit in active bank accounts with the Treasurer probably has at times exceeded actual needs by at least 30 million dollars.
4. Substantial amounts of money are deposited by the Treasurer in bank accounts which earn no interest and are inactive or comparatively so (about 15 million dollars during 1954).
5. Under present market conditions the State could earn additional interest on its idle money if the law were changed to permit investment of such money without regard to funds.

Recommendations

1. The Treasurer's Office should be requested to furnish information as to considerations which govern in determining the amount of money needed in active bank accounts at all times, and why it believes the Surplus Money Investment Fund should not be increased.
2. Outside authorities in the field of private industry and banking should be consulted to determine private industry practices with respect to working bank balances and temporarily idle funds.
3. Study should be given to the desirability of the investment of idle state money without regard to funds, in a manner comparable to that now used by the Treasurer in placing such money in interest bearing bank accounts, and to drafting suitable legislation to permit such a practice if deemed desirable.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

ITEM 135 of the Budget Bill

Budget page 482
Budget line No. 23

For Support of California Highway Patrol From the Motor Vehicle Fund

Amount requested	\$16,384,631
Estimated to be expended in 1954-55 Fiscal Year	14,650,384
Increase (11.8 percent)	<u>\$1,734,247</u>