

University of California—Continued

If the State Department of Agriculture were to carry on an eradication program it is estimated that the cost would be in the neighborhood of \$5,000,000 for the 1956-57 Fiscal Year. The department points out also that these figures are purely tentative and could be revised upward or downward when the problem is better understood. Based on the foregoing it is evident that the small amount requested by this appropriation for research would be money well spent if the university discovers that an eradication program is not necessary but in lieu of such a program could develop resistant varieties and/or natural predators to alleviate the existing infestation.

Consequently, we recommend approval of the item as requested.

Department of Education
HASTINGS COLLEGE OF LAW

ITEM 112 of the Budget Bill

Budget page 402
Budget line No. 7

FOR SUPPORT OF HASTINGS COLLEGE OF LAW FROM THE
GENERAL FUND

Amount requested \$49,000
Estimated to be expended in 1955-56 Fiscal Year..... 49,000

Increase None

RECOMMENDATIONS

Amount budgeted \$49,000
Legislative Auditor's recommendation..... 49,000

Reduction None

ANALYSIS

The budget request of \$49,000 consists of two items. One is the annual interest payment of \$7,000 which the State must make to the college under the original agreement with the founder; and two, an amount of \$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 college is contemplating the use of \$152,115 from its reserves for the 1956-57 Fiscal Year. The reserves will soon be exhausted and it is anticipated that the Legislature will furnish the necessary funds for the annual operation of the school.

We recommend approval of the amount requested.

BOARD OF CONTROL

ITEM 113 of the Budget Bill

Budget page 405
Budget line No. 7

FOR SUPPORT OF BOARD OF CONTROL FROM THE GENERAL FUND

Amount requested \$22,095
Estimated to be expended in 1955-56 Fiscal Year..... 22,101

Decrease \$6

Board of Control—Continued

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages-----	\$34	\$34	--	405 43
Equipment -----	—40	—40	--	405 61
Total increase -----	—\$6	—\$6	--	405 63

RECOMMENDATIONS

Amount budgeted -----	\$22,095
Legislative Auditor's recommendation-----	22,095
Reduction -----	None

ANALYSIS

The Board of Control makes rules and regulations governing the presentation and audit of claims relating to the amount and methods of traveling on official business of the State, and relating to the making of merit awards. The board considers, audits and recommends to the Legislature payment of claims against the State for which no appropriation has been made. The board also hears appeals from the departments and protests from the vendors in accordance with purchasing procedure required by Chapter 1736, Statutes of 1955.

The budget request for 1956-57 Fiscal Year is based on the present level of service. The very small decrease in the current budget is the result of minor adjustments in salaries and wages, and equipment requests. The budget does not provide for any increase in work load which may be required as a result of additional hearings in connection with the revised purchasing procedures.

On November 22, 1955, the first protest case occasioned by Chapter 1736, Statutes 1955, was heard. This chapter states that "the agency may request a hearing before the Board of Control and the board shall determine the supplies and equipment which will best serve the interest of the State, whereupon the Department of Finance shall issue a purchase order for the supplies or equipment specified by the Board of Control." In this first case the Division of Paroles and the Division of Water Resources contested the substitution of one brand of electric typewriter for another when preference was expressed and supported by the agency. In view of the influence of this case on purchasing procedure, a decision on this case was taken under advisement. A continuation of the hearing was held on January 18, 1956, at which time the board granted the request of the Division of Paroles as it felt the case presented for savings and morale was adequately supported. The board made it clear, however, that precedent was not being set by this action and recommended that the Standards Committee study the problem before a definite policy is established.

Approval of the amount budgeted is recommended.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 407
Budget line No. 24

FOR SUPPORT OF STATE CONTROLLER FROM THE GENERAL FUND

Amount requested	\$2,442,787
Estimated to be expended in 1955-56 Fiscal Year	2,421,986
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Increase (0.9 percent)	\$20,801

Summary of Increase

	Total Increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$50,722	\$50,722	--	416 9
Operating expense	3,148	3,148	--	416 10
Equipment	-18,502	-18,502	--	416 11
Less: increases appropriations from other funds	-14,567	-14,567	--	416 22
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Total increase	\$20,801	\$20,801	--	416 19

RECOMMENDATIONS

Amount budgeted	\$2,442,787
Legislative Auditor's recommendation	2,325,623
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Reduction	\$117,164

ANALYSIS

General Summary of Activities

The State Controller is the accounting and disbursing officer for the State, maintaining the accounts of all funds and appropriations, determining the legality of all payments and receipt of moneys due the State and disbursing all moneys withdrawn from the Treasury. The Controller supervises the administration of state inheritance and gift taxes; administers laws concerning county budget procedure; reports state, county, city, district and street and highway financial transactions; supervises general procedures concerning delinquent property taxes and administers property tax-deeded to the State; administers unclaimed property laws; and field audits expenditures by local governments under the state school building aid programs and other subvention programs.

These functions are carried out by eight divisions: Administration, Accounting, Audits, Disbursements, Inheritance and Gift Tax, County Budgets and Reports, Tax-Deeded Lands, and Tax Collection and Refund. The Controller has 503 authorized positions for the current year serving the public in all major California cities. The cost of maintaining the Controller's office is defrayed primarily from the General Fund. Other funds from which the office is supported are: The Motor Vehicle Transportation Tax Fund, Motor Vehicle Fuel Fund, Redemption Tax Fund, Postwar Unemployment and Construction Fund and the State School Building Aid Fund.

State Controller—Continued

Summary of Recommended Reductions

Accounting Division		
Auditor II (2)		\$12,700
Audits Division		
Claim Auditing—24 positions		94,000
Field Audits		
Governmental Auditor II (2)		10,464
Total		\$117,164

The proposed budget of the Controller's Office involves a net increase of \$20,801 over the current year from the General Fund. The net increase consists of both increases and decreases, which taken together make this small increase of less than 1 percent. The budget proposes a continuation of the present level of service. Considering primarily general activities, the significant changes are as follows:

<i>Program changes</i>	<i>Increase</i>	<i>Decrease</i>
Audit of school building aid projects.....	\$18,000	--
Disbursements Division, increased work load and reorganization	14,500	--
OASI integration with SERS.....	--	\$16,000
Inheritance and Gift Tax, increased work load.....	2,000	--
Reduction in purchase of equipment.....	--	24,000

Our recommended reductions, the above program changes, other budgetary matters and comments on the performance of the Controller's Office during the past year are discussed as follows:

Collier-Burns Highway Accounts

Chapter 99, Statutes of 1955, terminated the highway accounting phase of the Collier-Burns program, effective September 7, 1955. Under this program of the Collier-Burns Highway Act of 1947, the Controller was required to account for all receipts and expenditures in the Highway Fund. Two auditor positions were approved in the Accounting Division's Control Accounts Section for this work in 1947-48 and one more was added in 1950-51. The Controller's Office recently abolished one of the three positions. *We recommend that the other two Auditor II positions budgeted at \$12,700 also be abolished since the Collier-Burns accounting activity has terminated.*

Prior to this highway accounting activity, the Control Accounts Section had one accounting position. Since then approximately 12 other positions have been established for other programs and work load increases. These two auditor positions apparently have been absorbed into other programs but without legislative review and approval.

Previous Recommendations on the Preaudit Function

The Senate Finance Committee at the last session instructed the Controller, Department of Finance and the Legislative Auditor to study the preaudit function in the Controller's Office. This resulted from a recommendation made by the Legislative Auditor in the 1955-56 Budget analysis. In that analysis it was maintained that the Controller was performing much unnecessary and duplicating work, and that a substantial reduction in positions could be made.

State Controller—Continued

The Department of Finance has made a study of the function but, we understand, has been unsuccessful in reaching agreement with the Controller. We have been in contact with the Controller's Office on this matter during the interim. However, we have not as yet received the results of any study of the preaudit function by the Controller's Office nor statement which would delineate the specific areas in which there is disagreement as to our findings. We have carefully reviewed the Department of Finance's study of the preaudit function. It is a thorough study covering all facets of the function of preauditing claims in the Controller's Office and the relation to auditing done by the agencies and the Department of Finance. We are in complete agreement with the findings and recommendations contained in the report which correspond to our recommendations of a year ago.

Based upon the detailed study of the Department of Finance, we repeat our recommendation of last year for reductions in the Claim Auditing Unit. We recommend, in concurrence with the finance report, that the Claim Auditing Unit be reduced by approximately one-half. Reduction of the function by one-half would mean the elimination of 24 existing positions amounting to approximately \$94,000 in salaries and wages. The exact classification of positions and the amount of salaries and wages, operating expense and equipment to be reduced can be adjusted by the Department of Finance and the Controller's Office.

Audit of School Building Aid Projects

The establishment of general governmental auditing policies and the definition of areas of responsibilities of all agencies performing audits as broadly recommended by the Price-Waterhouse Report has not yet been accomplished. It is expected that once the Auditor General is appointed the interested state officials can get together and resolve the auditing deficiencies and overlapping in state government. An over-all state audit plan is needed and should result in some shifts in personnel between agencies and a reduction in the duplication in some audit programs. One area in which we believe there is undue duplication is in the audit of school building aid construction projects.

The Audits Division requests two new auditor positions to audit school construction projects. The justification presented by the Controller is based upon an anticipated increase of such projects in the future. We assume that the ability of the Controller to handle this increased work load is projected in terms of present auditing procedures and the current division of responsibility among auditing agencies auditing school construction projects. Until the entire school building aid construction projects audit program as it affects all interested agencies is properly evaluated, the work load figures used by the Controller may present an inaccurate picture. Therefore, we recommend that approval of these two positions be deferred until an over-all study is made of the whole local allocation audit program as it affects the Local Allocation Division and the Audits Division of the Department of Finance and the Audits Division of the Controller's Office.

Such a study should define how much auditing of school projects by all agencies the State really requires. It then should be determined how best this auditing can be done and in the light of present legal require-

State Controller—Continued

ments and possible law changes which agencies should do it and how much time each agency should spend per project. At the present time there could be better coordination between the three state agencies reviewing school projects. Each agency spends the time it believes necessary to satisfy itself that the State's interest is being protected. This sense of responsibility is commendable except that much more time may be utilized than is necessary to achieve the goal. The Audits Division of the Department of Finance reviews the reports of public accountants who perform annual audits of most school districts. To our knowledge little use of these public accountant reports is made by the Controller. Admittedly these reports will not replace the Controller's review but if used fully, as the Price-Waterhouse Report suggests, might eliminate or minimize the duplication of work by state auditors. The Controller, however, is making considerable use of the files and working papers of the auditors of the Local Allocation Division.

In addition to the Audits Division of the Department of Finance, the Controller and Local Allocations Division spend on an average a total of 95 hours auditing every application under Chapter 27, Statutes of 1952, and 160 hours on every application under Chapter 1389, Statutes of 1949. It may be that this amount of time per application by these two agencies is not excessive; however, we have no evidence upon which to make a judgment. The Controller reports that by better supervision, the audit time spent by his office per apportionment on Chapter 1389 will be reduced from 90 to 75 hours. If 15 hours per apportionment can be saved by better supervision, it is reasonable to believe that additional hours may be saved by a unified and coordinated state audit program.

It will be argued that until a study is made additional auditors are necessary to carry on the program. We believe that it is unsound to add new positions until a careful appraisal of existing work load and goals is made. Several factors lead us to believe that additional man hours may be available and that any backlog which might develop will not be excessive for one year.

Other programs audited by the Controller are decreasing in scope and thus require fewer man hours. One such program which the Controller indicates will decline is the postwar construction projects. Other audit programs not mentioned in the Controller's justification should level off thus permitting man hours to be diverted to the school aid projects. Experience gained in auditing Chapter 1389 projects should also serve to permit greater coverage with existing personnel. Some of the school districts securing allocations under Chapter 1389 will also make application for Chapter 27 money; the auditors will be familiar with the operations of these districts. Another factor in utilizing present man power is in the priority of audit of the various school projects. For example, there would appear to be some advantage in cleaning up all existing Chapter 1389 projects before diverting man power to the newer applications under Chapter 27. By concentrating on Chapter 1389 projects first, advantage can be taken of one district having more than one application on file for Chapter 27 allocations; thus the auditor can process two or more applications when auditing a school district.

State Controller—Continued**Disbursements Division—Work Load and Reorganization**

Three positions are requested for this division based upon a justification of work load increases and reorganization. This request, which we feel is justified and recommend for approval, must be viewed in light of the continued expansion of the division over the past several years. To the original program of this division of preparing the warrants for all state expenditures has been added in recent years: the centralized pay roll, the treasury system bank accounts, the savings bond purchase program and the fund accounting program. The fund accounting program consists of the mechanized handling of the control accounts which were formerly maintained by the Accounting Division. The Disbursements Division undertook this program of mechanically servicing the control accounts at the suggestion of the Legislative Auditor. Together these four programs, which continue to expand in the volume of transactions processed, comprise one of the largest machine operations in State Government. In addition to the Sacramento office which handles the greatest portion of the work load, there are disbursing officers in San Francisco and Los Angeles; these offices process pay roll warrants only.

The continued growth in the warrant volume is sufficient to justify the addition of the positions of accounting tabulating machine supervisor I and key punch operator. These positions are directly related to increases in warrant volume.

The general increase in the number and size of the programs of the agency provide the basis for requesting the accounting tabulating machine supervisor II. It is proposed to shift many of the planning and staff functions from the operating supervisors to this new position. It is planned that procedural manuals will be revised and special analyses will be conducted, including a general review of the entire operations of the division. The position is scheduled for review at the end of the budget year. On this basis, we recommend approval.

OASI Integration With SERS

A small staff was established during the current fiscal year in the Disbursements Division to develop the procedures for handling the increased work load involved in the integration of Old Age and Survivor's Insurance with the State Employees' Retirement System. Approximately \$16,000 was provided by Chapter 1440, Statutes of 1955, to finance this special project. Since the integration was refused by the state employees, this staff and the related expenses are not necessary. Termination of the program in the current year results in a decrease in the expenditures when compared to the budget year.

Inheritance and Gift Tax—Work Load

One clerical position has been requested for the Los Angeles office. The justification for this position appears adequate as there has been a steady increase in the number of tax returns completed. The cost of this permanent position of intermediate typist-clerk will be partly offset by a reduction in temporary help funds.

State Controller—Continued

Emergency Allocations

One allocation from the Emergency Fund for General Fund activities amounting to \$3,961 was made to the Controller during the current year. Approximately \$1,000 was spent on ledger file cards in the Accounting Division. The remaining portion of the allocation provided funds for a new clerical position in the Disbursements Division. This position was authorized to handle the increased work load in connection with preparing the entire Department of Natural Resources' pay roll in Sacramento; formerly the pay roll was divided among the three district disbursing offices. We are informed that a position will be eliminated from Natural Resources' budget to offset this new position in the Controller's Office.

Combining Accounting and Disbursements

At the beginning of the current fiscal year the Controller's office placed into operation a major change in keeping the State's control accounts. Formerly the accounts were maintained on bookkeeping machines; now they are kept on punch card equipment. This major procedural change has resulted in substantial savings. This step is only the first in achieving greater efficiency and economy in this area of State Government. It is not too soon for the Controller to begin the planning on two additional changes in this work; these changes are:

1. Combining the Divisions of Accounting and Disbursements into one division,
2. Producing the presently required reports and financial data from the punch cards.

These recommendations were made in our analysis of the 1955-56 Budget Bill; they are sound and still deserve attention. With respect to the combining of the divisions, we feel that two administrative sections, one in each division, are not justified by the present activities of the two divisions. The primary activity of the Accounting Division, centered in the Control Accounts Section, is to oversee the receipts, disbursements and balances of the control accounts. This section and its activities requires no separate division administration to carry out its responsibilities. The Financial Analysis Section prepares the various financial statements covering the State's condition and operations and makes apportionments of revenues to local government. The function of preparing financial statements, now performed manually, could be done much more efficiently on punch card machines. In fact, most of the information is already on punch card as part of the control accounting program. Such a change would eliminate all the routine manual work leaving only such activities as special analyses and preparation of format.

The third activity of the division resides in the Unclaimed Property Section which administers the unclaimed and escheated property laws. This activity is not related to the basic responsibility of the Accounting Division and could be placed elsewhere in the Controller's Office.

The combination of these divisions plus the necessary procedural changes require no law change, but can be accomplished by simple administrative action by the Controller.

State Controller—Continued

STATE CONTROLLER

ITEM 115 of the Budget Bill

Budget page 407
Budget line No. 40

FOR SUPPORT OF TAX COLLECTIONS AND REFUND DIVISION FROM THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	\$142,328
Estimated to be expended in 1955-56 Fiscal Year.....	138,747
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Increase (2.6 percent)	\$3,581

RECOMMENDATIONS

Amount budgeted	\$142,328
Legislative Auditor's recommendation.....	142,328
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Reduction	None

ANALYSIS

Support of the Tax Collection and Refund Division comes from three separate funds. This amount is requested from the Motor Vehicle Transportation Tax Fund for its share of the cost of collecting taxes levied under the provisions of the Motor Vehicle Transportation Tax Act.

An emergency authorization in the amount of \$19,772 was approved during the current year for support of the division from the Motor Vehicle Transportation Tax Fund. This authorization was not primarily an augmentation of funds. A small augmentation was necessary for an increase in the administrative pro-rata charge to special fund agencies. Approximately \$17,000 of the emergency authorization was due to a recomputation of the proportionate charge to the funds for the cost of the agency's services. The recomputation increased the charges to the Motor Vehicle Transportation Tax Fund and reduced the charges to the Motor Vehicle Fuel Fund. In other words, this is a readjustment between these funds in the costs of administering and collecting taxes against the various tax laws enforced by the Tax Collection and Refund Division.

We recommend approval of this item as budgeted.

STATE CONTROLLER

ITEM 116 of the Budget Bill

Budget page 407
Budget line No. 54

FOR SUPPORT OF TAX COLLECTION AND REFUND DIVISION AND THE BUREAU OF HIGHWAY ACCOUNTS AND REPORTS FROM THE MOTOR VEHICLE FUEL FUND

Amount requested	\$460,041
Estimated to be expended in 1955-56 Fiscal Year.....	451,787
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Increase (1.8 percent)	\$8,254

State Controller—Continued

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages -----	\$10,927	\$7,939	\$2,988	418 53
Operating expense -----	3,111	3,111	--	418 54
Equipment -----	-1,876	-1,876	--	418 55
Less:				
Increased charge to General Fund -----	-327	-327	--	418 58
Increased charge to Motor Vehicle Transportation Tax Fund -----	-3,581	-3,581	--	418 59
Total increase -----	\$8,254	\$5,266	\$2,988	418 60

RECOMMENDATIONS

Amount budgeted -----	\$460,041
Legislative Auditor's recommendation -----	460,041
Reduction -----	None

ANALYSIS

The Tax Collection and Refund Division maintains the accounts and collects the Motor Vehicle Transportation License Tax, the Motor Vehicle Fuel License Tax, the tax on insurance companies, and the petroleum and gas production assessments. The division also administers the refund of motor vehicle fuel license tax to nonhighway users.

A new position of intermediate typist-clerk is requested for Los Angeles to release field representatives from clerical duties. Relieving the field representatives from the clerical duties will free them to perform, on a full-time basis, their regular collection duties. Also, there is an increase in the number of collection cases which the new position will assist in handling. There is good reason to believe that the additional collections will offset the cost of the position.

The agency has submitted data on the rate of collection per man-year during the last four years. It indicates a marked improvement in the effectiveness of the operation.

	1951-52	1952-53	1953-54	1954-55
Money collected -----	\$314,170	\$371,614	\$472,573	\$554,239
Man-years -----	8	8	8	8.5
Collection per man-year -----	39,271	46,451	59,070	65,204

The major problem facing the agency, which it fully recognizes, is to attain control over the steadily rising tax accounts receivable balance. The balance was \$260,000 in 1952 and has risen steadily to \$550,588 in September, 1955. Efforts are now being made as a result of recent reorganization to improve the efficiency of the staff and streamline procedures. The division reports, for example, that it is concentrating more effort on larger accounts and accounts owed by business still in operation. The progress made by the agency will be watched with interest.

Approval of the amount requested is recommended.

State Controller
TAX-DEEDED LANDS DIVISION

ITEM 117 of the Budget Bill

Budget page 408
Budget line No. 6

FOR SUPPORT OF TAX-DEEDED LANDS DIVISION FROM THE REDEMPTION TAX FUND

Amount requested	\$170,682
Estimated to be expended in 1955-56 Fiscal Year	176,547
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Decrease (3.3 percent)	\$5,865

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	—\$2,368	—\$2,368	—	419 26
Operating expense	—927	—927	—	419 47
Equipment	—2,492	—2,492	—	419 54
Less: increased appropriations from other funds	—78	—78	—	419 63
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Total increase	—\$5,865	—\$5,865	—	419 62

RECOMMENDATIONS

Amount budgeted	\$170,682
Legislative Auditor's recommendation	170,682
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Reduction	None

ANALYSIS

The Tax-deeded Lands Division works with the counties in handling tax sales, tax deeds and redemptions of lands; it administers property tax-deeded to the State; advises county officials regarding the tax on real property and assists them in other ways.

The work of this division has decreased steadily due to fewer pieces of property becoming delinquent for nonpayment of taxes. The 1956-57 Budget reflects this continued decrease through the closing of the Ventura field office and the resultant elimination of one intermediate typist-clerk position.

During the interim we have conferred with officials of the Controller's Office on the functions of the Tax-deeded Lands Division. We reviewed some of the work load data and other operating information. This general exploratory survey was made as a follow-up to our suggestion in the Analysis of the Budget Bill for the Fiscal Year 1955-56, that study be given to consolidation of the branch offices and a reduction in staff. Our study may be summarized as follows:

FINDINGS

1. The agency has been able to provide no logical justification for the number of district offices.

The district offices are assigned a certain area of responsibility comprised of a number of counties; however, the distribution of counties to a district office cannot be reasonably explained. The transactions which the division processes and which are the source of its work load do not shed any particular light on the number and size of the districts. One explanation for the present number of districts is that at one time they may have been justified by work load.

Tax-deeded Lands Division—Continued

The agency keeps records on the number of tax sales, deeds and redemptions it handles but has made no effort to weigh these factors in terms of time required to process them. Without detailed study we cannot evaluate them as the time to handle a given transaction varies greatly.

2. While there appear to be sound reasons for reassigning some of the counties within districts and combining existing districts, the monetary savings, if any, are questionable.

3. The agency estimated that elimination of the offices at Riverside, Ventura, and Fresno would increase travel expense and time lost by \$4,500 due to longer distances to travel. A saving of \$3,000 for rent would be realized if these offices were closed. Consolidation might also save in clerical costs and possibly reduce the need for one or more assistant district managers; these reductions have not been estimated.

CONCLUSION

Estimated probable savings through consolidation of district offices would be small at best. However, further consolidation or reassignment in some measure, such as the elimination of the Ventura office, should take place. A savings has resulted from closing that office. The agency has demonstrated in the proposed budget a desire to effectuate economies. We believe it should continue to critically review the operation in the future.

We recommend approval of the amount budgeted for 1956-57.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND

ITEM 118 of the Budget Bill

Budget page 408
Budget line No. 20

FOR AUDIT OF SPECIAL APPROPRIATIONS FOR AID TO LOCAL GOVERNMENTS FROM THE POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND

Amount requested	\$10,854
Estimated to be expended in 1955-56 Fiscal Year	14,166
Decrease (—23.4 percent)	—\$3,312

RECOMMENDATIONS

Amount budgeted	\$10,854
Legislative Auditor's recommendation	10,854
Reduction	None

ANALYSIS

The accounting and auditing performed by the State Controller on the aid programs to local governmental agencies are performed under the authority of the Postwar Unemployment and Construction Act, Chapter 20, Statutes of 1946 and the Postwar Planning and Acquisition Aid Act, Chapter 47, Statutes of 1944.

The Legislature extended the programs so that applications can be taken until December 31, 1956. The activity in these programs will continue to decline, however, since the fund is almost exhausted. The

Additional Support—Continued

unallocated balance in the two funds after deducting pending applications was \$1,076,210 as of November 1, 1955.

We recommend the budget as submitted.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM THE STATE SCHOOL BUILDING AID FUND
 ITEM 119 of the Budget Bill

Budget page 408
 Budget line No. 45

FOR ADDITIONAL SUPPORT OF THE STATE CONTROLLER FROM THE STATE SCHOOL BUILDING AID FUND

Amount requested -----	\$85,727
Estimated to be expended in 1955-56 Fiscal Year -----	28,615
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Increase (199.6 percent) -----	\$57,112

RECOMMENDATIONS

Amount budgeted -----	\$85,727
Legislative Auditor's recommendation -----	78,233
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Reduction -----	\$7,494

ANALYSIS

This function is a part of the program which provides state assistance in financing school construction where school districts have insufficient bonding capacity to provide needed facilities. A state bond issue and a legislative appropriation totaling \$185,000,000 were authorized in 1952. There is a balance of approximately \$100,000,000 available for application in the fund.

The accounting and auditing activities related to this program are increasing. However, the primary explanation for the large increase is due to the combining of all administrative charges of the Public School Building Loan Fund and the State School Building Aid Fund. Since these programs are identical, administrative charges will be taken from the newest program, the State School Building Aid Fund, in order to simplify financing. The amount of \$85,727 includes \$23,102 for accounting charges, \$61,651 for auditing services and \$974 for pro-rata general administrative charges.

An emergency authorization of \$7,494 appears in the current year budget against the State School Building Aid Fund. This amount appears as an increase in reimbursements to the Accounting Division for accounting services to the school construction project. An examination of the need for increased funds for accounting services fails to show adequate justification. Work load standards and the present level of activity were not provided to demonstrate the need for increased reimbursements in the current or the budget year; this same increase is carried forward to the budget year. We are unaware of any sudden change in the school construction program. Moreover, the Legislature approved an increase of 75 percent for accounting services in the 1955-56 Fiscal Year over 1954-55.

Another aspect of this emergency authorization is not clear. The Accounting Division has received \$7,494 for some unforeseen change in the accounting services for the school building aid program, yet no additional position was added for this increased activity. It would appear

Additional Support—Continued

that the Accounting Division had positions not otherwise engaged or funded which were shifted to this work and financed from the School Building Aid Fund.

Because there is no satisfactory explanation of the need for this money nor what the money is being used for, *we recommend that \$7,494 be deleted from the amount requested for appropriation in the budget year from the School Building Aid Fund for accounting services.*

BOARD OF EQUALIZATION

General Activities

ITEM 120 of the Budget Bill

Budget page 422
Budget line No. 50

56-57

FOR SUPPORT OF BOARD OF EQUALIZATION FROM THE GENERAL FUND

Amount requested	\$11,731,355
Estimated to be expended in 1955-56 Fiscal Year	11,217,523
Increase (4.6 percent)	\$513,832

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$330,978	\$183,210	\$147,768	436 47
Operating expense	138,118	119,124	18,994	436 48
Equipment	45,239	45,239	--	436 49
Totals	\$514,335	\$347,573	\$166,762	436 51
Reimbursements:				
Mapping services to counties	—\$100,140	—\$100,140	--	436 54
Services to Department of Alcoholic Beverage Control	109,088	109,088	--	436 55
Division of Highway Taxes	—9,451	—9,451	--	436 62
Net increase	\$513,832	\$347,070	\$166,762	436 61

RECOMMENDATIONS

Amount budgeted	\$11,731,355
Legislative Auditor's recommendation	11,141,586
Reduction	\$589,769

A summary of our recommended reductions is as follows:

Division	Amount	Budget	
		Page	Line
General Administration:			
Printing expense	\$2,785	425	24
Out-of-state travel expense	1,000	425	32
Service Division:			
Rent for additional space, etc.	15,208	427	33
Assessment Standards—Assessment Equalization			
19 additional positions requested	106,296	428	45-50
Salary savings applicable to the foregoing	—10,000	428	51
47 positions and related operating expenses	418,704	428	43
Assessment Standards—County Contract Mapping			
Increase in reimbursements	30,000	429	46
Retail Sales Tax Division			
Delete funds for six field representatives	25,776	433	32
Total	\$589,769		

Board of Equalization—Continued

The budget of the Board of Equalization is presented on the basis of its various operating divisions and a description of its activities is included under the appropriate division in this analysis.

Of the total increase of \$513,832 in the budget as submitted, \$109,088 is attributable to a decrease in reimbursements from the Department of Alcoholic Beverage Control and is due to the fact that certain services performed by the Board of Equalization for the Department of Alcoholic Beverage Control during a part of the current year will be performed by the Department of Alcoholic Beverage Control with its own staff during 1956-57. These services are chiefly housekeeping services such as accounting, cashiering, etc., although a part of the increased cost to the Board of Equalization is due to rent for space in field offices which the Board of Equalization is obligated to pay under the terms of existing leases and for which it can no longer receive reimbursement because of withdrawal of Alcoholic Beverage Control personnel from the space involved.

General Administration**ANALYSIS**

This division includes the executive officers, the general legal staff which processes appeals from actions of the Franchise Tax Board and performs other legal services, the departmental accounting office and the personnel administration function.

A new position has been added, that of supervising sales tax auditor I Budget page 424, line 46, out of funds provided by the abolishment of two lower-level positions, which is intended to serve as the internal auditor of the board's activities, reporting directly to the executive secretary. This is a function which has not been performed for a number of years.

In its report to the Joint Legislative Budget Committee on Accounting and Auditing for the State of California, Price Waterhouse & Co. pointed out that, in the Board of Equalization, a small staff of internal auditors, under proper direction, would be of substantial assistance to the headquarters administration staff and division chiefs and that it is likely that the cost of such an internal audit program could be largely offset by a reduction in the scope of the audit tests made by the Department of Finance. We believe that this suggestion is sound and that the establishment of the new position is desirable.

We recommend that printing expense, Budget page 425, line 25, be reduced \$2,785.

It is the intent of this recommendation to eliminate all funds requested for the following pamphlets:

- “State Board of Equalization”
- “What Equalization Means to You”
- “News Letter”

These are new services, no funds for which were provided in the Budget Act of 1955, which authorized printing expense of \$1,700 for 1955-56. The proposed deletion will reduce printing for 1956-57 to \$2,215, approximately the level authorized for the current year, before revision.

Board of Equalization—Continued

We recommend that traveling-out-of-state-other, Budget page 425, line 32, be reduced \$1,000.

This is all for attendance at conventions, and we see no reason why it should exceed that previously authorized by the Budget Act of 1955 for 1955-56, namely \$2,000.

Service Division

We recommend deletion of \$15,208 from the proposed budget of the Service Division as follows:

Elimination of increased rent for three branch offices.....	\$11,548
Elimination of increased space requested for headquarters office in Sacramento	3,180
Elimination of branch office in Upland.....	480
Total	\$15,208

The Service Division performs various housekeeping functions for the agency, such as cashiering, mailing, tabulating, supply, duplicating and other general services.

The Board of Equalization pays rent for space at 62 locations, all of which is included in the total of \$638,822 shown for the Service Division, Budget page 427, line 33.

The total rent authorized by the Budget Act of 1955 for the current year, 1955-56, was \$577,770, whereas the current budget shows the corresponding amount to be \$602,772, an increase of \$25,002. The amount requested for 1956-57 of \$638,822, represents an increase over the revised estimate of \$36,050, or 6.0 percent, whereas it represents an increase over the amount originally authorized of \$61,052 or 10.6 percent.

The Board of Equalization is one of a very few state agencies which is specifically authorized by law to negotiate its own leases subject to approval by the Department of Finance (Government Code, Section 15622). This substantial increase in rent, which is entirely unrelated to any increase in staff, raises a question in our minds as to whether uniform standards for office space requirements are being applied as effectively under the existing system of divided responsibility as they could be if a single agency were responsible for all property management, including negotiation of all leases.

We believe this is another indication that further study should be made looking toward the centralization of all property management activities, including leasing, in one central agency, a recommendation which this office has made on previous occasions.

The detailed rent schedule submitted by the agency with its 1956-57 Budget request contains a statement to the effect that the Director of Finance has requested that certain proposed rental items be placed in the budget with a notation that their approval by the Legislature will be considered as authorization to the Director of Finance to consider leases of as much as 10 years' duration in determining the program for housing which would best serve the State's interests in connection with these particular offices. Those involved are in Los Angeles, Santa Ana, San Bernardino, Santa Monica and Santa Barbara, where changes in existing space arrangements are desired by the Board of Equaliza-

Board of Equalization—Continued

tion within the next year and a half upon the expiration of current leases.

We do not believe that it is appropriate for legislative approval of funds for office rental for a particular location for a particular year to be construed as approval of any particular type of lease arrangement, especially since the individual lease contracts are not before the Legislature for consideration, and *we recommend that in acting on this budget request the Legislature make it clear that no such interpretation should be placed on its action.*

It is our view that the final decision as to the most appropriate leasing arrangements under any given situation involving a Board of Equalization lease is the responsibility of the Department of Finance under existing law and cannot by this means or should not be shifted to the legislative branch of the State Government.

We would like to point out that a question such as this arises primarily as the result of the division of responsibility in the executive branch which now exists and to repeat our recommendation for centralization of all property management, including leasing in a single agency.

We recommend a reduction of \$11,548 in rentals requested for the following field offices:

Office	Expiration date of lease	Total Rents		Increase
		1955-56	1956-57	
Los Angeles	8/31/56	\$96,842	\$102,540	\$5,698
Santa Ana	5/31/57	2,430	7,800	5,370
Woodland	6/30/57	1,440	1,920	480
Totals		\$100,712	\$112,260	\$11,548

None of these increases is related to increased workload, since no increase in staff is involved, and there is every indication at present that adequate space will be available at no increase in cost. Accordingly they must be regarded as in the nature of increased services to employees, taxpayers, or both.

In Los Angeles the increase is due to a request for an additional branch office in the Wilshire district to which at least 80 of the staff of 348 people now using the Black Building in downtown Los Angeles would be assigned. A similar request was made in 1953 but funds for the proposed new office were deleted by the Legislature at our recommendation, since we did not then and do not now believe any additional offices are needed in the Los Angeles area.

Another important consideration is that plans are well advanced for the construction of a new state building in downtown Los Angeles and present indications are that the building will be ready for occupancy within the next three to five years. We believe it will be more economical for the State if the entire staff of 348 now in the Black Building are housed in the new state building than it will be to house a lesser number in the new state building and at least 80 in a relatively high rental area such as the Wilshire district, and accordingly any move to divide the staff now does not appear to us to be in the best interest of the State.

We recommend a deletion of \$3,180 requested for additional space for the headquarters office in Sacramento, since no added staff is involved and the request is for increased services.

Board of Equalization—Continued

We recommend the deletion of \$480 for the continuation of the branch office in Upland, since the lease expires on June 30, 1956, and we believe the office to be unnecessary.

We have pointed out on more than one occasion, and other studies have done likewise, that no set of criteria exists to justify the existence of branch offices at the various locations used by the Board of Equalization. We believe such a set of criteria could be developed and consistently applied and that its application would indicate that many existing offices, in addition to that in Upland, are not justified. We recommend that a study be made, with a report to the next General Session of the Legislature looking toward the development and application of such a set of criteria, and containing a recommendation as to the number and location of field offices appropriate for the most efficient and economical operation of the Board of Equalization.

Division of Assessment Standards

We recommend deletion of \$545,000 from the budget of the Division of Assessment Standards, as follows:

Assessment Equalization Activity	
19 additional positions requested.....	\$106,296
Estimated salary savings applicable to the above.....	—10,000
Deletion of 47 positions from existing staff and related expense.....	418,704
Subtotal	\$515,000
County contract mapping	
Increase in reimbursements.....	30,000
Total	\$545,000

Our reasons for making these recommendations are discussed in the sections which follow.

Assessment Equalization

The functions carried on in the Division of Assessment Standards under this heading fall into two general categories, "assessment supervision" and "property appraisal."

Activities in the first category are carried on pursuant to various sections of the law, chiefly Section 15608 of the Government Code, which provides that "the board shall instruct, advise, and direct assessors and tax collectors as to their duties under the laws. * * *"

The agency estimates that this activity will require a technical staff of 20 persons, together with related clerical personnel for 1956-57, if proper action is to be taken with respect to requests for assistance and instructions which have been received from nearly every county in the State.

We recommend that such a staff be provided, to consist of 20 technical and three clerical personnel.

The other activity, "property appraisal," stems from Article XIII, Section 9 of the Constitution, which provides for the creation of a State Board of Equalization * * * whose duty it shall be to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation * * *, a provision which has been in the Constitution since 1879.

In 1935 the board issued equalization orders to 34 counties requiring them to raise or lower their assessment levels, while in 1936 it issued

Board of Equalization—Continued

three such orders and a like number in 1937. The next year it reported that "no adjustments were necessary to maintain the uniform level upon which all counties are equalized" and no further orders were issued until 1955, a period of 18 years.

There were numerous indications, however, during this period that property valuations among the counties were in fact not equalized and in 1949 the Legislature enacted Chapter 1466, Statutes of 1949, which provided a comprehensive procedure for bringing about equalization including a requirement (Section 1831 of the Revenue and Taxation Code) that the board make annual surveys in each county of the State to determine the relationship between assessed value and market value of all property on the tax rolls of the county. Section 28 of the law provided that it should take effect on September 2, 1950, and apply for the first time to assessments made as of the first Monday in March, 1951, and that when funds were available for that purpose surveys should be completed as directed by Section 1831, Revenue and Taxation Code, in each county by the second Monday in July, 1951.

Section 28 of Chapter 1466 has been amended three times, changing the 1951 dates successively to 1953 (Chapter 1554, Statutes of 1951), to 1955 (Chapter 362, Statutes of 1953), and to 1957 (Chapter 256, Statutes of 1955, in effect April 26, 1955). All of these measures contained an urgency clause, that in Chapter 256, Statutes of 1955, reading as follows:

"This act is an urgency measure necessary for the immediate preservation of the public peace, health or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting this necessity are:

Numerous unsolved problems of such magnitude have arisen as to the scope and application of Chapter 1466 of the Statutes of 1949, that if such law is permitted to become operative on July 1, 1955, as currently contemplated, there is great danger of a serious dislocation in the local tax structure. In order to avoid this situation, and to permit the uninterrupted continuation of the performance of necessary public services supported by revenue raised and distributed locally, it is necessary for the immediate preservation of the public peace, health and safety that this measure be enacted to take effect at once."

Funds were first made available for sample appraisals as contemplated by Chapter 1466, by the 1953 Legislature, which accepted the estimate of the Board of Equalization that 70 positions would be required to carry out the provisions of Section 1831, Revenue and Taxation Code, and authorized such an increase in the staff of the Division of Assessment Standards.

During 1953-54 the equivalent of about 18 full-time positions was devoted to preliminary phases of the work and during 1954-55 approximately 55 full-time positions were devoted to sample appraisals.

In July, 1955, the board indicated, on the basis of a report of its staff based upon sample appraisals of 13,000 parcels of property, that it proposed to raise the assessment levels in 19 counties, and in August,

Board of Equalization—Continued

1955, ordered the levels raised in 14 counties, as indicated in the following:

County	Percentage increase in assessment level	
	Preliminary Percent	Final Percent
Humboldt	50	39
San Bernardino	50	39
Imperial	50	37
Contra Costa	45	35
San Luis Obispo	50	35
Mariposa	45	29
Stanislaus	45	28
Marin	35	26
Mendocino	50	25
Tulare	35	23
Del Norte	45	21
Alameda	30	20
Butte	35	19
Sonoma	35	19
Colusa	30	--
Riverside	30	--
San Benito	30	--
Shasta	30	--
Merced	35	--

While this action was taken by the board ostensibly under the authority of Article XIII, Section 9 of the Constitution rather than pursuant to Chapter 1466, Statutes of 1949, the fact remains that the information which formed the basis for the action was supplied with funds appropriated to implement Chapter 1466, the effective date of which had been postponed to 1957, by Chapter 256, Statutes of 1955, which was passed by the Legislature and signed by the Governor and became law on April 26, 1955, prior to the time the action was taken. In view of this it appears to us that the action was contrary to the intent of the Legislature, as expressed in Chapter 256, Statutes of 1955.

We recommend that the staff of this unit be reduced to 20 technical and three clerical personnel to provide only those services previously discussed under the heading of "assessment supervision," the particular positions to be retained to be determined by the agency and the Department of Finance.

The recommended reduction of \$515,000 represents the \$106,296 for the salaries of the 19 new positions requested, budget page 428, lines 45 to 50, less \$10,000 estimated salary savings, plus approximately two-thirds of the budget requested for the existing staff of 70 or \$418,704.

The point was made by the Board of Equalization at the last legislative session and presumably will be made again, that for the Division of Assessment Standards to be compelled, through a reduction in its budget, to disassemble its staff of appraisers, recruited and trained for the purposes of Chapter 1466, would be an economic waste in case the Legislature by action or nonaction later permitted Chapter 1466 to go into effect. In our opinion, however, the staff of approximately 50, at an annual cost of approximately \$400,000, is both too large and too costly to warrant retention on a standby or contingent basis, or diversion to another type of program without clear legislative direction.

Board of Equalization—Continued

Furthermore, it should be pointed out that the technical staff of 20 which is recommended in this analysis is roughly comparable to the staff which made a determination of individual county assessment ratios in 1951, and should be sufficient to do periodic checking as to any counties which are determined by the board to be seriously underassessed in terms of the state-wide average. According to the equalization orders issued by the board in August of 1955, substantial intercounty equalization has now been achieved with the possible exception of Tulare County which is still the subject of litigation.

County Contract Mapping

This unit prepares maps for the use of county assessors for which service the counties reimburse the State. The growth of the activity is indicated by the following tabulation which shows the number of positions involved and the reimbursements received.

<i>Fiscal year</i>	<i>Positions filled</i>	<i>Reimbursements</i>
1951-52	19.4	\$79,092
1952-53	16.0	68,204
1953-54	23.9	113,228
1954-55	37.4	188,946
1955-56	(authorized) 58.0	(estimated) 292,908
1956-57	(requested) 78.0	(estimated) 393,048

The Budget Act of 1955 authorized 36 positions for this unit for 1955-56, to which 22 additional have been added with Department of Finance approval, or a total authorized for that year of 58 as shown above.

Section 15624 of the Government Code provides that when requested by the legislative body of any county to render such services "the board may contract, at not less than cost and subject to regulations approved by the Director of Finance, to render such services."

Under the current formula for computing the amount of the reimbursements counties are billed for the salaries and expenses, and a portion of the expenditures for equipment of the contract mapping unit shown on budget page 429, lines 5 to 41, plus the State's contribution to the Employees' Retirement System for these employees but no charge for administrative overhead is included such as supervision by the chief of the Division of Assessment Standards and his assistants, or supervision, accounting and other services performed by the Divisions of General Administration and Research and Statistics.

We recommend that the formula be revised to include all appropriate items of overhead and that the reimbursements for mapping services to counties shown on budget page 429, line 46, for 1956-57 be increased \$30,000 to a total of \$423,048, in order to include an estimated amount for such items, which will have the effect of reducing the total appropriation requested for the support of the Division of Assessment Standards by a like amount.

Subject to the foregoing qualification we recommend approval of the 20 additional positions requested for this unit for 1956-57.

Board of Equalization—Continued

Valuation Division

This division places valuations on all public utility properties in the State, which are the basis for all local property taxes paid by the public utilities. It also assesses and collects the private car tax which is a property tax on cars, owned by other than railroads, which are hauled over railroads in this State. The assessed value assigned to these cars is based on a formula provided by law and the rate used is the preceding year's average rate for all property taxes within the State.

It is indicated in the budget explanation submitted by the Board of Equalization that both public utility properties and private cars are assessed at 50 percent of market value.

One of the operations involved in the valuation of public utility properties is the maintenance of a set of "tax area maps" for each county showing for each assessment year the boundaries of approximately 11,700 "code areas" having unique tax jurisdiction combinations. When changes in the boundaries of any of the code areas occur due to annexation of unincorporated territory by cities, creation of new school districts, or similar causes, the law requires that the Board of Equalization be notified in order that the maps may be changed to conform. The number of notifications of boundary changes has increased rapidly during recent years as follows:

For the 1952 roll	1,072
For the 1953 roll	1,245
For the 1954 roll	1,479
For the 1955 roll	1,856
For the 1956 roll	2,700 (estimated)
For the 1957 roll	2,700 (estimated)

The three additional delineators are requested to prepare the map changes necessitated by the increased number of boundary change notifications.

Experience indicates that it takes on an average of 6.2 man-hours to process a boundary change notification. On this basis it will take an additional 5,233 man-hours (approximately three man-years) to process the increase of 844 anticipated in both the current and budget years.

It appears to us that this is a good sample of a request for additional personnel which is adequately supported by the proper kind of workload statistics and we recommend that the three additional positions be granted.

Sales Tax Division

We recommend deletion of the funds requested for six additional field representatives in the amount of \$25,776, budget page 433, line 32.

This division administers the Sales and Use Tax Law, and is the largest division of the Board of Equalization with an authorized staff for 1955-56 of 1,691.4, or 73 percent of the total authorized staff of 2,314.9 for the agency for that year. This staff is distributed 370.5 in the headquarters office in Sacramento, 31 in offices in New York and Chicago, and 1,289.9 in 60 district and branch offices in California.

The agency divides its activities into two main categories, auditing and what it terms "compliance," the latter consisting of all activities except those relating to the field audit program, and has segregated

Board of Equalization—Continued

the costs relating to the two activities as shown in Table 1 for the last five fiscal years.

Table 1. Total Costs by Program and Fiscal Years, 1950-51 to 1954-55

Fiscal year	Field audit program		Compliance program		Total
	Amount	Percent	Amount	Percent	
1950-51	\$4,512,641	55.9	\$3,556,676	44.1	\$8,069,317
1951-52	4,807,918	54.3	4,051,948	45.7	8,859,866
1952-53	5,515,999	56.7	4,220,905	43.3	9,736,904
1953-54	5,734,877	56.8	4,366,096	43.2	10,100,973
1954-55	5,714,574	57.7	4,196,462	42.3	9,911,036

These figures include all overhead items, some of which are not included in the detail shown for the Sales Tax Division budget.

The proposed increase of \$255,610 in the total budget of the Sales Tax Division is as follows, by categories:

Category	Headquarters	Districts	Total
Merit salary increases	\$27,341	\$94,103	\$121,444
Proposed additional positions, 6 field representatives	—	25,776	25,776
Salary savings increase	—4,000	—25,000	—29,000
Operating expenses	42,838	16,794	59,632
Equipment	18,520	20,054	38,574
Decreased services to Department of Alcoholic Beverage Control	—	39,184	39,184
Total	\$84,699	\$170,911	\$255,610

Of the increase in operating expenses, \$33,941 represents an increase in services rendered by the Service Division, which is offset by a corresponding decrease in the budget of that division, while the major item in the increase in equipment is \$29,772 for the replacement of automobiles.

The six proposed additional field representative positions are requested to aid in the collection of a backlog of delinquent accounts receivable in the district offices, which the agency classifies as a "compliance" activity, and is justified on the ground that these accounts have increased substantially since 1951-52, as shown by the following comparison:

Amounts:	1951-52	1954-55	Increase
Automobile use tax	\$214,834	\$770,806	\$555,972
All other	2,999,535	4,128,088	1,128,553
Totals	\$3,214,369	\$4,898,894	\$1,684,525
Number of accounts:			
Automobile use tax	3,316	11,680	8,364
All other	5,811	9,404	3,593
Totals	9,127	21,084	11,957

While this is a substantial increase, \$1,525,225 of the increase in tax and 5,812 of the increase in number of accounts took place between 1951-52 and 1953-54, and there is no indication in the justification of what a normal backlog should be in this kind of an operation, or any indication of what the anticipated work load is in either the current or the budget year. Neither is there any indication of how many units of personnel are assigned to the work, what their production is in terms

Board of Equalization—Continued

of units of work load processed and what it should be in terms of accepted standards of performance for the type of work involved.

We recommend that no additional funds be provided for the six new positions for the following reasons:

1. The work-load data has not been submitted in sufficient detail.
2. This is a Budget Session year and all possible increases should be deferred for consideration by the General Session in 1957.
3. Any acute personnel deficiencies which develop in one activity of an agency during a Budget Session year should be met by the process of shifting personnel from other areas where the pressures are not so great. In this instance we believe funds can be provided for the six new field representative positions, if needed, by the abolition of six auditor positions.

Reference to Table 1 indicates that the agency has been placing increasing emphasis on the audit program in recent years at the expense of "compliance" activities despite the fact that the Legislature in 1954 ordered a reduction of 21 positions in the audit staff. A shift of 1 per cent of the total for 1954-55, or \$99,110, from the audit to the compliance program would provide ample funds for the six field representatives and all related overhead.

During the five-year period shown in Table 1 the return from the audit program has decreased from \$1.88 per dollar of cost in 1950-51 to \$1.51 in 1954-55, as shown in Table 2, which follows, which is an indication to us that it may be approaching the point of diminishing returns and could be curtailed.

Table 2. Summary of Sales Tax Audit Results, by Years, 1950-51 to 1954-55

	Audit hours	Costs		Net revenue	
		Total	Per hour	Total	Per dollar of cost
California audits					
1950-51	913,829	\$4,335,774	\$4.74	\$7,683,786	\$1.77
1951-52	837,647	4,620,989	5.52	7,280,715	1.58
1952-53	848,966	5,301,944	6.25	7,525,672	1.42
1953-54	835,732	5,416,139	6.48	8,239,479	1.52
1954-55	821,970	5,426,314	6.60	8,086,010	1.49
Totals	4,258,144	\$25,101,160	\$5.89	\$38,815,662	\$1.55
Out-of-state audits					
1950-51	28,120	\$176,867	\$6.29	\$815,930	\$4.61
1951-52	22,830	186,929	8.19	691,476	3.70
1952-53	24,443	214,055	8.76	806,153	3.77
1953-54	23,691	197,583	8.34	572,934	2.90
1954-55	24,189	207,542	8.58	448,168	2.16
Totals	123,273	\$982,976	\$7.97	\$3,334,661	\$3.39
Total audits					
1950-51	941,949	\$4,512,641	\$4.79	\$8,499,716	\$1.88
1951-52	860,477	4,807,918	5.59	7,972,191	1.66
1952-53	873,409	5,515,999	6.32	8,331,825	1.51
1953-54	859,423	5,613,722	6.53	8,812,413	1.57
1954-55	846,159	5,633,856	6.66	8,534,178	1.51
Totals	4,381,417	\$26,084,136	\$5.95	\$42,150,323	\$1.62

Differences in audit costs for 1953-54 and 1954-55 as shown in Tables 1 and 2 are due to the exclusion of costs attributable to audits in process at the end of the year from the amounts shown in Table 2.

Board of Equalization—Continued

In a tax audit program such as that of the Sales Tax Division which involves extensive examinations of the records of taxpayers in the field, there is no such thing as a fixed work load unless we accept the premise that it is necessary to audit every taxpayer, and we know of no one who has seriously urged the desirability of 100 percent audit coverage in relation to this program.

The extent of the work load then is a matter of judgment and can be varied within rather wide limits without any appreciable effect on the revenue produced in relation to cost.

We know from studies which we have made in the past that at least three out of five audits made do not produce any profit while the other two do. The last named, we believe are worth while, both from the standpoint of direct revenue and effect on future reportings, the other three are of doubtful value.

Within limits it is possible for the agency to curtail its program at the lower margin without any appreciable effect on net revenues. The fact that the agency has developed techniques for selecting those accounts for audit which on the whole are most likely to be profitable is indicated by a comparison between results of audits selected in the regular course of business for the three years ended December 31, 1954, with estimates of the results which would have been obtained from those not audited during the same period. The data for making this comparison, which is shown in Table 3 which follows, is taken from Table 5, page A-18 in the appendix of the report on "The Second California Sales Tax Sample Audit Program" issued by the Division of Research and Statistics of the Board of Equalization in June 1955.

Table 3. Average Tax Yield per Hour for Taxpayers Audited Compared With Estimated Tax Yield per Hour for Taxpayers Not Audited, Three Years Ended December 31, 1954

Class of taxpayer	Tax yield per hour		Actual as a percent of estimated (2÷3)
	Actual for taxpayers audited	Estimated for taxpayers not audited	
(1)	(2)	(3)	(4)
Large contractors and manufacturers	\$23.43	\$5.56	421%
Medium sized manufacturers	11.95	3.94	303
Small service establishments	4.23	1.52	278
Medium sized retailers other than grocers	6.19	2.68	231
Closed-out taxpayers, all classes	10.31	4.54	227
Small manufacturers	10.97	5.18	212
Medium sized and small contractors	13.48	7.17	188
Small retailers not otherwise classified	5.54	2.96	187
Large service establishments	9.00	5.30	170
Small retailers of durable goods	4.93	3.11	159
Medium sized and small grocery stores	7.87	5.88	134
Medium sized and small service stations	5.33	4.08	131
Medium sized retailers of durable goods other than automobiles	8.53	6.95	123
Out-of-state taxpayers—all classes	25.86	22.48	115
Medium sized and small restaurants and hotels	7.67	7.63	101
Large retailers	11.90	16.13	74
Medium sized automobile dealers	8.57	33.51	26
Average for all classes	\$10.50	\$5.58	188%

Board of Equalization—Continued

The estimated tax yield per hour for taxpayers not audited shown in column 3 of Table 3 is derived in part from audits selected on a random sample basis, without regard to probable tax yield. The unaudited group included 270,916 audits which it was estimated would require 2,505,353 hours of direct audit time to complete and which would yield an estimated \$13,982,388 in tax change, or the equivalent of about \$12,472,290 in net revenue. At the average cost per hour for the last four fiscal years these audits would have cost \$15,708,563 to make.

The tax yield per hour for tax payers audited shown in column 2 of Table 3 is the actual yield for all audits completed in the regular course of business, and represents a total of 126,645 audits which required 2,388,109 direct audit hours to complete with a total yield of \$25,068,978 in tax change, or the equivalent of about \$22,361,528 in net revenue.

The figures in column 4 of Table 3 are the yields per hour of the actual audits completed expressed as a percent of the estimated yields per hour for the taxpayers not audited. Thus audits of the first group yielded \$23.43 per hour, or 421 percent or over four times as much as the estimated yield of \$5.56 per hour for the unaudited taxpayers, those in the second group 303 percent or over three times as much and so on, while the average for all taxpayers audited was 188 percent or almost twice the estimated yield for those not audited.

Similar data derived from Table 3, in the report on "The Sample Sales Tax Audit Program" issued by the Division of Research and Statistics of the Board of Equalization in February 1954, indicates that for the three-year period ended December 31, 1952, the yield from audits actually completed averaged \$9.54 per hour as against an estimate of \$3.86 per hour for those not audited, the actual results being 247 percent or about two and one-half times as productive per hour as the estimated results from the unaudited accounts.

If these figures mean anything, they indicate to us that to a considerable degree at least, the agency is able to distinguish in advance of audit those taxpayers which will have the highest probability of deficiencies from those which will have a low probability factor.

It follows therefore, that a small reduction in audit staff, such as recommended here, or six out of a total staff of 665 in district offices in California, should have no effect on the revenue derived from the audit program in relation to cost, since the reduction in audits could be made at the expense of those least likely to yield additional revenue.

Other Aspects of the Audit Program

In approving the budget of the Board of Equalization for 1951-52 the Senate Finance Committee adopted the following resolution on May 11, 1951:

"The subcommittee approves the recommendation of the Legislative Auditor that a standard be established for the sales tax field audit program which will limit the proportion of nonproductive audit

Board of Equalization—Continued

time to total audit time and recommends that a study be made by the Legislative Auditor, in collaboration with the agency and the Division of Audits and Division of Budgets and Accounts of the Department of Finance, looking toward the development and application of such a standard, with a report to the next session of the Legislature.”

We interpret this to indicate that the committee was concerned with the high cost of the sales tax field audit program in relation to yield and felt that steps should be taken to improve the over-all return by reducing to some extent the nonprofitable part of the program (which amounted to about 60 percent of the total).

If the nonprofitable part of the program had actually been reduced during the almost five years which have elapsed since the date of the resolution we would expect the revenue per dollar of cost of the audit program to show an increase. Such, however, is not the case, since the revenue has actually decreased from \$1.88 in 1950-51, and \$1.67 in 1951-52 to \$1.51 in 1954-55, as shown in Table 2.

The agency has completed two sample audit program studies, one for the three years ended December 31, 1952, and a second for the three years ended December 31, 1954, and has issued extensive reports on these studies. The reports, however, contain material which is largely an attempt to justify an increase in staff rather than to point up methods for improving the productivity of the existing staff, and there is no statistical evidence to indicate that any progress has been made in the latter direction since the date of the Senate Finance Committee resolution.

As part of each of these studies a substantial amount of audit time was diverted from the regular audit program to make audits on a random sample basis, without regard to probable yield. In the second program 5,299 such audits were made which required 102,615 direct audit hours (the equivalent of 57.2 man-years) which yielded \$1,180,868 of tax change as corrected by headquarters staff and board review. These figures are derived from Tables 1-A, 1-B and 1-C in the 1955 Sample Audit Report after applying the correction factors shown on page 14, and show yields per hour, by class of taxpayer audited, which are less than those shown in column 2 of Table 3, for audits made in the regular course of business on a selective basis.

If we assume that the 102,615 hours of audit time had been employed on a selective basis and distributed by class of taxpayer in the same proportions as it was on the sample audits, and that the yield for each class would have been the same as that shown in column 2 of Table 3, it would have produced a total tax change of \$1,432,157 or \$251,289 more than it actually did. This represents an estimated loss in net revenue to the State of \$224,150 (net revenue being estimated at 89.2 percent of tax change as shown in Table 4).

Similarly the diversion of 72,223 audit hours to make the 2,526 audits on a random sample basis in the first sample audit study resulted

Board of Equalization—Continued

in an estimated loss in net revenue to the State of \$82,543, the combined net revenue loss being estimated at \$306,693 from the two programs.

Both studies indicate the need for a shift of audit emphasis among broad general classes of taxpayers (i.e., those shown in Table 3) in order to achieve best results, while the second study indicates the need for redeployment of the staff on a geographical basis, and we believe these shifts should be made and the results evaluated before any further random sample audits are warranted.

One factor which has biased the results of both studies is the way in which these studies use "tax change" rather than "net revenue" as the measure of the effectiveness of the audit program. Under this concept refunds are added to deficiencies rather than deducted. The relationship between the two for the last five fiscal years is shown in Table 4, which follows.

Table 4. Relationship Between "Tax Change" and Net Revenue, by Fiscal Years, and in Total, 1951-52 to 1954-55

	<i>Tax change</i>	<i>Net revenue</i>	<i>Excess of tax change over net revenue</i>	<i>Tax change as percent of net revenue</i>	<i>Net revenue as percent of tax change</i>
1951-52-----	\$8,614,765	\$7,972,191	\$642,574	108.1	92.5%
1952-53-----	9,147,657	8,331,825	815,832	109.8	91.1
1953-54-----	9,946,039	8,812,413	1,133,626	112.9	88.6
1954-55-----	10,025,626	8,534,178	1,491,448	117.5	85.1
	<u>\$37,734,087</u>	<u>\$33,650,607</u>	<u>\$4,083,480</u>	<u>112.1</u>	<u>89.2%</u>

Our view is that "tax change" in the present instance is misleading since it tends to create the impression that the audit program is more productive of revenue than it actually is. We believe that from the budgetary standpoint net revenue, the amount actually brought into the treasury is a more significant yardstick to use in evaluating the results of an audit program such as this in relation to costs. There are many individual audits showing deficiencies where the deficiency is the net result of offsetting overpayments with respect to some transaction against underpayments with respect to others and in such cases the net result is the significant figure. The use of "tax change" can be useful for limited administrative purposes, but it should not be used to evaluate the program for budget purposes. The two concepts should be clearly distinguished and used in different ways.

Another aspect of the audit program is the marked variation among districts in revenue per dollar of cost throughout the State, as indicated in Tables 5 and 6 which follow. We can understand why there might be marked variations in a given year, because of the three-year cycle on which the audit program generally is conducted, but the marked variation between the yield in Stockton of \$1.78 over a five-year period as contrasted with that in Santa Barbara of \$1.21, and San Diego of \$1.26, could indicate marked differences in the efficiency of administration among these districts.

Board of Equalization—Continued

Table 5. Sales Tax Field Audit Revenue and Cost, by Districts, 1954-55

District	Net revenue	Audit costs	Revenue per dollar of cost
Stockton	\$344,733	\$174,355	1.98
San Bernardino	577,468	317,882	1.82
San Jose	540,622	316,791	1.71
Oakland	788,400	479,999	1.64
San Diego	513,967	313,472	1.64
Woodland	183,623	118,216	1.55
Sacramento	202,463	130,637	1.55
Marysville	156,666	103,430	1.51
Redding	117,692	78,139	1.51
Los Angeles	2,985,957	2,089,332	1.43
San Francisco	1,025,905	735,303	1.40
Santa Rosa	214,498	169,379	1.27
Santa Barbara	137,083	119,965	1.14
Fresno	296,933	279,414	1.06
Totals California	\$8,086,010	\$5,426,314	\$1.49
Out-of-state	448,168	207,542	2.16
Totals	\$8,534,178	\$5,633,856	\$1.51

Table 6. Sales Tax Field Audit Revenue and Cost, by Districts, for Five Years Ended June 30, 1955

District	Net revenue	Audit costs	Revenue per dollar of cost
Stockton	\$1,565,012	\$881,270	\$1.78
San Bernardino	2,276,305	1,357,850	1.68
San Francisco	5,254,584	3,291,037	1.60
Oakland	3,459,292	2,168,637	1.60
Los Angeles	16,079,850	10,248,461	1.57
Marysville	812,405	526,520	1.54
Redding	506,393	329,260	1.54
San Jose	2,101,148	1,367,782	1.54
Fresno	1,760,718	1,161,240	1.52
Woodland	738,631	510,724	1.45
Santa Rosa	1,119,046	799,366	1.40
Sacramento	833,335	606,346	1.37
San Diego	1,733,913	1,377,720	1.26
Santa Barbara	575,030	474,947	1.21
Totals California	\$38,815,662	\$25,101,160	\$1.55
Out-of-state	3,334,661	982,976	3.39
Totals	\$42,150,323	\$26,084,136	\$1.62

RECOMMENDATION

In view of the decreasing productiveness of the audit program and its steadily increasing costs, as shown in Table 2, we believe it should be the subject of continuing study. As a starting point we recommend that the agency prepare an analysis, by size of deficiency per audit hour on a district basis, similar to that prepared by this office for 1950-51 as summarized on page 236 of our 1954-55 budget analysis, with a report to the next session of the Legislature.

We also recommend that the recently instituted training program for auditors should include a study of the results of nonproductive audits by qualified technical personnel with a view to developing procedures and techniques for reducing the time spent on such audits.

Board of Equalization—Continued

Bureau of Tax Assessment

This bureau assesses and collects the excise tax on beer and wine and distilled spirits and is the only unit of the Alcoholic Beverage Control Division which remains with the Board of Equalization as a result of the constitutional amendment in 1954 which established the new Department of Alcoholic Beverage Control.

The proposed budget for 1956-57 shows a decrease of \$17,418, over the amount estimated to be expended for 1955-56. This is attributable to the fact that of the 12 auditor positions deleted by the 1955 Legislature, eight had a termination date of December 31, 1956, with the result that the 1955-56 budget includes salaries for these positions, for a half year period, amounting to \$24,456. The other four positions were abolished as of July 1, 1955.

The details of the net decrease of \$17,418 are as follows:

Salaries of 8 auditors for one-half year	-----	-\$24,456
Merit salary increases	-----	2,929
Increase in operating expenses	-----	87
Increase in equipment	-----	62
Decreased reimbursements for services to the Department of Alcoholic Beverage Control	-----	3,960
Net decrease	-----	-\$17,418

The Bureau of Tax Assessment has developed cost data on an activity basis which may be summarized as follows, for 1954-55.

Tax program	Activity		
	Audit	Compliance	Total
Distilled spirits excise	\$146,597	\$66,574	\$213,171
Beer and wine excise	110,292	54,192	164,484
Totals	\$256,889	\$120,766	\$377,655

These costs exceed total expenditures shown for 1954-55, budget page 436, line 29, since all appropriate overhead is included, some of which does not appear in the expenditure total.

The bureau has also compiled an analysis of the time worked in district offices on a functional basis, as well as statistics of audit results by tax program.

The audit statistics have the same limitations as do those compiled by the Sales Tax Division and the Division of Highway Taxes, in that they are in terms of "tax change" rather than net revenue and do not distinguish audits which show a profit from those which do not. They should not be used in this form to indicate revenue productivity from audit.

Centralized Revenue Administration

We are on record as favoring the establishment of a Department of Revenue and Taxation to be headed by a single director appointed by and responsible 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.

As pointed out in our 1955-56 budget analysis on page 402, we have long been aware of certain shortcomings in the operations of the Board

Board of Equalization—Continued

of Equalization which we believe are inherent in the agency as presently constituted and which we believe can best be cured by the establishment of a Department of Revenue and Taxation such as that indicated in the foregoing.

Some of the most important of these deficiencies 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.”

Much could be accomplished, however, to improve the efficiency and economy of administration even under existing law if the following steps were to be taken:

(1) Eliminate the dual system of administration which exists whereby key field personnel are responsible to two masters, (a) the board member elected from the district acting in his capacity as an individual elected official and (b) the board as a whole acting through its administrative staff in headquarters office in Sacramento and replace it with a system whereby responsibility for the direction of the activities of the agency is delegated to a strong administrative officer who should be chief administrator in fact as well as in name and accountable to the board as a whole for proper discharge of his duties. In this respect we believe the board members should regard their administrative responsibilities as state-wide rather than sectional to be discharged through a single administrator on a state-wide basis on a relationship paralleling that between the board of directors and the general manager in a large corporation.

(2) The administrative districts should be changed to conform to the boundaries of the natural economic areas in the State, and the district boundaries should be set without regard to existing equalization district boundaries with the size and number of districts conditioned on work load. Under such a program we believe not to exceed eight districts could perform the work of the existing 14 and do a better job.

(3) The number and location of field offices should be determined according to definite criteria which would probably have the effect of reducing the existing 60 to about 35.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 121 of the Budget Bill

Budget page 423
Budget line No. 6

**FOR SUPPORT OF THE DIVISION OF HIGHWAY TAXES FROM THE
MOTOR VEHICLE TRANSPORTATION TAX FUND**

Amount requested	\$814,716
Estimated to be expended in 1955-56 Fiscal Year	802,671
Increase (1.5 percent)	\$12,045

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	No.
		Work load or salary adjustments	New services		
Salaries and wages	\$16,128	\$9,252	\$6,876	438	70
Operating expense	12,356	12,356	—	438	71
Equipment	-5,320	-5,320	—	438	72
Total	\$23,164	\$16,288	\$6,876	438	74
Less: Increased reimbursements					
Motor Vehicle Fuel Fund	-10,795	-10,795	—	438	76
Itinerant Merchants Fund	-324	-324	—	438	77
Net total increase	\$12,045	\$5,169	\$6,876	438	75

RECOMMENDATIONS

Amount budgeted	\$814,716
Legislative Auditor's recommendation	807,840
Reduction	\$6,876

ANALYSIS

A summary of our recommended reductions is as follows:

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
1 Junior clerk	\$2,580	437	50
1 Field representative	4,296	438	29
Total	\$6,876		

This division administers all phases of the use fuel tax (diesel tax), assesses the motor vehicle transportation tax (truck tax) and the motor vehicle fuel tax (gasoline tax) and administers the Itinerant Merchants Act (Sections 16300 to 16451 of the Business and Professions Code).

The expenditure program of the Division of Highway Taxes is supported by appropriations from three different funds, the total with supporting detail being included in one section of the printed budget, with the total and each fund's share being shown on Budget page 438, lines 74 to 77, and may be summarized as follows:

<i>Fund</i>	<i>Budget Bill Item No.</i>	<i>Total expenditures by funds</i>		
		<i>1955-56</i>	<i>1956-57</i>	<i>Increase</i>
Motor Vehicle Transportation Tax Fund	121	\$802,671	\$814,716	\$12,045
Motor Vehicle Fuel (gasoline tax) Fund	123	719,316	730,111	10,795
Itinerant Merchants Fund	122	21,610	21,934	324
Totals	---	\$1,543,597	\$1,566,761	\$23,164

Division of Highway Taxes—Continued

The increase in operating expenses is accounted for largely by increased charges from the Service Division shown on Budget page 437, line 69, for increased use of tabulating equipment in connection with mechanization of certain procedures and is offset by a corresponding decrease in the budget of the Service Division.

Of the increase in salaries and wages, \$6,876 is for two new positions, the remainder for merit salary increases.

We recommend deletion of the amount requested for the two new positions for the following reasons:

(1) The work load data submitted does not appear to us to be sufficient justification when considered in conjunction with the activities of the division as a whole.

(2) This is a budget session year and all possible increase should be deferred to the General Session in 1957.

(3) Any acute personnel deficiencies which develop in one activity of an agency during a budget session year should be met by the process of shifting personnel from other areas where the pressures are not so great. In this instance we think funds could be provided for these positions if necessary by the abolishment of two auditor positions rather than by a budget increase without any serious damage to the division's over-all program for the reasons indicated elsewhere.

The junior clerk position is requested for the use fuel tax filing section in headquarters with the explanation that "The estimated increase in permittees will require an additional junior clerk. * * *"

The data submitted as to number of permits is as follows:

1954-55	-----	9,620 (actual)
1955-56	-----	10,400 (estimated)
1956-57	-----	11,300 (estimated)

To us, such a tabulation is meaningless as justification for an additional file clerk unless supplemented by data showing the relationship between number of permits and number of filings per year, the number of file clerks involved in the particular operation for which the additional clerk is requested, and the number of filings per clerk per year which it is reasonable to expect according to proper standards of file clerk performance. In the absence of such information we do not believe the additional position to be justified.

The additional field representative is requested for Fresno and the justification submitted is as follows:

1. The Fresno district has the second largest number of highway tax licenses in the State.

2. During the Fiscal Year 1954-55 the average number of compliance assignments outstanding at the end of each month, by program was as follows:

Use fuel tax	-----	61
Transportation tax	-----	41
Itinerant merchants	-----	27
Gasoline tax	-----	2

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3. A large amount of interstate trucking of produce originates in the Fresno area.

Division of Highway Taxes—Continued

Table 1, which follows, shows the authorized district office staff for 1955-56 by district and by class. The investigators and field representatives are the classes used on so-called "compliance" work.

Table 1. Authorized District Office Staff, 1955-56, by District and Class

District	Investigators and field representatives			Total
	Auditors		Clerical	
Los Angeles -----	33	17	11	61
Fresno -----	7	5	2	14
San Francisco -----	5	2	1	8
Stockton -----	4	3	1	8
Oakland -----	4	2	1	7
San Jose -----	4	2	1	7
San Bernardino -----	4	2	--	6
San Diego -----	4	2	--	6
Santa Rosa -----	2	3	1	6
Sacramento -----	2	1	--	3
Marysville -----	1	2	--	3
Redding -----	2	1	--	3
Santa Barbara -----	1	--	--	1
Woodland -----	--	1	--	1
Totals -----	73	43	18	134

As to the first point, as shown in Table 1, the Fresno district also has the second largest staff in the State, both in total and by class, by a considerable margin.

As to the second point a mere list of outstanding assignments is meaningless unless coupled with information as to the time required to process such assignments on the basis of proper standards of performance. Furthermore, there is no indication of the work load situation in other parts of the State to show why the alleged personnel deficiency in Fresno cannot be met administratively, by transfer of personnel, without any budget increase.

As to the third point the foregoing comments also apply.

The agency has submitted tabulations of the time spent by its field staff by location and by program for 1954-55, which is good as far as it goes, but it has not related these data to units of work completed so that an appraisal can be made of the performance, district by district, and acceptable standards developed. We believe such data are essential, both to good management and proper budgetary control, and are convinced that such data can be developed and should be developed before any increase in staff is granted.

Tax Auditing

In April, 1954, this division first started to accumulate data regarding costs of its tax audit program, and for 1954-55 it reports that 46 percent of its total costs were attributable to that program. We think development of cost data is a step in the right direction since we regard the relationship between cost of auditing and direct revenue produced by the audit program to be the most important single yardstick available in evaluating the audit program of a tax agency from the budgetary standpoint.

Division of Highway Taxes—Continued

All state tax agencies lay great stress on the audit program as an enforcement tool. Where an individual audit produces revenue in excess of cost it is obvious that the audit is justified as a revenue producing activity. Where it does not, or an entire program does not, we believe that the activity should be examined very critically, since the audit process is a costly one, requiring relatively high salaried technical personnel.

Tables 2 and 3 which follow, summarize the results of the audit program of this division for 1953-54 and 1954-55 respectively, from the standpoint of revenue produced per dollar of cost, by tax program and class of taxpayer audited.

Table 2, which is reproduced from our 1954-55 Budget Analysis, is based in part on estimates.

Table 2. Summary of Audits Completed, 1953-54

<i>Tax program</i>	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
Gasoline tax:					
Fully licensed distributors	263	12,666	\$29,088	\$78,022	\$.37
Liquefied petroleum gas distributors	53	2,115	7,336	13,028	.56
Producers and brokers	338	3,449	--	21,246	--
Total gasoline tax	654	18,230	\$36,424	\$112,296	\$.32
Use fuel tax	2,397	22,073	301,453	209,473	1.44
Transportation tax	5,383	45,873	817,284	365,608	2.24
Totals	8,434	86,176	\$1,155,161	\$687,377	\$1.68

Table 3. Summary of Audits Completed, 1954-55

<i>Tax program</i>	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
Gasoline tax:					
Unlicensed distributors --	1	262	\$181,885	\$1,541	\$118.03
Fully licensed distributors	237	13,760	17,919	80,908	.22
Liquefied petroleum gas distributors	87	2,679	11,260	15,753	.71
Producers and brokers ---	73	1,348	--	7,926	--
Total gasoline tax	398	18,049	\$211,064	\$106,128	\$1.99
Use fuel tax:					
Users	2,718	27,647	\$395,078	\$256,288	\$1.54
Vendors	110	1,603	4,408	14,860	.30
Total use fuel tax	2,828	29,250	\$399,486	\$271,148	\$1.47
Transportation tax	4,053	39,295	\$719,120	\$282,138	\$2.55
Totals	7,279	86,594	\$1,329,670	\$659,414	\$2.02

An examination of the two tables discloses several facts of interest.

The revenue per dollar of cost is higher for 1954-55 for each of the three tax audit programs, gasoline tax, use fuel tax, and transportation tax, than it was in 1953-54. Perhaps this is due in part to the comments

Division of Highway Taxes—Continued

in our last analysis, in which we were highly critical of the results of some of the programs, especially the gasoline tax audit program; even to the extent of recommending its curtailment.

The increased revenue per dollar of cost in the gasoline tax audit program is due almost entirely to one audit, that of an unlicensed distributor, which accounted for over 86 percent of the total revenue from all gasoline tax audits. The agency states in its budget justification that this audit was an audit of a service station which was disposing of stolen, untaxed gasoline and that notwithstanding the internal security measures adopted by the distributors (i.e. wholesales and manufacturers) to prevent theft of untaxed gasoline the number of such cases is increasing. While we think the agency deserves credit for disclosing such an instance, we think the industry itself can be expected to assume the major responsibility for taking preventive measures, since the combined state and federal excise taxes on motor vehicle fuel amount to about 26 percent of the retail selling price of the product, which gives a retailer dealing illegally in untaxed gasoline a tremendous competitive advantage over the retailers who are legitimate customers of the distributors.

More time was devoted to audits of liquefied petroleum gas distributors in 1954-55 than in the prior year and while the revenue per dollar of cost increased from 56 cents to 71 cents on the dollar, this program is still far from paying its way, and we believe this is one of the areas where auditing could be curtailed to provide funds for the field representative requested for the Fresno office, if needed.

The other two programs, the Use Fuel Tax and Transportation Tax Auditing showed increased revenue per dollar of cost, although 14 percent fewer hours were devoted to the latter, the most profitable program of all, in 1954-55 than in the preceding year.

While considerable statistical information was presented by the agency this year, which had never been presented before we noted two major deficiencies in the audit program statistics.

One was the presentation of audit results in terms of "tax change" instead of net revenue per dollar of cost. "Tax change" is a concept which is misleading from the budgetary standpoint unless it is used along side the "net revenue" concept since under this concept refunds are *added* to deficiencies rather than deducted and its use has the effect of misleading the reader into believing that the program is more productive of revenue than it is.

The other is the failure to distinguish between audits showing deficiencies of less than cost from those showing deficiencies of more than cost; the only categories under which audits are shown are those producing refunds, no-change, and deficiencies. The difference between a no-change audit, and one showing a small deficiency, since both are in the area which cannot be justified on a profit basis, is insufficient to provide a sound basis for audit program evaluation.

In 1953-54, this division submitted such a breakdown at our request for each of the classes of audits shown in Table 2, which in summary showed total costs attributable to each of the groups, as follows:

Division of Highway Taxes—Continued

Class	1953-54			Percent non-profitable
	Profitable audits	Nonprofitable audits	Total	
Gasoline tax -----	\$8,340	\$103,956	\$112,296	92.6
Use fuel tax -----	83,161	126,312	209,473	60.3
Transportation tax -----	143,197	222,411	365,608	60.8
Totals -----	\$234,698	\$452,679	\$687,377	65.9

In the absence of any comparable data for 1954-55 we are forced to assume that currently approximately 60 percent of the time spent on use fuel and transportation tax audits is nonproductive, and suggest that a curtailment of the nonprofitable time spent on these two classes of audits is another source of funds to provide the two additional positions requested, if needed.

Effective September 9, 1953, the Use Fuel Tax Law was amended to provide for the licensing of diesel fuel vendors, in addition to diesel fuel users and to provide for the collection of the tax by the vendors from unlicensed users.

From January 1, 1954, to June 30, 1954, 16 audits were made of the vendors, while from July 1, 1954, to June 30, 1955, as shown in Table 3, 110 audits were made of vendors, at a cost of \$14,860, which produced net revenue of only \$4,408, or 30 cents per dollar of cost.

The agency states that there are approximately 190 vendors who pay tax to the State and that it is the policy to audit all of these as soon as possible to see that they are complying with the law, even though audits completed show a recovery of only 30 cents on the dollar. We believe this is an unnecessarily costly method of educating taxpayers, so to speak, that other and cheaper methods are available, and that this part of the program could well be curtailed.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 122 of the Budget Bill

Budget page 423
Budget line No. 20

**FOR ADDITIONAL SUPPORT OF DIVISION OF HIGHWAYS TAXES
FROM THE ITINERANT MERCHANTS FUND**

Amount requested-----	\$21,934
Estimated to be expended in 1955-56 Fiscal Year-----	21,610
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Increase (1.5 percent)-----	\$324

RECOMMENDATIONS

Amount budgeted-----	\$21,934
Legislative Auditor's recommendation-----	21,934
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Reduction -----	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the Itinerant Merchants Act (Sections 16300-16451 of the Business and Professions Code), the expenditures for which are paid out of that fund in the first instance and

Division of Highway Taxes—Continued

included in the detailed budget data supporting Item 121, of the Budget Bill.

The activity consists of licensing itinerant merchants. An itinerant merchant is a person who buys "farm products" for sale and transports them upon a public highway in a motor vehicle across county lines for purpose of sale. Such a person is required to pay a license fee of \$20 for each motor vehicle to be used by him in the conduct of his business. There were 716 licenses in effect on June 30, 1955.

Revenues from license fees are averaging about \$27,000 per year, and the balance in the fund is increasing, as shown by the following:

Year	Balance July 1
1954 -----	\$2,202 (actual)
1955 -----	8,959 (actual)
1956 -----	12,849 (estimated)
1957 -----	16,395 (estimated)

There are no changes in the program as budgeted for the current year and we recommend approval of the budget as submitted.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 123 of the Budget Bill

Budget page 423
Budget line No. 33

**FOR ADDITIONAL SUPPORT OF DIVISION OF HIGHWAY TAXES
FROM THE MOTOR VEHICLE FUEL FUND**

Amount requested -----	\$730,111
Estimated to be expended in 1955-56 Fiscal Year -----	719,316
<hr/>	
Increase (1.5 percent) -----	\$10,795

RECOMMENDATIONS

Amount budgeted -----	\$730,111
Legislative Auditor's recommendation -----	730,111
<hr/>	
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 of the Board of Equalization, the expenditures for which are included with those of the first named fund as detailed on Budget pages 437 and 438.

The increase of \$10,795 represents this fund's share of the increase in expenditures for the Division of Highway Taxes, the operations of which are described in our analysis of Item 121 of the Budget Bill.

If the adjustments recommended by us under Item 121 are approved, it will be necessary to adjust this item for the Motor Vehicle Fuel Fund's share, which we believe 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 item as submitted.

DEPARTMENT OF FINANCE

ITEM 124 of the Budget Bill

Budget page 442
Budget line No. 21

FOR SUPPORT OF DEPARTMENT OF FINANCE FROM THE GENERAL FUND

Amount requested	\$6,244,419
Estimated to be expended in 1955-56 Fiscal Year	6,047,584
Increase (3.3 percent)	\$196,835

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$250,336	\$224,848	\$25,488	459 45
Operating expense	54,737	53,387	1,350	459 47
Equipment	35,339	34,233	1,106	459 47
Less: increased reimbursements	—127,102	—127,102	--	459 65
Less: increased support from other funds	—16,475	—16,475	--	459 69
Total increase	\$196,835	\$168,891	\$27,944	459 68

RECOMMENDATIONS

Amount budgeted	\$6,244,419
Legislative Auditor's recommendation	6,210,071
Reduction	\$34,348

General Summary of Activities

The Department of Finance is the staff agency for the executive branch of State Government for the control of the fiscal and business operations of state agencies. The statutory provisions governing the duties and responsibilities of the department are codified as Part 3, Division 3, Title 2 of the Government Code. The principal control functions of the department are authorized by Section 13070, 13290, and 13320-13326 of the Government Code. Section 13070 provides for the general powers of supervision of the financial and business policies of the State and reads as follows:

“13070. The department has general powers of supervision over all matters concerning the financial and business policies of the State and whenever it deems necessary, or at the instance of the Governor, shall institute or cause the institution of such investigations and proceedings as it deems proper to conserve the rights and interests of the State.”

The activities and functions assigned to the Department of Finance may be classified into four groups as follows: (1) Administration, including the Divisions of Administration and Accounts and Disbursements; (2) Fiscal Management, including the Divisions of Audits, Budgets and Organization and Cost Control; (3) General Services, including the Divisions of Communications, Purchasing, Property Acquisition, Printing, and Buildings and Grounds; and (4) Miscellaneous, including the Divisions of Local Allocations, State Lands and Fairs and Expositions.

The activities supported from the General Fund include all the above activities excepting Printing, Local Allocations, State Lands and Fairs

Department of Finance—Continued

and Expositions. The amount requested for the General Fund supported activities is \$6,244,419 or 3.3 percent above the amount estimated to be spent during the current year. In the following analysis, we discuss our recommended reductions and some program changes and include some brief statements on the performance of the department in the past year.

ANALYSIS

Summary of Recommended Reductions

Buildings and Grounds Division—		<i>Budget</i>	<i>Line</i>
Sacramento Buildings	<i>Amount</i>	<i>Page</i>	<i>No.</i>
Operating Expenses			
Special repairs and alterations.....	\$20,000	454	46
Equipment			
Special maintenance of buildings—additional..	5,000	454	70
Budget Division			
Financial Research Section			
Associate research technician.....	6,360	448	30
Intermediate account clerk.....	2,988	448	31
	<hr/>		
Total reduction	\$34,348		

Buildings and Grounds Division

Prior to the 1954-55 Fiscal Year, the budget contained an item for alterations, repairs and equipment for state buildings and rental offices. This special item was largely justified in prior years as necessary due to the frequent shifting of agencies when the State rented considerable office space. Over the years following World War II the Legislature reduced the size of this appropriation. In the 1954 Session the Legislature approved another reduction in the size of this item, lowering it to \$50,000 and shifting it to the budget of the Buildings and Grounds Division.

In making this shift the amount was separated into two line items: special repairs and alterations—operating expense, \$35,000, budget page 454, line No. 46, and special maintenance of buildings—additional equipment, \$15,000, budget page 454, line No. 70. The reason for shifting this money to the Buildings and Grounds budget was to achieve review and approval through the regular budgetary process and to permit an accounting to the Legislature. Since there were other funds in the budget for regular maintenance, alterations and equipment, it was our understanding that this special amount of \$50,000 would be for unforeseen contingencies.

The 1954-55 Fiscal Year expenditures from these items permit a full year review of the use made of these funds. We have secured from the Department of Finance an itemized listing of each expenditure and the amount. A review of these expenditures indicates (1) that a majority of the expenditures are not of an emergency nature, (2) some of the expenditures should have been funded in the budget of the agency receiving the service or equipment and (3) that the amount of \$50,000 should be reduced to \$25,000. In other words, approximately \$15,000 in expenditures for 1954-55 should have been budgeted elsewhere as they were items which could be anticipated; and that there was an unexpended balance of over \$10,000, which indicates an excessive appropriation.

Department of Finance—Continued

The expenditures from the operating expense item of \$35,000 for special repairs and alterations were made for repairs and alterations. For example, general repairs were made in the Governor's mansion, the State Capitol building, and other buildings. Approximately \$1,400 was spent to recondition leather furniture in offices of elected officials. The item to which we take exception in this category is the expenditure of \$12,160 for alterations to the fifth and sixth floors of the State Capitol Annex. These alterations should have been anticipated and regularly budgeted under minor capital outlay.

The special item for additional equipment for special maintenance of buildings was entirely expended plus \$2,796 transferred from the \$35,000 amount for operating expense. The purposes to which this money was put were generally for the purchase of equipment for the Governor's mansion and various other state offices. Listed below are expenditures for equipment which we feel should have been budgeted by the department or division receiving the service. Furthermore, since all this equipment is additional it can hardly be justified as emergency and unanticipated.

Department of Finance	
Administration—executive chair	\$153.20
Administration—photo instant copier	267.29
Administration—sofa	221.45
Merit Award Board—office furniture	339.97
Accounts and Disbursements—Edison Voicewriter	342.48
Fairs and Expositions—water cooler	108.74
Purchasing Division	
Refrigerator for lunchroom (replacement)	123.15
Lamp fixture	103.25
Courts—Chief Justice's Office	
Sacramento	
Telephone cabinet	186.95
Drape two windows	456.81
San Francisco—walnut dictionary stand	381.10
Supreme Court—air conditioner	346.02
Department of Education—Audio-Visual	
Education—beaded screen in roller case	95.79

We feel that the above examples show that the contingency fund was not entirely for emergency uses. The purposes for which these funds were used demonstrate that some of the expenditures should have been budgeted and approved through the regular budgetary process.

Budget Division

The positions of research technician and account clerk are proposed on the basis of the overtime worked in the Financial Research Section and the desire to extend population research work. The present staff of six technical positions performs research on revenue and population estimating. This work load is largely controllable and is already liberally financed. Apparently there have been substantial increases in the number of requests for special population analyses. The new positions will also allow more time for improvements in the population estimating work. In line with our established position, we do not recommend expansion of these services at this session.

Department of Finance—Continued

New Positions for Increased Work Load

Administration Division

Legal Section

Assistant administrative adviser I	\$7,008
Intermediate stenographer-clerk	3,060

Investment Section

Accounting technician II	3,630
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Property Acquisition Division

Associate real property appraiser	6,060
Junior-assistant real property appraiser	3,810

The above is a complete summary of all new staff positions justified on a work load basis. There are other new positions requested by the Department of Finance which are discussed separately under the Buildings and Grounds Division and the new Division of Organization and Cost Control. We recommend approval of all of the above staff positions because we are convinced that there is adequate justification for them. A few brief comments will serve to point up the justification presented by the department.

Legal Section

Additional legal service is requested primarily on two bases: (1) to provide additional legal advice to the State Fair, and (2) to meet the increasing work load in the property acquisition and building programs. Additional legal service to the State Fair, which seems long overdue, will be on a reimbursement basis. This will bring the total time devoted to the State Fair to about three-quarters of one man-year. In property acquisition there is the accelerated state park land acquisition program, increased participation in drafting state leases, possible assistance to the California Olympics Commission in contracts and real property procedures and the construction of state buildings through investment of state funds.

Investment Section

There has been a general increase in the total number of transactions and the amount invested. This position will relieve the investment adviser of some detail so that more attention can be devoted to broader investment problems and opportunities.

Property Acquisition Division

Two positions of real property appraisers have been requested by the Department of Finance in order that the division may assume the negotiation of a portion of the leases now accomplished by the state agencies concerned. The staff now authorized consists of the chief, six technical positions, and four clerical positions. Three of these technical positions were added following the reorganization of this function in 1954.

Since the reorganization the division has been in the process of trying to implement the recommendation contained in two reports: a Department of Finance management analyst study (A. N. 684) and the Legislative Auditor's Report on State Real Property Operations. In the report made November 21, 1955, to the Joint Legislative Budget Committee, the Legislative Auditor stated that some progress had been

Department of Finance—Continued

made toward bringing the record-keeping and clerical routines up to a more acceptable standard. He further stated that virtually no progress could be reported toward the achievement of the objectives of recommendations designed to improve efficiency and bring about economy in policy or procedural matters. The primary objective suggested was that all real property functions related to the acquisition and utilization of space for State Government operations be performed by a single state agency.

The addition of two technical positions, justified as implementing further centralization of the leasing function, is a step toward the objectives set forth by the Legislative Auditor. We recognize the need for these positions and recommend their approval. It should be noted, however, that one technical position is still vacant at this writing. Approval of these two requested positions will mean that three positions will be available to extend the activity of locating and negotiating leases.

Buildings and Grounds Division

Staffing New Facilities. For the past several years, janitorial and maintenance positions for new state buildings have been added in each annual budget. With the opening of the new Employment Building during the current year, the positions required for that building will be budgeted on a full year basis. This cost is reimbursable. New positions will be necessary for the Veterans Building scheduled for completion about March 1957. Other positions for maintenance of Sacramento buildings and adequate staffing of the Los Angeles buildings are included in this budget.

We recommend approval of these positions since they conform to soundly established staffing standards.

Improvements. In this respect we would like to point out an example of increased efficiency and substantial continuing saving of General Fund money occurring in the administration of the Division of Buildings and Grounds. The division has successfully placed into effect over the past two years working standards followed by private janitorial services. These new standards enabled the division to reduce its janitorial staff by 120 positions at a cost of salaries and wages by \$336,000 without a single layoff. The reduction in staff without layoffs was possible through attrition and the opening of new state buildings. Other positions, amounting to a saving in salaries and wages of \$117,000, were discontinued also. The total saving made by this division amounts to over \$450,000, most of which will be a continuing saving due to improved work load standards. It is our understanding that some upward adjustments in supervision will have to be made as more experience with these new standards is gained and the number of state buildings increases. This example shows the value to the State of capable administration in an area where several million dollars is spent annually.

Division of Organization and Cost Control

This is a new division created by Chapter 1857, Statutes of 1955. The act directs the Director of Finance to appoint a division chief and such other personnel as are necessary. The functions of the division are:

Department of Finance—Continued

1. To provide consultation and coordination to the departments and agencies with respect to organization planning and the development and application of controls over manpower and costs;

2. To conduct studies, as directed or requested, in such fields as mentioned in (1) and in the field of application of classifications to jobs and positions; and,

3. To conduct research and exchange of information in the field of management.

The Department of Finance proposes to establish the positions of chief of the new division and his secretary. Finance further proposes that staffing to meet the requirements will be provided by transfer from the management analysis section of the Budget Division and perhaps the Audits Division.

The Legislature passed this legislation directing the Department of Finance to establish the division and staff it with such personnel as is necessary to perform the functions specified in the act. This leaves considerable discretion to the Director of Finance; but it obligates him to submit a blueprint to the Legislature as to what he intends to do. The creation of a division chief and a brief statement of the source of securing staff do not satisfy this responsibility to the Legislature. We believe a report on the size and scope of the organization should be forthcoming.

The structure and functions proposed for the new organization raise many questions as to the new aspects contained in the law and functions already being performed under existing law. Some of those questions are:

1. To what extent do the functions outlined in the law duplicate or overlap functions already assigned to or being carried out by organizations other than the management analysis section?

2. In what aspects and to what extent does the department see the program and scope of the new division as differing from the management analysis section's present activities?

3. What functions outlined in this legislation are completely new and how does the department propose to implement them?

4. What is the size of this division expected to be, in the budget year, five years from now?

5. The department suggests that staff may be drawn from the Audits Division. How much staff and what would this staff do?

6. Would the management analysis section in the Budget Division be abolished completely and all 30 authorized positions transferred to the new division?

This new statute which spells out the functions of a management analysis organization may give greater scope and prestige to management study in California State Government. Whether it does or not, management study will continue to grow and gain importance. The growth in this activity reaches beyond the confines of the central management agency in the Department of Finance. Several departments in the State Government now have management analysts, some of these agencies being the Department of Employment, Department of Motor Vehicles, Board of Equalization and the Department of Social

Department of Finance—Continued

Welfare. We believe it is particularly timely to discuss the uncontrolled and unplanned growth of management units in the various departments at a time when the central management agency is undergoing a review and reorganization.

The present management analysis section serves as an arm of the Budget Division in exercising budget control and performs management studies for the departments when requested. These functions are derived from Section 13070 of the Government Code which extends broad powers to the Department of Finance. Under this authority, the department has not seen fit to coordinate the activities of management units in the departments with the central management organization. We believe this should be done and that the Department of Finance should take responsibility through the new Division of Organization and Cost Control to spell out a working relationship and the areas of activity of the departmental units. The new legislation places upon the central management agency the responsibility of assisting and coordinating with the heads of state departments in the field of organization planning.

The management analysis units are not just one isolated staff service which requires central leadership and coordination. Other staff services to which such a policy should apply are personnel services and auditing services. These staff services involve several classes of positions, for example, administrative analysts, personnel analysts, training officers and auditors. In some respects the establishment of attorney positions comes into the problem. A general policy has been followed in authorizing departmental attorneys, restricting them to agencies with special administrative and operating legal questions which the Department of Justice has not been ordinarily staffed to handle. Also, there is some coordination and working arrangement between departmental attorneys and those in the Department of Justice. The policy involving some of these other staff services is discussed in other parts of this analysis.

Purchasing Division

The budget for the Purchasing Division reflects an increase in expenditures for equipment to place into effect an important office procedural change. We believe that this change to mechanize the handling of the office paperwork is a sound move and recommend approval of the increase. Paperwork volumes in all state agencies will continue to increase as the State grows; mechanization of paperwork through the use of addressograph and other office machines is one way to meet the burden.

Another way of meeting the problem of paperwork is to reduce the unnecessary double handling of documents. In this respect, an important procedural step affecting the operation of the Purchasing Division has already been taken by the Department of Finance. This procedural change simplifies the routing of purchase estimates. Whereas many purchase estimates for budgeted items previously had to be submitted to the Budget Division, these agency requisitions now go directly

Department of Finance—Continued

to the Purchasing Division. The change has in turn made it possible for many agency requests to go directly to the Los Angeles or San Francisco purchasing offices instead of to the central office in Sacramento.

The new purchasing law, Chapter 1736, Statutes of 1955, in which the Legislature spelled out its policy on state purchasing, has been in effect for a few months. This law includes provisions which defined the State's policy with respect to the vendor, the Purchasing Division and the operating departments of the State. For instance, it requires bidder qualifications, sealed bids, acceptance of the lowest responsible bidder, uniform notification of bidders, certain rights of appeal by bidders of Purchasing Division decisions and provision that a state agency may specify the quality of purchases subject to review by the Board of Control when challenged.

The over-all effect of the law cannot be evaluated as yet. However, we feel that the calendar year 1956 will provide a full year of administration in which to judge the workability of all of the statute's provisions. In 1955, since the law went into effect, two situations arose which put the law to test. One instance, concerning the aspect of the law which permits departments to take disputes with the Purchasing Division over the quality of purchases to the Board of Control was heard but no decision rendered. Another section of the law permitting a vendor to appeal to the Board of Control has also been heard. These are the only two cases to go to the board at the time of this writing since the law went into effect in September, 1955.

Under another provision of the law, the new State Purchases Standards Committee has been appointed by the Governor. Seven department heads and two laymen will advise the Director of Finance as to minimum standards for state purchases.

Allocation From the Emergency Fund

An allocation from the General Fund was made during the current year because of a fire at the state warehouse building at 1128 R Street, Sacramento. This building housed the Building and Grounds Division shops and the stores section of the Department of Motor Vehicles. This emergency allocation of \$28,000 went to the Buildings and Ground Division to cover the cost of cleaning up and moving the shops and replacing some stock.

Of the total allocation approximately \$3,000 was needed for salaries and wages, for cleaning equipment, moving the shops and general work after the fire. An amount of \$5,000 was allocated to cover the equipment lost. Operating expenses in the amount of \$20,000 were allocated to replace lost stock. We are informed that this amount of \$20,000 will not replace all lost stock. In fact, we are informed that complete replacement of stock is not contemplated.

Another effect of the fire is the relocation of the shops of Buildings and Grounds. Some of their activities have been located in the basement of the Capitol Building.

Department of Finance—Continued

Improvements in Operation

Following are included some of the principal improvements, in addition to others already mentioned, made during 1955 in the operation of the Department of Finance.

Audits Division. A reduction of 16 positions is reflected in the 1956-57 proposed budget. Eleven positions are reduced as a result of the two-year audit program approved by the Legislature in the 1955 General Session. Five positions are eliminated for the anticipated reduction in audit activities due to the establishment of the Auditor General. The funds saved from the five positions related to the establishment of the Auditor General have been transferred during the current year to the Assembly and Senate contingent funds in accordance with Chapter 1699, Statutes of 1955. An amount of \$30,000 was transferred. It was generally believed that a greater number of positions would be transferred as a result of the establishment of the Auditor General. For example, the Price-Waterhouse Report suggested a somewhat greater reduction in positions in the Audits Division. However, when an Auditor General's office is established and an over-all audit plan is worked out, further adjustments in positions can be made.

Extended use was made of interim letters to call to the attention of agency heads, while audits are still in progress, matters requiring action. The system has been effective in getting corrections and improvements made. Audit reports have been simplified. A summary of interim letters and action taken is included in the formal audit reports.

Contract Approval Delegated. Many small contracts and inter-agency agreements no longer have to be sent to the Department of Finance for approval. Agencies were delegated approval power on contracts amounting to a total of \$500, or \$100 a month, and on inter-agency agreements totaling \$1,000, or \$200 a month. The number of contracts which must be processed by the Department of Finance was reduced by some 1,300 a year, or 43 percent, but the total dollar amount of the contracts individually approved has not been significantly reduced.

Reimbursement Procedure Simplified. Under a 1955 law requested by the Department of Finance, advance payments are being made by agencies for interagency services. Applied so far to central stores, garage, and radio maintenance services, the system reduces the amount of capital needed in revolving funds. Payment is further simplified by using bookkeeping entries instead of issuing warrants to make payments. The change has already made it possible to get along without a General Fund appropriation of \$650,000 to the Purchasing Revolving Fund which would otherwise have been needed.

Central Motor Pool. The automobile pool operated by the department has more than doubled as cars previously operated by agencies have been assigned to the pool. The total number of cars required to provide service has been reduced. In Sacramento, the number of vehicles based at the state garage is about 10 percent less. Over-all, pooling in Los Angeles, San Francisco, and Sacramento has resulted

Department of Finance—Continued

in service being maintained with about 100 less cars than would have been needed under continued agency assignment and operation. The above savings, realized in less than a year, show the value of the idea and the desirability of extending the pool operation.

Printing Plant Charges. More efficient handling operation in the new printing plant and elimination of outside rental charges lowered costs. As a result a 1 percent reduction was made July 1st in the stock handling charge to agencies by the Printing Division, and a further reduction of 1 percent became effective January 1, 1956. The layout of the new plant has also permitted lower composition costs because of less material handling. Another cost reduction was the 6 percent reduction in duplicating service charges to Sacramento agencies, the third such price reduction since the service began in 1953.

Improved Printing Facilities. Installation in the Printing Division bindery of a semiautomatic machine has reduced the cost of gluing and pressing one type of book backs from \$20.40 per thousand to \$7.60 per thousand. Although the machine cost \$19,000, it replaces two manual operations and will save \$16,000 during the first eight months.

Telephone Facilities. A survey of telephone equipment and usage in Sacramento resulted in removal of excess facilities at the Capitol Exchange amounting to nearly \$26,000 a year. After analysis of long distance calls, an order was placed for an additional leased wire from Sacramento to San Francisco and another to Los Angeles. An average saving of 39 percent has been accomplished on long distance calls over the leased lines already in operation.

Radio Maintenance Service. The maintenance program of state-owned radio equipment was expanded during 1955 to provide faster repair and better maintenance service to agencies with less overtime. New shops were established at four locations. Charges to agencies were revised from a flat rate per unit to a cost basis which distributes costs more equitably.

Property Appraisals. The State Lands Division increased the school and in-lieu lands sold from about 19,000 acres in 1954 to about 34,000 acres in 1955, and processed more land sales transactions than in any previous year. An important factor was the use of appraisers on the division's own staff, new positions having been authorized in 1954. The average selling price per acre in 1955 was \$15.58 compared with \$5.60 in 1954, when appraisers outside of state service were used. The total price of lands sold increased more than \$40,000, from about \$11,000 in 1954 to over \$53,000 in 1955.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 125 of the Budget Bill

Budget page 442
Budget line No. 37

**FOR SUPPORT OF AUDITS DIVISION FROM THE FAIR AND
EXPOSITION FUND**

Amount requested	\$70,000
Estimated to be expended in 1955-56 Fiscal Year	72,500
Decrease (3.4 percent)	\$2,500

Department of Finance—Continued

RECOMMENDATIONS

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

ANALYSIS

The amount of \$70,000 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 \$589,926 incorporated as a part of the general support of the Department of Finance for the Division of Audits, by Item 124 of the Budget Bill.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 126 of the Budget Bill

Budget page 442
Budget line No. 41

FOR SUPPORT OF LOCAL ALLOCATIONS DIVISION, DEPARTMENT OF FINANCE, FROM THE POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND

Amount requested	\$18,559
Estimated to be expended in 1955-56 Fiscal Year	23,048
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Decrease (19.5 percent)	\$4,489

RECOMMENDATIONS

Amount budgeted	\$18,559
Legislative Auditor's recommendation	18,559
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Reduction	None

ANALYSIS

The amount of \$18,559 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 124 of the Budget Bill.

The Local Allocations Division is under the direction of the Department of Finance but is financed from four funds: the General Fund, the Postwar Unemployment and Construction Fund and the two school building construction funds. The Postwar Unemployment and Construction Fund authorized by Chapter 47, Statutes of 1946, and Chapter 20, Statutes of 1946, is for assistance to local government for plans and sites and construction of public works. The 1955 Legislature extended the programs so that applications will continue to be taken until December 31, 1956. The unallocated balance in the fund after deducting pending applications was \$1,076,210 as of November 1, 1955.

The activity in this fund is decreasing steadily. The estimated workload time devoted to the program has decreased from the original estimate for 1955-56 of 6.3 percent to the 1956-57 estimate of 3.6 percent of the staff time of the division.

We recommend approval.

Department of Finance
GENERAL ACTIVITIES

ITEM 127 of the Budget Bill

Budget page 442
Budget line No. 64

FOR SUPPORT OF LOCAL ALLOCATIONS DIVISION, DEPARTMENT OF FINANCE, FROM THE SCHOOL BUILDING AID FUND

Amount requested -----	\$478,918
Estimated to be expended in 1955-56 Fiscal Year -----	375,787
Increase (27.4 percent) -----	\$103,131

RECOMMENDATIONS

Amount budgeted -----	\$478,918
Legislative Auditor's recommendation -----	478,918
Reduction -----	None

ANALYSIS

This program provides state assistance in financing school construction where school districts have insufficient bonding capacity to provide needed facilities. A state bond issue and a legislative appropriation totaling \$185,000,000 were authorized in 1952. There is a balance of approximately \$100,000,000 available for application in the fund.

The Local Allocations Division of the Department of Finance is responsible for the administration of the state school construction aid programs.

The large increase is due to the combining of all administrative charges of the State School Building Aid Fund and the Public School Building Loan Fund, an earlier program. Since these programs are identical, administrative charges will be taken from the newest program, the State School Building Aid Fund, in order to simplify financing. This transfer from the School Building Loan Fund to the School Building Aid Fund is done under the authority of Chapter 1701, Statutes of 1955.

During the current year \$87,634, representing 15.9 percent of the agency's estimated work load time, was appropriated from the School Building Loan Fund for the administration of that construction program. At the same time, \$375,787, which is 75 percent of the work load time, was appropriated for administration of the school building aid program. The appropriations are being combined for the 1956-57 Fiscal Year and the combined administrative time is estimated at 92.9 percent. This is only a 2 percent increase in the time devoted to these construction projects. Other nonschool construction programs have declined in activity and are estimated to consume only 7.1 percent of the Local Allocations Division's total time.

An emergency authorization in the amount of \$43,565 was made to the Local Allocations Division. Actually this is a readjustment of the costs of servicing allocations and not an emergency. The estimated cost for time spent on processing applications as apportioned to the several funds involved showed a reduction to the Postwar Unemployment and Construction Fund and the School Building Loan Fund. Time spent on State School Building Aid Fund activities went up. Therefore, the authorization was necessary to increase the appropriation from the

Department of Finance—Continued

School Building Aid Fund. The other funds show unexpended balances to offset the amount of the authorization.

We recommend approval of the amount budgeted.

Department of Finance
AUTOMOBILE LIABILITY INSURANCE

ITEM 128 of the Budget Bill

Budget page 443
Budget line No. 7

FOR PAYMENTS OF PREMIUMS ON AUTOMOBILE LIABILITY INSURANCE FROM THE GENERAL FUND

Amount requested	\$210,932
Estimated to be expended in 1955-56 Fiscal Year	195,362
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Increase (8.0 percent)	\$15,570

RECOMMENDATIONS

Amount budgeted	\$210,932
Legislative Auditor's recommendation	210,932
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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 rate per unit for the budget year is projected at \$28. This is an increase over the current rate due to an increase in the loss experience which has been high during the current year.

The current rate, \$25.93 per unit, is below the estimated cost for this year, however. The current rate is based upon the preceding year when the accident loss experience was low.

Department of Finance
PUBLIC LIABILITIES INSURANCE

ITEM 129 of the Budget Bill

Budget page 443
Budget line No. 13

FOR PAYMENT OF PREMIUMS, LIABILITY INSURANCE, FROM THE GENERAL FUND

Amount requested	\$2,500
Estimated to be expended in 1955-56 Fiscal Year	2,500
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Increase	None

RECOMMENDATIONS

Amount budgeted	\$2,500
Legislative Auditor's recommendation	2,500
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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

MAINTENANCE OF UNION CEMETERY IN SAN MATEO

ITEM 130 of the Budget Bill

Budget page 443
Budget line No. 27

FOR MAINTENANCE OF UNION CEMETERY IN SAN MATEO FROM THE GENERAL FUND

Amount requested -----	\$2,000
Estimated to be expended in 1955-56 Fiscal Year -----	2,000
<hr/>	
Increase -----	None

RECOMMENDATIONS

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

ANALYSIS

The amount requested will provide contract services for the maintenance of Union Cemetery in San Mateo County. The cemetery is maintained by San Mateo County. It is the burial grounds for some Californians who fought in the Civil War and some famous early California citizens.

We recommend approval.

Department of Finance

FAIRS AND EXPOSITIONS DIVISION

ITEM 131 of the Budget Bill

Budget page 462
Budget line No. 7

FOR SUPPORT OF DIVISION OF FAIRS AND EXPOSITIONS FROM THE FAIR AND EXPOSITION FUND

Amount requested -----	\$111,093
Estimated to be expended in 1955-56 Fiscal Year -----	110,120
<hr/>	
Increase (0.9 percent) -----	\$973

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages -----	\$872	\$872	--	462 71
Operating expense -----	101	101	--	463 15
<hr/>		<hr/>		
Total increases -----	\$973	\$973	--	463 25

RECOMMENDATIONS

Amount budgeted -----	\$111,093
Legislative Auditor's recommendation -----	111,093
<hr/>	
Reduction -----	None

ANALYSIS

The contemplated expenditure for this program is \$111,093, an increase of \$973 over the amount budgeted in the 1955-56 Fiscal Year. The proposed budget provides for the continuation of the same program level.

A Fairs' Classification Committee was created by Chapter 1717, Statutes of 1955. Its purpose is to consider factors involved in classifying the various fairs seeking apportionment under the provisions of

Fairs and Expositions Division—Continued

Section 92 of the Agricultural Code. A major consideration of the committee is to provide a sounder and more equitable basis for apportioning funds to such fairs.

The Fair Classification Committee's program of developing objective criteria in the allocation of state funds to these fairs, if followed, to the logical end of requiring adequate justifications, should be an important factor in improving the operation of the Division of Fairs and Expositions.

We recommend that in cooperation with the Fair Classification Committee a careful review be made of the allocations distribution procedures followed by this agency. Also that capital outlay expenditures be reviewed with the objective of reducing appropriations.

We are advised that the Department of Finance has revised certain reporting and budgetary controls in order to improve general budgeting and operational data in connection with district fair reporting. This year, for the first time, at the request of the Legislature, fiscal information on the district fairs is to be included in the budget.

We recommend approval of the budget amount requested on a work load basis.

Department of Finance
CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 132 of the Budget Bill

Budget page 464
Budget line No. 9

**FOR SUPPORT OF CALIFORNIA STATE FAIR AND EXPOSITION
FROM THE STATE FAIR FUND**

Amount requested	\$2,070,502
Estimated to be expended in 1955-56 Fiscal Year	1,920,227
Increase (7.8 percent)	\$150,275

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	—\$56,039	—\$56,039	—	470 40
Operating expense	—35,559	—60,559	\$25,000	470 41
Equipment	—2,805	—2,805	—	470 42
Less: Decreased reimbursement	244,678	244,678	—	470 53
Total increase	\$150,275	\$125,275	\$25,000	470 55

RECOMMENDATIONS

Amount budgeted	\$2,070,502
Legislative Auditor's recommendation	1,920,227
Reduction	\$150,275

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	1,935,227	1,238,520	696,707	64.0
1956-57	2,085,502	1,393,750	691,752	66.8

Fairs and Expositions Division—Continued

The above table indicates that revenues are only offsetting about two-thirds of the total costs for operating the State Fair and Exposition. The estimated deficit for the 1956-57 Fiscal Year is \$691,752—second highest in the five-year series shown above.

The estimated cost of this deficit applied on a per capita basis to the total paid adult attendance, estimated at 454,250 for the 1956-57 Fiscal Year, is \$1.52 as shown in the table below.

<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
1955-56 -----	696,707	370,090	1.88
*1956-57 -----	691,752	454,250	1.52

\$3,827,244

* Estimate.

This (\$1.52) is the net loss expected to be sustained by the State on each paying customer. The deficit for the six-year period as set forth above will total \$3,827,244.

It is our belief relative to many of the Fair's revenue operations that for additional money spent the net return in revenue is not great enough to warrant the expenditure. This is true from both a fiscal as well as an attendance standpoint.

It is estimated that revenues will be \$155,230 or 13 percent higher in 1956-57 as compared to the previous fiscal year. But the deficit is expected to be only about \$5,000 less than the very high deficit sustained in the 1955-56 Fiscal Year.

It is our opinion that the endeavor made to increase revenues should be considered also with the objective of reducing these continuing deficits.

Major increases in operating expenses are reflected in the following table:

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

<i>Function and item</i>	<i>Increase</i>	
	<i>1956-57 over 1955-56</i>	
	<i>Amount</i>	<i>Percent</i>
Administration		
Legal fees -----	\$2,500	New
Director's expense -----	1,500	12.0
Exhibits		
Premiums, Junior Division -----	1,608	5.3
Judges -----	1,495	7.2
Wine sample collecting -----	14,620	1,063.8
Horse show		
Horse show expense -----	1,500	37.5
Special attractions -----	25,000	New
Operations		
Plumbing maintenance -----	6,500	65.0
Electric maintenance -----	5,000	100.0
Preparation expense -----	25,000	New
Renovation, Hall of Flowers -----	10,000	New
Renovation, Red Cross Building -----	1,950	New
Renovation, Press-Radio Building -----	5,000	New
Reroof Junior Division Building -----	12,800	New
Replace top soil, race track -----	5,000	New

Fairs and Expositions Division—Continued

Items of Increase in Operating Expense Over \$1,000—Continued

Function and item	Increase 1956-57 over 1955-56	
	Amount	Percent
Public service, health and safety		
Building maintenance service-----	\$5,400	8.7
Livestock feed -----	1,082	5.2
Promotions		
Rent—equipment, television -----	1,500	150.0
Paid advertising -----	20,000	33.3
Brochure -----	6,000	New
Attractions and special events		
Contests -----	2,000	25.0
Free attractions -----	2,335	20.0
Receptions -----	1,415	13.4
Night show -----	4,780	5.6
Racing		
Racing purses -----	16,500	9.7
Racing expense -----	4,000	23.6
Breeders' fees -----	2,411	47.4
American totalizator service -----	1,819	10.0

Total increase in items having over \$1,000 increase..... \$200,750

Admittedly, the amount of total expenditures required to stage a fair does not necessarily bear any direct relationship to any functional need for a fair. It can be as elaborate an extravaganza as financing will permit. Similarly, it can be as conservative as good business judgment will dictate after a long look at the soundness of the fiscal policy involved.

The Legislature determines this largely by the appropriation it approves for the purpose.

From a fiscal standpoint, we cannot support the wisdom of increasing any program of this nature that entails continuing and greater deficits.

We therefore recommend that the California State Fair be held to the same level of total expenditures as prevailed in the prior fiscal period and that total expenditures be reduced by the \$150,275 excess expenditure requested over the 1955-56 total.

The item for paid advertising in the 1956-57 Budget amounts to \$80,000. This is an increase of \$20,000 or 33 percent over the \$60,000 estimated for 1955-56. Actual expenditures for this purpose were \$54,000 in the 1954-55 Fiscal Year.

It is felt that the added net revenue which would be derived from the increase of \$20,000 in paid advertising for 1956-57 would not justify this expenditure—that the deficit would be less for the year without this added expenditure. *Total paid attendance, on the basis of the agency's own estimates, is expected to be next to the lowest for any year since 1951.* Agency statements indicate that the revenue figure estimate would not be any lower even without this expenditure.

Therefore we recommend a reduction of \$20,000 in this item as a part of the \$150,275 total recommended reduction.

It is claimed that a new expense item amounting to \$25,000 for special attractions in connection with the horse show will add net revenues to the fair operation. We recommend that this item be retained on a

Fairs and Expositions Division—Continued

trial basis only in order to prove its value as a factor in increasing revenues.

A total of \$90,000 is requested for the night show. This is \$4,780 higher than in the previous budget and \$25,000 higher than the 1954-55 expenditure. The trend toward more costly productions without due consideration to raising the quality of the shows is an important factor that should be given more careful consideration.

We recommend that the budget for the night show be reduced and that an attempt be made to obtain better shows.

Another item of expense expected to be more than offset by increased revenue is \$5,500 for an increase in racing temporary help to provide the required staff to operate 12 races each racing day. We trust that increase in revenue materializes to the extent anticipated.

No new positions are requested for the 1956-57 Fiscal Year and the total estimated amount for this item is \$56,039 less than estimated for the 1955-56 Fiscal Year. It seems that some improvement is being made in the costly overtime situation as the amount for this item has been gradually reduced each year since the 1954-55 Fiscal Year.

Some improvement made in procedures relative to preparing for each fair period should result in lower expenditures for overtime.

This would permit authorization of construction to start prior to July 1 and make payments for such activity subsequent to July 1, thus lengthening the total preparatory time to consummate proposed changes for the ensuing fair.

A new item, preparation-interim activities \$25,000, is included in the 1956-57 budget. This apparently is merely a change in accounting procedure and other items in which this expense was heretofore carried are commensurately reduced.

A total of \$11,550 was set up in the 1955-56 Budget as an emergency authorization for the "sew-it-yourself" contest. The contest was tried on an experimental basis and was not successful. It is thus being discontinued.

Total entry fees for exhibits, horse show, and horse show stakes are expected to increase by \$14,476 to \$57,000 total in the 1956-57 Fiscal Year. This is a 34 percent gain; however, the increase is practically all accounted for by the increase in one item—wine sample collecting. For this item the expenditure was \$1,380 in the 1955-56 Fiscal Year and is expected to be \$16,000 for the 1956-57 Fiscal Year. It is anticipated that revenue and expenditure for wine sample collecting will offset each other.

There is on balance little if any change in the net revenue to be added to fair funds from entry fees in the proposed budget. It is felt that this area of operations should be given more emphasis as a factor in offsetting a greater portion of the costs by increasing revenues as much as possible.

Revenue obtained from race entry fees has not been included in the budget since the 1954-55 Fiscal Year.

**Department of Finance
CALIFORNIA STATE FAIR AND EXPOSITION**

ITEM 133 of the Budget Bill

Budget page 471
Budget line No. 46

**FOR AUGMENTATION OF THE STATE FAIR FUND FROM THE
FAIR AND EXPOSITION FUND**

Amount requested	\$562,000
Estimated to be expended in 1955-56 Fiscal Year	485,000
<hr/>	
Increase (15.9 percent)	\$77,000

RECOMMENDATIONS

Amount budgeted	\$562,000
Legislative Auditor's recommendation	411,725
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Reduction	\$150,275

ANALYSIS

We recommend that \$150,275 be deleted from the \$562,000 requested, leaving a total amount of \$411,725 to augment the State Fair and Exposition Fund. This is in line with the recommended reduction of \$150,275 in the over-all fair budget.

**Department of Finance
SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 134 of the Budget Bill

Budget page 472
Budget line No. 8

**FOR SUPPORT OF SIXTH DISTRICT AGRICULTURAL ASSOCIATION
FROM THE SIXTH DISTRICT AGRICULTURAL ASSOCIATION FUND**

Amount requested	\$167,838
Estimated to be expended in 1955-56 Fiscal Year	143,703
<hr/>	
Increase (16.8 percent)	\$24,135

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$9,655	\$9,655	--	473 69
Operating expense	12,377	12,377	--	473 70
Equipment	2,103	2,103	--	473 71
<hr/>				
Total increase	\$24,135	\$24,135	--	473 73

RECOMMENDATIONS

Amount budgeted	\$167,838
Legislative Auditor's recommendation	167,838
<hr/>	
Reduction	None

ANALYSIS

The total support budget for the 1956-57 Fiscal Year is estimated at \$167,838, an increase of \$24,135 or 17 percent over the estimated expenditures for 1955-56.

Sixth District Agricultural Association—Continued

The additional positions are requested (1 building maintenance man at \$3,630, and 1 groundsman and flower gardener at \$3,138) due to increased work load anticipated with the opening of the new horticultural exhibit facilities in 1956.

The operation has been on a partially sustaining basis owing to revenues received from Coliseum rental, parking lot rental, and other minor sources.

The table below shows the relationship of total revenues to support costs for three budget years:

	1954-55	1955-56	1956-57
* Total expenditures -----	\$137,502	\$152,722	\$177,607
Total revenues -----	118,642	131,400	138,200
Difference -----	\$18,860	\$21,322	\$38,407
Revenues as percent of total expenditures...	86	86	78

* Includes contributions to State Employees' Retirement Fund.

The table indicates that the gap between revenues and support expenditures is widening. This trend should be counteracted and we believe that steps should be taken to put this operation on a self-sustaining basis through economies of operations or by increasing revenues. We believe that increasing attendance which totaled over 400,000 during 1954-55 offers the most promise in making this a self-supporting operation, and further effort should be made toward increasing revenue from this as well as other available sources.

Included in the budget estimate is \$2,000 under operating expenses for souvenirs and picture postal cards. The facility expects to offset their expenses the first year and eventually realize a net profit of about \$2,000 through sales of these items. It seems that it would have been sounder policy to start this operation on a more limited scale on a trial basis. We suggest that the operation be carefully scrutinized as it progresses.

Part of total revenues are obligated for debt retirement and net revenues to be expended toward operations are estimated at \$48,540 for the 1955-56 Fiscal Year and \$57,200 for the 1956-57 Fiscal Year, an increase of \$8,660 or 18 percent.

Of the total of \$126,000 requested for support, \$15,000 is from allocation provided by paragraph (iii) of Section 19622 of the Business and Professions Code and \$111,000 is proposed by the Budget Act of 1956.

An emergency authorization for \$5,150 is contained in the 1955-56 Fiscal Year Budget. Part of this amount was for the item pro rata Attorney General's services, \$2,100. This amount was needed to meet unbudgeted estimated requirements for legal services. The amount of \$2,500 was for a special exhibit—75th anniversary, titled "California in the 1880's." The remainder was to meet unanticipated incidental expenses. The emergency authorization is being funded from revenue.

It is difficult to reconcile an authorization for a special exhibit as being of an emergency nature.

**Department of Finance
SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 135 of the Budget Bill

Budget page 474
Budget line No. 21

**FOR SUPPORT OF SIXTH DISTRICT AGRICULTURAL ASSOCIATION
FROM THE FAIR AND EXPOSITION FUND**

Amount requested	\$111,000
Estimated to be expended in 1955-56 Fiscal Year	76,000
Increase (46.0 percent)	\$35,000

RECOMMENDATIONS

Amount budgeted	\$111,000
Legislative Auditor's recommendation	111,000
Reduction	None

ANALYSIS

The sum of \$126,000 is proposed to be transferred from the Fair and Exposition Fund. This consists of \$15,000 allocation provided by paragraph (iii) of Section 19622 of the Business and Professions Code and \$111,000 proposed by the Budget Act of 1956 from the remainder in the Fair and Exposition Fund allocated by Section 19626e of the Business and Professions Code.

We recommend that this amount \$111,000 be approved as requested.

**Department of Finance
STATE LANDS DIVISION**

ITEM 136 of the Budget Bill

Budget page 477
Budget line No. 7

**FOR SUPPORT OF STATE LANDS DIVISION FROM THE STATE
LANDS ACT FUND**

Amount requested	\$631,806
Estimated to be expended in 1955-56 Fiscal Year	522,419
Increase (20.9 percent)	\$109,387

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$19,435	\$1,051	\$18,384	478 72
Operating expense	77,289	77,289	—	479 18
Equipment	—10,383	—11,383	1,000	479 28
Plus: decreased reimbursement	23,046	23,046	—	479 38
Total increase	\$109,387	\$90,003	\$19,384	479 40

RECOMMENDATIONS

Amount budgeted	\$631,806
Legislative Auditor's recommendation	631,806
Reduction	None

ANALYSIS

The large increase in the amount requested by the Division of State Lands is due to the inclusion of \$75,000 under support which previously was budgeted as a separate item. The actual increase in support is

State Lands Division—Continued

\$34,387 or 6.6 percent over the amount estimated to be expended in the current fiscal year.

The amount of \$75,000 for the 1956-57 Fiscal Year is for research and investigation of tide and submerged land leasing. In the 1955 session the Legislature appropriated \$75,000 for this activity for the current year, 1955-56. The Legislature provided the money because of the Cunningham-Shell Tidelands Act, Chapter 1724/55. It is our understanding that the minimum royalty under the act will depend on whether the area offered for lease is located on known geologic structure of a producing oil and gas field. In order to know the geologic structure of an area, the Division of State Lands will have to have tests made. The current year funds were provided so that necessary technical and other investigations could be made.

The division expects that such investigations will continue to be necessary for an indefinite time. However, there is insufficient experience yet to know how much will be required annually on a continuing basis; therefore, \$75,000 is requested for the budget year.

Since the division expects this to be a continuing activity, the Department of Finance, in line with past policy, transferred the amount to the support portion of the budget. We concur with this method of budgeting the expenditures for the activity.

New Positions Requested

Six new positions are requested for the 1956-57 Fiscal Year. Three of these positions are proposed for a new function assigned to the State Lands Commission by the Legislature at the 1955 General Session. The other three positions are justified on the basis of increased work load. The justifications have been reviewed and found adequate; approval of the positions is recommended.

The new service assigned to the commission was authorized by Chapter 1850, Statutes of 1955. The positions requested to carry out this function are: one senior civil engineer, one associate harbor engineer and a delineator. The act designates the commission as the agency to plan and develop small craft harbors and waterways and to coordinate county shoreline improvement and development plans with county-wide plans for small boat harbors. The law also requires a review of all county plans and a report with respect to them to the Legislature.

One intermediate stenographer-clerk is proposed to handle the increased stenographic pool. The increase is due partly to the small craft harbor bill, to the State's suit to recover oil and gas revenues from the city of Long Beach and to general increases.

The royalty accounting work load has increased requiring additional employees. Also, it is estimated that the expanded leasing provisions contained in Chapter 1724, Statutes of 1955 will increase the number of wells and leases in production. One oil gauger and one accounting technician II are requested.

Approval of the amount requested is recommended.

FRANCHISE TAX BOARD

ITEM 137 of the Budget Bill

Budget page 481
Budget line No. 22

FOR SUPPORT OF FRANCHISE TAX BOARD FROM THE GENERAL FUND

Amount requested	\$5,083,369
Estimated to be expended in 1955-56 Fiscal Year	4,781,722
Increase (6.3 percent)	\$301,647

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$237,034	\$193,034	\$44,000	488 9
Operating expense	36,864	36,864	—	488 10
Equipment	27,749	27,749	—	488 11
Total increase	\$301,647	\$257,647	\$44,000	488 13

RECOMMENDATIONS

Amount budgeted	\$5,083,369
Legislative Auditor's recommendation	5,039,369
Reduction	\$44,000

ANALYSIS

We recommend a reduction of \$44,000 in salaries and wages representing 15 positions, to be selected by the agency from among the additional positions requested, with the approval of the Department of Finance.

The Franchise Tax Board, which consists of the State Controller, Director of Finance, and Chairman of the State Board of Equalization, administers all provisions of the Personal Income Tax Law and the Bank and Corporation Tax Law. Direction of the agency's affairs is assigned to the Executive Officer of the Franchise Tax Board, who is a statutory official, exempt from civil service, appointed by the Franchise Tax Board with consent of the Senate.

The allocation to this agency from the Emergency Fund for 1955-56 of \$79,400, shown on budget page 481, line 23, was for the following:

Salaries, temporary help	\$45,267
Operating expense	32,485
Equipment	1,648
Total	\$79,400

Some of the items in the increase in operating expense of \$32,485 are postage, \$20,534; travel, auto mileage and auto expense, Personal Income Tax Division, San Francisco, \$4,663; and rent, Franchise Tax Division, \$2,925.

An analysis of the increase as requested for 1956-57 is shown in Table 1, by categories and operating divisions of the agency.

Franchise Tax Board—Continued

Table 1. Analysis of Budget Increases Requested for 1956-57, by Category and Operating Division

	Total	Adminis- tration	Fran- chise Tax	Personal income tax		
				Head- quarters	Los Angeles	San Francisco
Salaries						
1. Merit increases, per- manent employees	\$96,099	\$18,883	\$15,229	\$35,104	\$16,146	\$10,737
2. Increase in salary savings -----	—15,000	—7,000	—3,000	—4,000	—	—1,000
3. Temporary help (—14.4) -----	—38,447	—55,000	6,526	5,437	2,550	2,040
4. Increase in clerical positions (59) ----	161,034	79,092	15,252	51,600	15,090	—
5. Increase in technical positions (9) -----	33,348	—	12,102	3,630	8,808	8,808
Total salaries	\$237,034	\$35,975	\$46,109	\$91,771	\$42,594	\$20,585
Operating expenses ----	36,864	—855	—1,648	18,554	10,002	10,811
Equipment -----	27,749	13,518	2,100	15,594	266	—3,729
Total -----	\$301,647	\$48,638	\$46,561	\$125,919	\$52,862	\$27,667

Salaries and Wages

The agency is requesting 68 additional permanent positions for 1956-57, 59 clerical and 9 technical, as indicated in Table 1. Offset against this is a decrease of \$38,447 for temporary help, which is the equivalent of 14.4 man years, so that the net additional positions requested is the difference between the two or 53.6.

The 1955 Legislature granted an increase of \$177,282 or 4.2 percent in the budget as requested for 1955-56, which has been increased by \$79,400 by an allocation from the Emergency Fund. The analysis of these increases by categories is as follows:

	Budget Act of 1955	Allocation from Emergency Fund	Totals
Salaries -----	\$129,535	\$45,267	\$174,802
Operating expenses -----	47,051	32,485	79,536
Equipment -----	696	1,648	2,344
Totals -----	\$177,282	\$79,400	\$256,682

The increase in number of positions requested for 1956-57 has been justified by the agency on the ground that various work load measures, such as number of personal income tax returns filed, number of corporations required to file returns, number of information at source documents received, number of collection cases requiring attention, etc., have been steadily increasing over a period of years. There is no clear showing, however, that the rate of increase is any faster between 1955-56 and 1956-57 than it was between 1954-55 and 1955-56 and the various work load measures used do not appear to have been developed to the point of showing clearly:

- a. A relationship between the number of items of general work load measures and the number of work units to be processed in the particular group for which increases are requested.

Franchise Tax Board—Continued

- b. Total personnel in the units involved, for the past, current and budget years.
- c. Average number of work units processed per man year, for the past, current and budget years.
- d. Average number of work units which can be expected to be processed per man year under accepted standards of performance for the type of work involved.

We do not regard tabulations indicating that certain general measures of work load have increased over a period of years without a corresponding increase in personnel as being completely satisfactory justification for increases of personnel on a work load basis.

In view of the foregoing, and in view of the fact that this is a budget session year and we believe all possible increases in personnel should be deferred to the next general session, *we recommend that the proposed increase requested for salaries and wages be reduced by \$44,000, or from \$237,034 to \$193,034, and that the number of additional positions requested be reduced by 15, which will result in a percentage increase in salaries and wages the same as that granted for 1955-56, as indicated below, which is all that we believe is justified at this time on a work load basis:*

Total salaries, 1954-55, per 1955-56 printed budget	-----\$3,666,781
Authorized increase	-----\$174,802 or 4.77 percent
Total salaries, 1955-56, per 1956-57 printed budget	----- \$4,038,643
Recommended increase	-----\$193,034 or 4.78 percent

We recommend that the 15 positions to be deleted be selected by the agency with the approval of the Department of Finance, with appropriate adjustments for related operating expenses and equipment.

The recommended increase in salaries and wages of \$193,034, which is 81.4 percent of that requested will give recognition to that portion of the increase requested which appears to us to be a work load increase and we think it is reasonable to regard the remainder as an increase in level of service to be deferred for consideration by the General Session in 1957.

Another indication that the percentage increase in salaries should not be higher than that in the preceding year is given in the data in Table 2. This shows that for the last four years costs have been increasing faster than revenues as evidenced by the fact that revenue per dollar of cost has shown a steady decline over the period; from \$62.59 in 1951-52, to \$60.63 in 1953-54, to \$49.94 in 1953-54, to \$48.50 in 1954-55.

The data in this table are derived from the cost analysis records maintained by the agency, which are discussed in detail in a section of this analysis under that heading and appears to us to be the most accurate data available for the purpose of making such a comparison as that shown in Table 2.

Franchise Tax Board—Continued

Table 2. Net Revenue, Costs and Revenue per Dollar of Cost, by Division and Fiscal Year, 1951-52 to 1954-55

	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 cost</i>
1951-52					
Personal Income Tax					
Division -----	3,274,024	1,138,512	\$88,976,799	\$2,638,664	\$33.72
Franchise Tax					
Division -----	98,318	255,447	119,594,222	693,824	172.37
Totals -----	3,372,342	1,393,959	\$208,571,021	\$3,332,488	\$62.59
1952-53					
Personal Income Tax					
Division -----	3,838,224	1,311,341	\$104,735,063	\$3,112,816	\$33.65
Franchise Tax					
Division -----	113,324	261,312	128,319,639	731,028	175.53
Totals -----	3,951,548	1,572,653	\$233,054,702	\$3,843,844	\$60.63
1953-54					
Personal Income Tax					
Division -----	4,815,025	1,421,219	\$98,615,335	\$3,475,418	\$28.38
Franchise Tax					
Division -----	112,348	291,173	116,827,062	838,635	139.31
Totals -----	4,927,373	1,712,392	\$215,442,397	\$4,314,053	\$49.94
1954-55					
Personal Income Tax					
Division -----	5,471,855	1,599,358	\$114,157,827	\$3,818,577	\$29.89
Franchise Tax					
Division -----	129,056	288,213	112,246,719	849,117	132.19
Totals -----	5,600,911	1,887,571	\$226,404,546	\$4,667,694	\$48.50

Operating Expenses and Equipment

During the early part of 1957 it is planned to move the offices of the Franchise Tax Board in Sacramento from their present location in the Business and Professions Building at 1020 N Street to the building recently vacated by the Department of Employment at 1025 P Street. Since the latter is a building owned by the General Fund, the Franchise Tax Board will pay no rent and the reduction in rent expense for 1956-57 will amount to \$50,313.

The increase in operating expense shown in Table 1, of \$36,864, is net, the gross increase being \$87,177 without the rent adjustment. The principal items in the increase are as indicated.

Postage, Personal Income Tax Division-----	\$23,374
Printing, Personal Income Tax Division, Headquarters-----	21,511
Cost of moving Sacramento office-----	14,000
Office expense, Personal Income Tax Division, Headquarters-----	11,000
Travel, out-of-state auditors, Franchise Tax Division-----	4,509
All other -----	12,783
Total -----	\$87,177

A part of the increase in equipment is due to additional equipment for the new headquarters in Sacramento.

Franchise Tax Board—Continued

General Administration

This division consists of the executive staff, the accounting office, the statistical unit, the headquarters and Sacramento area collection sections, the legal staff, the appeals and review section and the special investigations unit.

A total of 30 additional permanent clerical personnel is requested, 14 for accounting, 15 for collections and one for appeals and review.

We recognize that work load is increasing in these sections due to the increase in number of personal income tax returns filed and that the first impact of this increase is felt in the accounting section; and we recognize the need for additional positions to the extent indicated on page 318, of this analysis.

Of the total increase in 30 permanent positions requested the equivalent of 21.8 are offset by a reduction in temporary help, which in effect represents a conversion of temporary to permanent positions. We approve in principal such a conversion in view of the greater efficiency which will result.

Franchise Tax Division

This division administers the Bank and Corporation Tax Law which includes the Bank and Corporation Franchise Tax and its complementary measure, the Corporation Income Tax.

Its authorized staff is as follows, by location:

	<i>Technical</i>	<i>Clerical</i>	<i>Total</i>
Headquarters -----	32	32	64
Los Angeles (Eighth floor State Bldg.) -----	18	5	23
San Diego (rented space) -----	1	—	1
San Francisco (540 Van Ness Ave.) -----	10	1	11
Oakland (rented space) -----	1	—	1
New York (rented space) -----	4	—	4
Chicago (rented space) -----	4	—	4
Totals -----	70	38	108

Four additional technical positions, two junior accountant-auditors, and two accounting technicians II and five additional clerical positions are requested for the headquarters office because of generally increasing work load and we recognize the need for additional positions to the extent indicated on page 318 of this analysis.

The four technical positions are requested to perform the simplest phases of the office audit program with a view to increasing its productivity.

Information as to the activities of the Franchise Tax Division in terms of revenue per dollar of cost is given in Tables 3 through 7 in a subsequent section of this analysis.

Personal Income Tax Division, Headquarters

This division administers the personal income tax law, and the headquarters office examines and audits the tax returns and maintains the files of these returns. It also selects cases to be referred to the area offices for field audit, reviews the completed audit reports when they are received, processes information received regarding deficiencies dis-

Franchise Tax Board—Continued

closed by federal income tax audits made by the Bureau of Internal Revenue, where a state income tax deficiency is also usually indicated, compares information at source data such as wages paid by employers with income reported for tax purposes by the employees involved, and performs other enforcement functions.

One of the latter is the so-called "Federal Comparison Program" which involves field work in Los Angeles and San Francisco and clerical work in headquarters. The ten intermediate clerk positions shown on budget page 485, line 32, and the senior typist-clerk position shown on budget page 485, line 44, are for use on this program with a termination date of June 30, 1957.

Twenty-one additional clerical positions are requested because of generally increasing work load and we recognize the need for additional positions to the extent indicated on page 318 of this analysis.

Information as to the activities of the Personal Income Tax Division in terms of revenue per dollar of cost is given in Tables 8 through 11 in a subsequent section of this report.

Personal Income Tax Division, Los Angeles

This unit comprises the main area office located on the second floor of the State Building in Los Angeles as well as small branch offices in rented space in San Diego, Long Beach, San Bernardino, Bakersfield and Santa Barbara. It handles all field activities in the area, including auditing and collections, and abstracts information from federal records, the so-called "Federal Comparison Program," as to those who filed federal returns, but have failed to file state returns. The two junior accountant-auditors shown on budget page 486, line 17, and the five clerical positions shown on budget page 486, lines 25 and 27, with termination dates of June 30, 1957, are for use on this program.

Additional positions requested are five clerical and two field representatives, the latter to assist in collection of delinquent accounts, and we recognize the need for additional positions to the extent indicated on page 318 of this analysis.

Personal Income Tax Division, San Francisco

This unit consists of an area office located in a state-owned building at 540 Van Ness Avenue in San Francisco and small branch offices in rented space in Oakland, Fresno, San Jose, Stockton and Santa Rosa, and it performs functions exactly comparable to those performed in the Los Angeles area.

The two junior accountant-auditors shown on budget page 487, line 12, and the four clerical positions on budget page 487, line 22, with termination dates of June 30, 1957, are for the "Federal Comparison Program."

Two additional field representative positions are requested to assist in collection of delinquent accounts. We recognize the need for additional positions to the extent indicated on page 318 of this analysis.

Cost Analysis Records

For the last four years the agency has maintained a cost accounting system which permits an analysis of costs and revenues on an activity

Franchise Tax Board—Continued

basis, which is the kind of information needed for performance budgeting.

Tables 3 to 11 which follow contain data derived from these records for 1954-55 operations, and some for prior years.

The total costs shown by these tables will exceed the amounts shown as expenditures in the Budget for 1954-55 because of the inclusion of certain items of administrative overhead not budgeted separately for general fund agencies, while revenues will differ from the budget figures because of differences in timing, but these differences can be reconciled.

The audit revenues shown in these tables have not been adjusted for anticipated losses from uncollectible accounts, which the agency estimates to be as follows, for 1954-55:

Franchise Tax Division	\$177,598
Personal Income Tax Division	118,919
Total	\$296,517

Table 3. Franchise Tax Division, Summary of Activities, 1954-55

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Basic activities:					
Service and investigation	59,073	77,342	\$107,645,723	\$200,144	\$537.84
Formal refund claims	962	13,082	—1,248,893	35,445	—35.23
Exempt corporations	—	19,536	—	47,748	—
Totals	60,035	109,960	\$106,396,830	\$283,337	\$375.51
Nonaudit enforcement activities:					
Assessments corrected	957	19,602	\$235,569	\$44,519	\$5.29
New accounts	792	12,221	158,394	27,917	5.67
Totals	1,749	31,823	\$393,963	\$72,436	\$5.44
Audit activities—					
Table 4	67,272	146,430	\$5,455,926	\$493,344	\$11.06
Totals	129,056	288,213	\$112,246,719	\$849,117	\$132.19

This table summarizes the entire activities of the Franchise Tax Division, which we have divided into the three groups shown. The basic activities are those which we regard as the bare minimum which the agency would be required to perform if it had no enforcement program whatever. They are to a large degree uncontrollable as to cost since they are directly related to work load.

The other two classes are what we would term enforcement activities, the nonaudit enforcement activities being those carried on largely by clerical personnel while the audit activities are enforcement activities requiring technically trained audit personnel. Both classes of enforcement activities are controllable as to volume and cost, and the extent to which they are justified is governed largely by the additional revenue produced, in excess of cost, the index of which is indicated in the "Revenue per \$1 of Cost" column in the various tables.

Franchise Tax Board—Continued

Table 4. Franchise Tax Division, Audit Activities by Class, 1954-55, and Comparison With Prior Years as to Revenue per Dollar of Cost

Class of activity	1954-55				Revenue per dollar of cost		
	Cases	Hours	Net revenue	Cost	1954-55	1953-54	1952-53
General audit:							
Sacramento -----	52,870	27,100	\$768,145	\$87,982	\$8.73	\$8.40	\$14.01
Los Angeles -----	699	24,741	632,812	84,403	8.09	6.64	25.72
San Francisco -----	308	13,056	147,267	45,437	3.24	25.90	3.94
Totals -----	53,877	64,897	\$232,600	\$217,822	\$1.07	\$11.29	\$16.99
Allocation audit:							
Sacramento -----	2,742	38,072	\$2,530,981	\$128,031	\$19.77	\$11.17	\$11.79
Los Angeles -----	252	12,989	548,367	45,679	12.00	14.85	24.65
San Francisco -----	371	9,674	1,131,694	35,799	31.61	70.17	29.65
New York -----	163	7,122	192,620	22,559	8.54	34.71	34.20
Chicago -----	109	5,902	395,423	18,815	21.02	23.46	52.25
Totals -----	3,637	73,759	\$4,799,085	\$250,883	\$19.13	\$22.19	\$20.67
Delinquents and arbitraries							
-----	9,758	7,774	\$424,241	\$24,639	17.22	\$10.54	\$14.27
Totals -----	67,272	146,430	\$5,455,926	\$493,344	\$11.06	\$16.81	\$18.55

This is an analysis of the audit activities by class of activity and location, and it will be noted that the allocation audits, in particular are highly profitable, with no apparent indication of a downward trend over the last three years. The "delinquents and arbitraries" activity is a headquarters operation involving taxpayers who fail to file returns or pay taxes when due.

Table 5. Franchise Tax Division, Summary of Audit Activity by Class, Four Years Ended June 30, 1955

Class of activity	Cases	Hours	Net revenue	Cost	Revenue per \$1 cost
General audit -----	191,828	251,717	\$6,840,114	\$793,742	\$8.62
Allocation audit -----	14,042	270,527	17,272,665	906,932	19.05
Delinquents and arbitraries	33,363	49,542	1,465,969	138,988	10.55
Totals -----	239,233	571,786	\$25,578,748	\$1,839,662	\$13.90

Table 6. Franchise Tax Division, General Audits Completed by Location, Three Years Ended June 30, 1955

Location	Cases	Hours	Net revenue	Cost	Revenue per \$1 cost
Sacramento -----	145,532	72,513	\$2,276,292	\$221,560	\$10.27
Los Angeles -----	2,356	81,910	2,254,712	271,196	8.31
San Francisco -----	990	39,875	1,458,969	133,202	10.95
Totals -----	148,878	194,298	\$5,989,973	\$625,958	\$9.57

Table 7. Franchise Tax Division, Allocation Audits Completed by Location, Three Years Ended June 30, 1955

Location	Cases	Hours	Net revenue	Cost	Revenue per \$1 cost
Sacramento -----	8,074	118,098	\$5,386,632	\$377,349	\$14.27
Los Angeles -----	917	36,024	2,062,871	121,861	16.93
San Francisco -----	966	26,621	4,091,851	94,257	43.41
New York -----	482	14,777	1,533,379	61,440	24.96
Chicago -----	417	14,835	1,690,842	59,559	28.39
Totals -----	10,856	210,355	\$14,765,575	\$714,466	\$20.67

Franchise Tax Board—Continued

Table 5 is a summary of all audit activities for the last four years, while Tables 6 and 7 summarize general audits and allocation audits by location for the last three years only, since comparable data are not available by location for 1951-52.

Table 8. Personal Income Tax Division, Summary of Activities, 1954-55

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 cost</i>
Basic activities:					
Service operation.....	3,061,416	546,513	\$102,778,238	\$1,300,920	\$79.00
Refund claims allowed...	6,348	36,798	—533,859	99,473	—5.37
Total basic	3,067,764	583,311	\$102,244,379	\$1,400,393	\$73.01
Nonaudit enforcement activities—Table 9					
295,964	537,456	\$4,808,749	\$1,115,709	\$4.31	
Audit activities—Table 10					
2,108,127	478,591	7,104,699	1,302,475	5.46	
5,471,855 1,599,358 \$114,157,827 \$3,818,577 \$29.89					

Table 8 gives data for the Personal Income Tax Division comparable to that given for the Franchise Tax Division in Table 3, and the same comments apply. It will be noted that this program is a much more costly one to administer than the corporation tax programs of the Franchise Tax Division shown in Table 4, although the total revenue involved is about the same.

Table 9. Personal Income Tax Division, Nonaudit Enforcement Activities by Class, 1954-55

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Sacramento Headquarters:					
Preliminary examinations	57,441	99,758	\$409,095	\$212,406	\$1.93
Information at source....	16,241	27,920	293,273	55,183	5.31
Federal comparison.....	2,673	8,650	116,679	23,091	5.05
Totals	76,355	136,328	\$819,047	\$290,680	\$2.82
Los Angeles:					
Information at source....	132,040	194,637	\$2,483,086	\$404,657	\$6.14
Federal comparison.....	2,840	38,954	77,680	76,544	1.01
Miscellaneous	2,504	5,926	64,598	13,747	4.70
Totals	137,384	239,517	\$2,625,364	\$494,948	\$5.30
San Francisco:					
Information at source....	67,409	96,638	\$1,010,647	\$197,385	\$5.12
Federal comparison	13,000	55,947	308,927	107,620	2.87
Miscellaneous	1,816	9,026	44,764	25,076	1.79
Totals	82,225	161,611	\$1,364,338	\$330,081	\$4.13
Grand total.....					
295,964	537,456	\$4,808,749	\$1,115,709	\$4.31	

Some of the activities shown in this table are more productive than others notably the "information at source" activity. The "Federal Comparison Program" was reported upon separately by the division for the first time during 1954-55, and while the results for that year are not particularly impressive in Los Angeles and San Francisco in comparison with the "information at source" activity, the agency anticipates more impressive results as the program progresses.

Franchise Tax Board—Continued

Table 10. Personal Income Tax Division, Audit Activities by Class, 1954-55 and Comparison With Prior Years as to Revenue per Dollar of Cost

Class of activity	Cases	Hours	1954-55		Revenue per dollar of cost		
			Net revenue	Cost	1954-55	1953-54	1952-53
Headquarters:							
Drawer audit	2,047,856	180,890	\$1,447,628	\$457,652	\$3.16	\$2.77	\$4.12
RAR unit	6,132	39,773	614,935	101,865	6.04	7.53	7.91
Specialist section	26,339	32,348	127,303	85,923	1.48	6.96	6.83
Primary audit	6,496	15,297	28,574	38,758	.74	2.37	1.16
Totals	2,086,823	268,308	\$2,218,440	\$684,198	\$3.24	\$4.11	\$5.07
Los Angeles:							
Field audit	10,591	84,453	\$2,081,664	\$237,174	\$8.78	\$4.76	\$4.56
Residence and withholding	598	21,343	1,047,950	62,863	16.67	17.74	4.67
Totals	11,189	105,796	\$3,129,614	\$300,037	\$10.43	\$7.19	\$4.58
San Francisco:							
Field audit	8,870	86,100	\$425,632	\$262,860	\$1.62	\$3.67	\$2.05
Residence and withholding	740	13,645	1,308,692	41,392	31.50	19.01	7.51
Totals	9,610	99,745	\$1,729,324	\$304,252	\$5.68	\$5.74	\$2.70
Sacramento:							
Field audit	505	4,742	\$27,321	\$13,988	1.95	\$5.18	\$8.46
Totals	2,108,127	478,591	\$7,104,699	\$1,302,475	\$5.45	\$5.25	\$4.49

Table 10 shows results of the various audit activities by activity and location, and indicates, among other things, that activities in the Los Angeles area are more profitable on the whole, than those in San Francisco, and have been for the last three years. It also indicates that field activities are more profitable on the whole, than headquarters activities. Both of these facts as well as the fact that these audits are much less productive than the Corporation Tax Audits shown in Table 4, would appear significant to management from the standpoint of most effective utilization of available manpower.

Table 11. Personal Income Tax Division, Audit Revenues and Costs Attributable to Federal Audit Program, as a Percent of Total Audit Revenues and Costs by Fiscal Years

Fiscal year	Audit revenue		Audit costs		Revenue per \$1 of cost
	Amount	As a percent of total audit revenue	Amount	As a percent of total audit costs	
1951-52	\$1,197,463	20.7	\$124,571	11.6	\$9.61
1952-53	1,069,052	19.6	135,181	11.1	7.91
1953-54	952,295	13.9	126,411	9.7	7.53
1954-55	614,935	8.7	101,865	7.8	7.91

Table 11 shows the results of the audit activity attributable to reliance on the federal audit program (RAR unit) and indicates the continuation of a trend which we commented upon last year of a decrease in both revenues and costs attributable to this activity. This is significant because at one time chief reliance was placed on the federal

Franchise Tax Board—Continued

audits as an enforcement tool and some of the procedures which are still in use, were geared to this concept. It was thought desirable, for example, to defer final audit of the state tax returns until the federal auditors had completed their audits, which has some disadvantages, among them duplicate handling of the returns and delays in assessing state deficiencies which complicates the collection problem. We believe that in view of the decreasing importance of reliance on federal audits, which the data in Table 11 appears to indicate rather clearly, the entire operation in the Personal Income Tax Division should be re-examined in the light of present day conditions.

Proposed Reorganization

In our 1953 analysis we pointed out what we believe to be a defect in the field organization of the Franchise Tax Board namely that in each area office there were three separate divisions operating more or less independently of one another, a Franchise Tax Division, a Personal Income Tax Division and a Collection Division, a condition which we believed tended to prevent the most economical and effective conduct of the field operations, and we recommended that the Management Analysis Section of the Department of Finance make a study looking toward a possible reorganization which would involve centralization of responsibility for field operations in a single individual in headquarters and in each of the area offices.

The study has been completed and a report on "Central and Field Organization—Franchise Tax Board" (A.N. 615) issued on February 15, 1955, which contained the following recommendations:

1. Present staffing at higher levels be maintained for the present.
2. The Personal Income Tax Division be given temporary administrative control over all Franchise Tax Board operations in field offices.
3. The auditing staff be developed in such a manner that employees in common job classifications may be used to perform both corporation tax and personal income tax audits whenever advantageous.
4. The major organization changes shown in detail on Exhibits IV and V attached be achieved within approximately three years. The features of the proposed reorganization are:
 - a. A field organization based on district offices reporting directly to Sacramento, in lieu of the existing area and branch offices.
 - b. A field operations division controlled by one supervisor in the headquarters office who has a direct line of authority to a single supervisor responsible for each district office.
 - c. Use of the same auditors for both personal income and corporation tax audits where advantageous.
 - d. Integration of staff responsibilities for both corporation and personal income tax audits under one division chief in Sacramento.
 - e. A Division of Administration composed of the existing Accounting Division, Collections Division, Administrative Assistant, and eventually the Personnel Section."

Franchise Tax Board—Continued

The report points out that a major reorganization such as recommended might result in disruption of agency activities unless carefully planned and gradually executed and recommends that it be put into effect gradually over a three-year period. It also points out that the proposed changes would achieve economies in personnel and while no existing positions can be eliminated at present provision for additional positions would be delayed. There is no indication in the report that the proposed reorganization would entail any increase in cost.

A letter to this office dated January 11, 1956, from the executive officer of the Franchise Tax Board indicated that the board had accepted the recommendations in principal, with certain modifications, and outlined the steps currently being taken to place them in effect.

It indicated that the area offices are to be reorganized at the earliest possible date to the end that activities in these offices be consolidated with one individual in charge. Previously, as of October 1, 1954, the collection division activities in these offices had been placed under the control of the Area Income Tax supervisors as indicated on pages 486 and 487 of the printed budget.

It indicated that the Franchise Tax Board was prepared to accept recommendation 4C in part to the extent of using auditors at the lower levels interchangeably on the simpler cases.

It is also indicated that the agency proposed to abolish the existing Franchise Tax Division and Personal Income Tax Division, as such, consolidate the operations and place all field operations under a chief of operations.

It states that the agency is not prepared to accept the recommendation that branch offices be supervised direct from headquarters rather than through area offices or that all audit review work be centralized in headquarters, which is the one recommendation which report A. N. 615 indicates would result in eventual economies by elimination of duplicate review of the audit reports, once in area offices and again in headquarters. We believe this recommendation should be studied further since we can see no advantage for branch offices in Stockton and Fresno, for example, reporting to San Francisco rather than direct to Sacramento, since they are both closer to and more readily accessible from Sacramento than San Francisco.

The letter indicates that it is the view of the agency that the reorganization will result in an immediate small increase in cost but that some long-range economies may be anticipated.

We see no reason for any increase in costs, since our original recommendation for the study was motivated in part by the belief that such a reorganization as that proposed might result in the elimination of one high level administrative position.

A tentative organization chart submitted with the letter indicates two positions at the assistant executive officer level instead of the single position existing at present. This is not in accordance with the recommendations in the Management Analysis Section report A. N. 615.

Our view is that all key positions in the proposed reorganized structure can be provided from existing high level administrative personnel which is as follows:

Franchise Tax Board—Continued

Class	No.	Salary range
Executive officer (exempt)-----	1	\$1,292
Assistant executive officer-----	1	\$950-\$1,050
Chief Income Tax Division-----	1	821- 1,000
Chief Franchise Tax Division-----	1	782- 950
Principal income tax supervisor-----	3	710- 862
Principal franchise tax supervisor-----	2	676- 821
Assistant to income tax supervisor-----	3	644- 782
Total -----	12	

Efficiency and Economy

In answer to a request by this office for a report on steps taken to achieve efficiency and economy during the last year the agency has submitted a report listing 20 such steps in the Personal Income Tax Division, 17 in the Franchise Tax Division and two in other divisions, some of the most significant of which appear to be the following:

Much greater use of the "withholding" procedure whereby employers are requested to withhold amounts of delinquent taxes due from salaries paid their employees was made during the year on a systematic basis, resulting in an accelerated collection program and a saving of time of the collection staff.

Two mechanical mail slitters of an improved type were purchased which are capable of opening mail of all sizes and thicknesses, the use of which reduced the personnel required for this operation from eight to two people with a resulting savings in salaries sufficient to pay for the cost of the machines three times over.

A manual was developed and adopted by the Franchise Tax Division covering the principles and procedures for allocation audits, i.e., those of the taxpayers receiving income from sources both within and without the State. These audits are complicated to make and very productive of additional revenue and the manual should assist in training additional men to become qualified to do this work.

A procedure was adopted for eliminating approximately 51,000 ledger postings for jeopardy assessments by using what is in effect a copy of the assessment notice as the ledger card.

Space does not permit a detailed listing of the other accomplishments mentioned by the agency but their nature and variety indicates that the agency is in the process of a careful self-analysis, which is borne out by a comment to that effect in the Management Analysis Section report A. N. 615.

STATE TREASURER

ITEM 138 of the Budget Bill

Budget page 489
Budget line No. 7

FOR SUPPORT OF STATE TREASURER FROM THE GENERAL FUND

Amount requested -----	\$337,537
Estimated to be expended in 1955-56 Fiscal Year-----	296,360
Increase (13.9 percent)-----	\$41,177

State Treasurer—Continued

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages-----	\$1,421	\$1,421	--	490 14
Operating expense -----	60	60	--	490 33
Equipment -----	29,696	29,696	--	490 39
Plus: decreased reimbursement---	10,000	10,000	--	490 44
Total increase -----	\$41,177	\$41,177	--	490 46

RECOMMENDATIONS

Amount budgeted -----	\$337,537
Legislative Auditor's recommendation-----	337,537
Reduction -----	None

ANALYSIS

The State Treasurer is the custodian of all moneys and securities belonging to or held in trust by the State. He also administers the sale, redemption and interest payment of bonds. All warrants drawn by the State Controller are paid by the State Treasurer.

The increase of \$41,177 is mainly composed of \$8,150 insurance premium paid every three years and \$32,500 for lockers in the vault, which are necessary to house an increased volume of securities.

Investment of Treasury Funds

In our analysis for the 1955-56 Fiscal Year we commented on this subject and made recommendations. We pointed out that the State was not securing revenue from the investment of surplus funds in amounts which appeared reasonable to expect, and recommended that:

“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.”

Although the Legislature acted immediately to strengthen the law, very little has been done administratively to carry out these recommendations or to implement the legislation which was adopted. Chapter 1703, enacted in the 1955 General Session, created a Pooled Money Investment Board consisting of the Controller, Treasurer and the Director of Finance. This act directs the board to designate at least once each month the amount of money available for investment and the type of investments or deposit. The act also directs the board to file a report, not later than 30 days after the close of each month, with respect to investments and bank accounts showing transactions during such month. *As yet this has not been done.*

State Treasurer—Continued

To date no such report has been filed. Chapter 1703 also removed the fund limitation on investments referred to above, thereby increasing the ability of the State to secure additional investment returns.

We estimate that additional revenue of between \$500,000 and \$1,500,000 a year would result if the provisions of this act were put into effect.

During 1955 the entire warrant operation was converted to a punched card warrant system. Bond accounting is in the process of conversion to a punched card system but will not be completed until some time in 1956. Savings in machine rental and manpower will result from these changes in procedure. Also one general accountant grade 4 was eliminated and the duties absorbed by the warrant operations officer reflecting an annual savings of \$8,500.

Legislation passed during the 1955 General Session permits the Treasurer to deposit securities for safekeeping with banks or the Federal Reserve Bank of San Francisco. This change in procedure will save an estimated \$30,000 annually. The Treasurer recommended this change in procedure.

Other legislation passed during the 1955 General Session permits the Treasurer to invest in securities which mature later than one year. An increase in revenue from investments should result from investments in those types of securities.

No increase in staff has been required in the current fiscal year to put into effect the above mentioned changes.

We recommend that a careful review be made of the procedure whereby the Treasurer determines which of several banks should have active accounts. It is possible that costs could be reduced and revenues increased by reducing the number of banks acting for the State in this capacity. A careful study of this should be made before the 1957 General Session, using as a pattern standard bank practices with respect to compensation for services both for large corporations and for other state governments.

With these reservations we recommend approval of the budget as requested.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

ITEM 139 of the Budget Bill

Budget page 491

Budget line No. 25

FOR SUPPORT OF CALIFORNIA HIGHWAY PATROL FROM THE MOTOR VEHICLE FUND

Amount requested	\$17,841,097
Estimated to be expended in 1955-56 Fiscal Year	16,043,536
Increase (11.2 percent)	\$1,797,561

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$1,208,069	\$419,885	\$788,184	499 11
Operating expense	379,372	269,630	109,742	499 12
Equipment	206,850	—25,083	231,933	499 13
Add: decreased reimbursement	+3,270	+3,270	—	499 31
Total increase	\$1,797,561	\$667,702	\$1,129,859	499 33