

DEPARTMENT OF EMPLOYMENT

For Support of Department of Employment, Payable from the Department of Employment Contingent Fund

Item 109, page 25 of the Budget Bill and page 285 of the Budget. The amount requested is \$27,200 from the Contingent Fund for the purchase of 15 automobiles. It is our understanding that the Contingent Fund will be reimbursed the full amount by mileage allowance from the Federal Government.

Recommendation

Our approval of Item 109 in the amount of \$27,200 is on condition that the Contingent Fund be reimbursed the full amount.

For Acquisition of Real Property and/or Construction, Improvements, and Equipment, Department of Employment, Payable from the Department of Employment Contingent Fund

Item 110, page 26 of the Budget Bill and page 805 of the Budget. This is a duplicate of Item 324, and this item, 110, will be amended out of the Budget Bill.

BOARD OF CONTROL

For Support of the Board of Control from the General Fund

Item 111, page 26 of the Budget Bill and page 301 of the Budget. The amount requested is \$16,572 from the General Fund for the support of the Board of Control. This is an increase of \$231 or 1.4 percent over the amount of \$16,341 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase or salary adjustment at existing level of service:		
Salaries and wages -----	\$206	301
Operating expenses -----	25	301
Equipment -----	-----	
Total -----	\$231	
Budgeted increase for new or expanded services:		
None -----	-----	-----

Recommendations

Amount budgeted -----	\$16,572
Legislative Auditor's recommendations -----	16,572
Reduction -----	None

Analysis

The increases are a result of a salary adjustment for the secretary, and a slight increase in printing and telephone costs.

STATE CONTROLLER

For Support of the State Controller from the General Fund

Item 112, page 26 of the Budget Bill and page 302 of the Budget. The amount requested is 2,071,639 from the General Fund for support of the State Controller. This is an increase of \$467,683 or 29.2 percent over the amount of \$1,603,956 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages -----	\$164,012	304
Operating expenses -----	133,860	304
Equipment -----	—19,938	304
Subtotal -----	<u>\$277,934</u>	
Reimbursements:		
Audit services rendered to special programs for aid to local government -----	—16,170	304
Subtotal -----	<u>\$261,764</u>	
Less amounts payable from Motor Transportation Tax Fund -----	—3,234	302
Net total -----	<u>\$258,530</u>	
Budgeted increase for new or expanded service:		
Salaries and wages -----	\$317,314	304
Operating expenses -----	63,049	304
Equipment -----	—31,775	304
Subtotal -----	<u>\$348,588</u>	
Less amounts payable from federal grants deposited in Social Welfare Fund -----	—139,435	302
Net total -----	<u>\$209,153</u>	

Recommendations

Amount budgeted -----	\$2,071,639
Legislative Auditor's recommendations -----	1,654,270
Reduction -----	<u>\$417,369</u>

The recommended reduction of \$417,369 is shown in the following schedule:

Administration:	
1 Assistant administrative advisor -----	\$4,980
Equipment -----	426
1 desk -----	\$114
1 chair -----	110
2 bookcases -----	202
	<u>\$426</u>
Audits Division, Office Audits Unit:	
1 Claim reviewer -----	3,216
2 Claim auditors -----	5,832
Equipment -----	492
3 chairs at \$50 -----	\$150
3 desks at \$114 -----	342
	<u>\$492</u>

Audits Division, Field Audits Unit:

1 Senior accountant -----	\$4,512
2 Semisenior accountants -----	7,440
2 Accountant auditors, grade 1 -----	6,120
Equipment -----	687
5 chairs at \$78 -----	\$390
3 tables -----	297
	<hr/>
	\$687

Accounting Division:

1 Senior accountant -----	4,512
Equipment -----	196
1 chair -----	\$42
1 desk -----	154
	<hr/>
	\$196
1 Intercommunications system -----	2,300
Inheritance and Gift Tax Division -----	367,406
Tax Collection Division -----	9,250
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Total -----	\$417,369

Analysis

Administration

The assistant administrative advisor position is requested for the purpose of passing upon the legality of contracts, leases, and service agreements, and to render other legal assistance and supervision to the contract audit unit. It appears that the present administrative advisor could perform these functions on cases which were in question after having been reviewed by the contract audit unit.

We recommend disapproval of this requested new position and the corresponding equipment.

The Administration Division has requested 850 transfer file cases at a cost of \$7,650 to be used in the reorganization of central claim files, in cooperation with the Secretary of State. In the past claims have been filed in special cartons which were transferred to the archives of the Secretary of State each year. A new type of steel transfer file has been installed in the warehouse archives by the Secretary of State and he has requested the State Controller adopt the same file as a *labor, time, and money saving move. By using the same type of file the full file drawers can be sent to the archive and empty drawers returned without necessitating a transfer of contents.*

We recommend approval of this item at a cost of \$7,650.

Audits Division

The two claim auditors and one claim reviewer have been disapproved on the anticipated decrease of auditing time spent on pay rolls that will result from the new pay roll procedure being put into operation in the Disbursements Division. Prior to the adoption of this procedure, it was necessary to audit each line item on a pay roll. *The new system prescribes the audit of changes only. It is estimated that this will result in 50 percent less auditing time.*

The positions of one senior accountant, two semisenior accountants, and two accountant auditors, grade 1, have been requested for the audit

of pay roll revolving funds. *We have recommended disapproval of these positions and the equipment on the basis of the new pay roll procedure which eliminates these revolving funds.*

Accounting Division

One senior accountant is requested for the control accounts bureau to provide the chief of the bureau with an understudy and assistant to aid him in the supervision of the bureau and to take his place during his temporary or permanent absence.

We recommend disapproval of this position. The bureau now has one senior accountant whom we assume should be capable of aiding the chief in supervising the bureau. He should also be qualified to assume his responsibilities in his absence. The bureau is small, having only 25 employees. The necessity of having two persons for supervision does not appear to be justified.

The amount of \$2,300 has been requested for the purchase of an intercommunicating system for the Accounting Division. *We have disapproved this request on the basis that it would not materially improve the operations because the division is comparatively small, 49 positions.* In the new quarters at 16th and Capitol Avenue, this division will be located on one floor only, where the chief, assistant, and the unit supervisors will be in close proximity.

For the new quarters of the Accounting Division, it is estimated that light, heat and power will increase \$6,000 and rent \$28,800. We recommend approval of these two items of increase.

Disbursements Division

The major portion of the total increase of \$258,530, shown as a normal work load increase for the Controller, occurs in the Disbursements Division and amounts to \$151,932. This is shown in the following schedule:

	<i>Increase</i>
Salaries and wages-----	\$60,203
Operating expenses-----	83,453
Equipment-----	8,276
	<hr/> \$151,932

This division is now in a transition period, changing over from a manual system of warrant writing to a machine system. This division was created at the beginning of the 1948-49 Fiscal Year with two main objectives: (1) to accelerate the issuance of warrants to vendors; (2) to test the feasibility of issuing pay roll and retirement roll warrants by modern punch card methods.

A comparison of the budget request for the 1949-50 Fiscal Year with the budget request for the 1948-49 Fiscal Year is of little value due to the conversion from a manual method to a machine method which will still be in progress on an accelerated basis during the 1949-50 Fiscal Year. The 1949-50 Budget for the Disbursements Division is based on a volume of 2,178,000 warrants plus the new service of security payments to the aged and blind for which the volume of warrants is estimated at 3,600,000 for the 1949-50 Fiscal Year.

The Teachers' Retirement roll, which is estimated at 180,000 warrants a year, was converted to the punched card method on October 1, 1948. Also Veterans' Education Assistance payments and Employees' Retirement payments were paid on January 1, 1949. *These operations are proving to be both efficient and economical.*

When all state agency pay rolls have been put on a punched card system, a considerable savings in expenditures is anticipated.

The increase of \$151,932 in the Disbursements Division is sufficiently supported by work load and improved efficiency, and we believe the new punched card method of disbursements will eventually result in a yearly savings exceeding the amount of the increase. We recommend that the budgeted increase of \$151,932 be approved.

Inheritance and Gift Tax Division

The Inheritance and Gift Tax Division has requested two new positions, one auditor, grade 2, at \$3,720 and one junior counsel at \$3,216. We recommend approval of these two positions which, from work load estimates, appear to be justified.

We renew our recommendation made previously that a Revenue Department be created including all of the tax administration of the State. We recommend that the entire function of the Inheritance and Gift Tax Division of the Controller's Office and the amount for the support in the sum of \$367,406 be transferred to this new department. *Pending the creation of a Department of Revenue, we recommend that this division be transferred to the reformed Franchise Tax Commissioner's Office.* The inheritance and gift taxes logically should be administered in conjunction with the Personal Income Tax Division of the Franchise Tax Commission.

Audit and Disbursement of Social Welfare Payments Under Article XXV of the Constitution

The increase of \$209,153 for new services over the amount of \$42,320 requested for the 1948-49 Fiscal Year is to be expended on the audit and disbursement of social welfare payments under Article XXV of the Constitution. *Due to the fact that this request is based on hypothetical work loads and new procedures, we recommend that a conscientious effort be made to reduce the amount of this request after operations are running smoothly and that a careful study be made to eliminate any duplications of functions by the Controller's Office and the Department of Social Welfare.*

We recommend approval of the increase of \$205,153 for this new service subject to the above recommendations.

Tax Collection Division

The amount of \$9,250 is requested from the General Fund * for support of the Tax Collection Division. This amount is allocated arbitrarily between salaries and wages and operating expenses to carry on the relatively minor functions of collection of the gasoline tax, insurance premium tax, and the petroleum and gas assessment.

* General Fund money has been used for the collection of special fund revenues.

The principal function of this division is the collection of the motor transportation license tax which is supported by an appropriation from the Motor Vehicle Transportation Tax Fund. *We have made the recommendation that this function be transferred to the Board of Equalization.*

We recommend that the remaining functions of collection of the gasoline and insurance tax be transferred to the Board of Equalization, and the petroleum and gas tax be transferred to the Division of Oil and Gas, Department of Natural Resources, without the transfer of the support amount of \$9,250. The work load is so insignificant that these departments should be able to absorb these duties without additional expenditures. This transfer of functions will require legislation. We recommend that appropriate legislation be introduced to accomplish this. We recommend the Controller's Budget be reduced by \$9,250 which will result in a saving of that amount to the State.

For Support of the State Controller from Federal Grants Deposited in the Social Welfare Fund

Item 113 page 26 of the Budget Bill and page 302 of the Budget. The amount requested is \$471,649 from the Social Welfare Fund. This is an increase of \$139,435 or 42.0 percent over the actual and estimated expenditures of \$332,214 for 1948-49, for six months only. The requested amount of \$471,649 is to be expended on the audit and disbursement of social welfare payments under Article XXV of the Constitution.

We recommend approval of Item 113 in the amount of \$471,649 as requested with the understanding that the operation be reviewed by the Department of Finance as soon as this function is operating and possible savings be secured.

For Support of the Tax Collection Division from the Motor Vehicle Transportation Tax Fund

Item 114, page 26 of the Budget Bill and page 302 of the Budget. The amount requested is \$102,386 from the Motor Vehicle Transportation Tax Fund. This is an increase of \$3,234 or 3.3 percent over the amount of \$99,152 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Function of collecting Motor Vehicle Transportation License Tax-----	\$102,386	302

Recommendation

Amount budgeted -----	\$102,386
Legislative Auditor's recommendation-----	0
Reduction -----	\$102,386

Analysis

The principal function of this division is the collection of the Motor Transportation License Tax. *We recommend that the duties of collection*

of Motor Transportation License Tax be transferred to the Motor Transportation License Tax Division of the Board of Equalization for the following reasons:

1. All functions of assessments are now made by the Motor Transportation License Tax Division, Board of Equalization.

2. Remittances are received with returns and processed through Board of Equalization central cashier, then deposits are made to the credit of the Controller.

3. The Board of Equalization has authority to issue clearance certificates which complicates further collection efforts of the Controller's office.

4. The Motor Transportation License Tax Division has authority to request cash or surety bonds to be posted to secure accounts.

5. It has an original file of all assessments and keeps the status of accounts.

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

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

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

9. This division has necessary information files and personnel to perform collection functions now being performed by the Tax Collection Division.

10. An estimated savings of \$69,417 per fiscal year to the State would result by eliminating this function from the Tax Collection Division of the State Controller and giving this responsibility to the Division of Motor Transportation License Tax of the Board of Equalization.

The following schedule shows: Items requested in the 1949-50 Fiscal Year Budget; items to be transferred to Board of Equalization; items to be left in the Controller's Budget and estimated savings to the State.

Consolidation of Division of Collections—Controller With Board of Equalization Motor Transportation Tax Division

	Items requested in 1949-50 Fiscal Year Budget	Items to be transferred to the Board of Equalization	Estimated savings to State
Salaries and Wages:			
1 Chief of division	\$5,772		
1 Assistant chief	4,296	\$4,296 (1)	
5 Investigators	28,726	10,770 (3)	
1 Supervising clerk, grade 1	3,333		
1 Assistant cashier-clerk	2,460		
2 Bookkeeping machine operators	7,420 *	2,400 (1)	
3 Senior account clerks	9,726	3,242 (1)	
3 Intermediate stenographer-clerks	7,739	2,579 (1)	
1 Junior clerk	2,120	2,120 (1)	
1 Intermediate typist-clerk	2,640		
3 Intermediate clerks	7,660		
Seasonal help	2,500	2,500 (1)	
Less salary savings	1,560		
	\$82,832	\$27,907 (9)	\$46,925

	<i>Items requested in 1949-50 Fiscal Year Budget</i>	<i>Items to be transferred to the Board of Equalization</i>	<i>Estimated savings to State</i>
Operating Expenses :			
Office -----	\$1,590	\$573	
Printing -----	1,365	1,023	
Telephone and telegraph -----	1,555	518	
Postage -----	1,150	863	
Freight, cartage, and express -----	100	75	
Traveling -----	10,000	3,750	
Automobile operation -----	4,755	2,015	
Rent -----	4,773	1,718	
Pro Rata Personnel Board -----	760	211	
Total -----	\$ 26,048	\$10,746	\$14,052
Equipment :			
Office—replacement -----	285		
Office—additional -----	1,721		
Automobile—replacement -----	750		
Total -----	\$2,756	---	\$2,756
Grand Totals -----	\$111,636	\$38,653	\$63,733
Other Savings :			
Sale of three cars -----			\$3,150
1 Intermediate clerk -----		—\$2,534	2,534
		\$36,119	\$69,417

* Budget error. Should be \$4,770.

For Audit of Special Appropriations for Aid to Local Governments, State Controller, from the General Fund

Item 115, pages 26 and 27 of the Budget Bill and page 313 of the Budget. The amount of \$45,738 is requested from the General Fund. This is a decrease of \$9,273 or 16.9 percent under the amount of \$55,011 requested for the 1948-49 Fiscal Year.

The amount requested for audit of veterans' housing appropriations during the 1949-50 Fiscal Year is \$12,128, a decrease of \$26,458 or 68.6 percent under the estimated and actual expenditures of \$38,586 during the 1948-49 Fiscal Year. *The amount of \$12,128 requested for 1949-50 is based on this program terminating June 30, 1949. Therefore, the budget request is for only six months of the Fiscal Year 1949-50, to clean up audits.*

The amount requested for audit of special appropriations for building aid to impoverished school districts for 1949-50 Fiscal Year, is \$33,610. This is an increase of \$17,185 or 104.6 percent over the estimated expenditure of \$16,425 for the 1948-49 Fiscal Year. The entire increase occurs under operating expenses and is for field audit service charges. It is anticipated that the majority of the projects will be completed during the 1949-50 Fiscal Year. This accounts for the increase. Activity during the 1948-49 Fiscal Year has been negligible.

We recommend approval of item 115 in the amount of \$45,738 as requested.

For Audit of Special Appropriations for Aid to Local Government, State Controller, from the Postwar Unemployment and Construction Fund

Item 116, page 27 of the Budget Bill and page 314 of the Budget. The amount requested is \$89,281 from the Postwar Unemployment and Construction Fund. This is an increase of \$25,149 or 39.2 percent over the actual and estimated expenditures of \$64,132 during the 1948-49 Fiscal Year.

The functions of this program are an office audit of claims filed against their allocations by local agencies; posting of these claims and allocations on control account ledgers; and, finally, a field audit upon completion of the projects.

A considerable increase in activity is anticipated for this program during the 1949-50 Fiscal Year, and to continue into subsequent fiscal years. Funds are available for allocations until June 30, 1951, under Chapter 47/44, 4th E.S., as amended, and until December 31, 1949, under Chapter 20/46, 1st E.S.

The following table indicates that the program is far from completion.

Status of Program as of October, 1948

CHAPTER 47 (PLANS AND SITES)		
Available for allocation		\$9,918,000
Allocated (1,147 projects)	\$5,803,816	
Allocations pending (75 projects)	1,092,988	6,896,804
Unallocated balance		3,021,196
Audits completed (383 projects)		\$1,409,120
CHAPTER 20 (CONSTRUCTION)		
Available for allocation		\$90,110,000
Allocated (921 projects)	\$50,130,163	
Allotments pending (116 projects)	10,657,215	60,787,378
Unallocated balance		\$29,322,622
Audits completed (232 projects)		\$4,233,737

We recommend that Item 116 in the amount of \$89,281 be approved as submitted.

For Support of Bureau of Highway Accounts and Reports, State Controller, from the Highway Users Tax Fund

Item 117, page 27 of the Budget Bill and page 315 of the Budget. The amount requested is \$116,333 for support of the Bureau of Highway accounts and reports, State Controller, *payable from the Highway Users Tax Fund in lieu of the appropriation made by Section 2103.1 of the Street and Highway Code*. This is an increase of \$22,243 or 23.6 percent over the actual and estimated expenditures of \$94,090 for the 1948-49 Fiscal Year.

The increase is due to two main items as follows:

Salary savings show a decrease of \$5,400 which resulted from lack of personnel in the 1948-49 Fiscal Year. A full staff is anticipated for the 1949-50 Fiscal Year.

Travelling expenses show an increase of \$6,520. This is due to the fact that operations were performed in 1948-49 with less than half the

staff of field auditors. The full staff of field auditors will be in travel status during the 1949-50 Fiscal Year.

The amount of \$4,800 is an increase for rent. The Fiscal Year 1948-49 budget provided for only six months rental. The amount of \$9,600 shown in the 1949-50 Fiscal Year is for twelve months. The balance of the increase is due primarily to salary adjustments.

We recommend approval of Item 117 in the amount of \$116,333 as requested.

For Support of Motor Vehicle Fuel Tax Refund Division, State Controller, from the Motor Vehicle Fuel Fund

Item 118, page 27 of the Budget Bill and page 316 of the Budget. The amount requested is \$153,553 for support from the Motor Vehicle Fuel Fund. This is an increase of \$3,572 or 2.4 percent from the actual and estimated expenditures of \$149,981 for the 1948-49 Fiscal Year.

The increase is partially due to three new positions, requested in the Budget for 1949-50 Fiscal Year, which are as follows:

2 Senior account clerks.....	\$5,280
1 Intermediate file clerk.....	2,160
	<hr/>
	\$7,440

The above positions are requested to maintain control records on the flow of claims, help claimants prepare claims at the counter and the auditing of refund claims. These are new functions which are expected to expedite the processing of claims. An increase of \$2,623 in operating expenses is due to price increases.

We recommend approval of Item 118 in the amount of \$153,553 as requested.

For Support of Tax-Deeded Lands Division, State Controller, from the Redemption Tax Fund

Item 119, page 27 of the Budget Bill and page 317 of the Budget. The amount requested is \$205,183 from the Redemption Tax Fund. This is an increase of \$16,178 or 8.6 percent over the actual and estimated expenditures of \$189,005 for 1948-49. This increase may be attributed chiefly to a decrease of \$9,000 in salary savings, an increase of \$1,440 in rent on new leases, and increased space in the Sacramento office, and \$1,500 for moving costs, wiring and carpentry costs.

We recommend approval of Item 119 in the amount of \$205,183 as requested.

BOARD OF EQUALIZATION—GENERAL ACTIVITIES

For Support of the Board of Equalization, General Activities, from the General Fund

Item 120, pages 27 and 28 of the Budget Bill and page 321 of the Budget. The amount requested is \$10,171,445 from the General Fund for support of the general activities of the State Board of Equalization. *This is an increase of \$326,323 or 3.3 percent over the amount of \$9,845,122 estimated to be expended in the 1948-49 Fiscal Year.*

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages -----	\$309,545	321
Operating expenses -----	86,292	321
Equipment -----	—150,994	321
Estimated reimbursements -----	329	321
Total -----	<u>\$245,172</u>	
Budgeted increase for new or expanded service:		
Salaries and wages -----	\$43,860	321
Operating expenses -----	4,550	321
Equipment -----	32,741	321
Total -----	<u>\$81,151</u>	
<i>Recommendations</i>	<i>Amount budgeted</i>	<i>Legislative Auditor's recommendations</i>
Special budget item for performance of equalization duties -----	\$10,171,445	\$9,918,756
		\$252,689
Net recommendation -----	<u>\$10,018,756</u>	<u>—100,000</u>
		\$152,689
<i>Detail of Recommended Reductions</i>		
General Administration		
Equipment		
Files -----	\$648	
Other equipment -----	2,056	\$2,704
Assessment Standards Division		
All salaries -----		\$139,389
All operating expenses -----		63,656
All equipment -----		4,213
Total -----		<u>\$207,258</u>
Less reimbursement for mapping services -----		<u>—35,720</u>
Net total, Assessment Standards Division -----		<u>\$171,538</u>
Sales Tax Division		
Salaries and wages		
5 Intermediate typist-clerks -----	\$10,800	
1 Junior typist-clerk -----	1,920	
2 Accountant auditors, grade 1 -----	6,120	
4 Investigators -----	12,240	
1 Junior accountant auditor -----	2,640	\$33,720
Operating expenses		
Travel -----		4,550
Equipment		
Sales Tax Division, Headquarters		
Files -----	\$7,663	
Other equipment -----	2,151	
	<u>\$9,814</u>	
Sales Tax Division, District Offices		
Files -----	\$4,241	
Other equipment -----	14,100	
	<u>\$18,341</u>	<u>\$28,155</u>
Total, Sales Tax Division -----		<u>\$66,425</u>

	<i>Legislative Auditor's recommen- dations</i>	<i>Reduction</i>
Alcoholic Beverage Control Division		
Salaries and wages		
1 Supervising auditor, grade 1 -----	\$6,060	
1 Intermediate clerk -----	2,160	
1 Junior clerk -----	1,920	\$10,140
Equipment		
Files -----	\$92	
Other equipment -----	1,790	1,882
Total, Alcoholic Beverage Control Division -----		\$12,022
Total reduction recommended in Item 120 -----		\$252,689
Separate Budget item for performance of constitutional equalization duty -----		\$100,000
Net saving -----		\$152,689

Analysis

The efficiency of the revenue administration of the Board of Equalization is below maximum because of divergent interests and the lack of centralized authority. This arises from the districting of the board members, and the feeling of personal responsibility which each board member has for the administration of liquor and tax matters within his district. The result of the personal control over each of the four districts by its members is a lack of uniformity in policy, and a difference in organization, personnel, facilities and scope of the work between each of the four districts. This means that when the work load of one district appears to have increased out of proportion to the state as a whole, new positions, facilities and equipment are requested to take care of that work load, without regard to whether other districts may have more than enough personnel to handle their work load.

Because of the personal feeling of responsibility for their district, the individual board members frequently require certain deviations from the adopted policy of the board. This throws a heavy burden on the executive officer to justify his staff on grounds of over-all state work load, when the share of the work load of the various districts may not uniformly justify the staff in the district.

There are prevailing reasons of economy and efficiency which indicate the desirability of concentrating tax administration in one authority with a centralized administration. This could be accomplished by reforming all tax administration under the board or by setting up an executive department.

There is nothing inherent in the revenue laws administered by the Board of Equalization other than their equalization and appeals functions which requires them to be administered by a board, rather than an executive department.

The Legislature has several choices in reforming the administration of taxes purely by legislative act. It cannot, however, change some of the powers and duties of the Board of Equalization which are bestowed by constitutional provision. The Legislature can set up a Department of Revenue either by concentrating in the Board of Equalization all tax administration or it can set up a separate revenue department, leaving

to the Board of Equalization its constitutional authority and transferring all of the remaining tax administration power.

The constitutional duties of the Board of Equalization consist of the following:

1. Equalizing the assessment of local property as between counties.
2. Provide, as required by Article XIII, Section 9, of the Constitution, a representative to participate with a representative of the State Board of Forestry and the representative of the assessor of the county concerned in determining whether second growth forest trees 40 years after 70 percent of the virgin stand has been removed shall be assessable for tax purposes as provided in Article XIII, Section 12. $\frac{3}{4}$ of the Constitution.
3. The assessing of public utility property under Article XIII, Section 14. $\frac{3}{4}$, paragraph K, of the Constitution.
4. The assessing of insurance taxes under Article XIII, Section 14, of the Constitution.
5. Administration of the liquor law, including only the licensing but not the tax collecting, under Article XX, Section 22 of the Constitution.
6. The board has the responsibility of acting as a Board of Tax Appeals for certain of the taxes administered by local governments and other state agencies.

These duties of the Board of Equalization are the ones which are fixed by the Constitution, and would require constitutional amendments to transfer them. The taxes administered by the Board of Equalization, the sales tax, use tax, motor vehicle transportation tax, private car taxes, gasoline tax, use fuel tax, distilled spirits excise tax, and beer and wine excise taxes, are properly the field of activity of a revenue department. Such a revenue department should also administer the bank and corporation franchise tax, the personal income tax, the corporation income tax, the inheritance and gift tax, motor vehicle fees and licenses, motor vehicle in lieu tax, and the tax collection functions now contained in the Department of Employment.

We recommend that the tax assessing and collecting duties of the Board of Equalization performed by the Retail Sales Tax Division, Alcoholic Beverage Control Division, Motor Vehicle Transportation License Tax Division, Motor Vehicle Fuel Tax Division, the Private Car Tax, Gasoline Tax, Used Fuel Tax, Corporation Franchise Tax, Personal Income Tax, Corporate Income Tax, Inheritance and Gift Tax, Unemployment Insurance Tax, and all other tax assessing and collecting functions, as distinguished from fees and licenses, be formed into a Department of Revenue with a centralized administration, either under the Board of Equalization or under a director appointed by the Governor with the approval of the Senate.

If this is formed independently from the Board of Equalization, then all of the Budget personnel and property which is concerned in the administration of such taxes shall be transferred from the board to this new department. Under such process the budget of the Board of Equalization should be reduced accordingly. If, on the other hand, the Board of Equalization is to be the central agency for such administration, all other taxes as recommended should be transferred to the board for administration, and the budget of the board should be increased by the transfer of Budget personnel and property used in the administration of such taxes.

ANALYSIS OF BUDGET—NEW OR EXPANDED SERVICES

The Budget of the Board of Equalization contemplates no new or expanded services. However, there are certain new positions and equipment requested which will augment the present staff and facilities. Comment on the additional personnel will be made under each division for which it is requested. The equipment requested is commented on in the following, covering the entire amount requested by the board for equipment.

The total of equipment requested for all divisions is \$219,610. Examination of the items which compose this amount shows that it may be divided into four categories. These are:

1. *Equipment, costing \$124,744, required by work load and maintenance of operating efficiency. We recommend the amounts requested for this equipment be approved.* The equipment required by work load and to maintain operating efficiency is largely for replacement of worn-out and obsolete existing equipment. It includes automobile replacements, one additional automobile, typewriters, adding machines, brief cases, furniture for positions to be filled, and files (excepting letter size) required for normal expansion of facilities. It includes cash registers for Los Angeles District branch offices to eliminate laborious handwriting of receipts and transmittals in those offices.

2. Equipment costing \$57,912 is requested to improve operating efficiency. We recommend the amounts requested for this equipment be approved. The equipment requested that will improve operating efficiency includes furniture necessary for proper use of existing equipment, intercommunicating phones, numbering machines, a multigraph, calculating machines and adding machines for auditors, a dictograph, 13 automobiles, safes, and a billing machine.

3. Equipment, costing \$20,097, is requested to improve working conditions above the level of present conditions. This equipment may or may not indirectly increase operating efficiency. *In the interests of economy, we are recommending that the amount of \$20,097 for this equipment not be approved.* The equipment which is requested to improve working conditions above the present level includes furniture for expansion of present facilities, electric fans, drapes, carpets, fluorescent lights, extra typewriters for nonclerical positions, air deflectors for windows, glass tops for desks, *adding machines in excess of the minimum needed for present staff*, clocks, chair cushions, and coat racks. In one instance the difference in price between a medium weight car and a light car is included. The price requested for a safe is reduced from \$804 to \$150 and the difference of \$654 included.

There is \$19,195 included in the amount requested for miscellaneous equipment. This is ample to purchase any items which the Board of Equalization may consider absolutely essential which have been included in the category of improvements in working conditions and which we did not recommend.

4. Letter sized filing cabinets, costing \$12,644, are requested to take care of normal expansion and replacement of files. The present equipment is adequate to accommodate material necessary for the administration of the various taxes.

There are 614 file cabinets in the master file section of the Sales Tax Division. *Approximately 28.3 percent of the material contained in these files is dated prior to 1944.* Making liberal allowances for the retention of correspondence, legal and collection cases, and cases pending action on appeal, a purge of these files would release at least 141 file cabinets for reallocation or expansion of current files.

The request for replacement of 77 files and 60 additional files, costing \$12,644, in the Budget of the General Activities of the Board of Equalization should not be approved until the board has conducted a thorough purge of its present files and actually determined its need for additional files.

The Department of Employment has conducted such purges of its master files, including correspondence, and has greatly relieved its space and equipment problem.

The principal reason given for not conducting such a purge by the Sales Tax Division is concerned with the running of the Statute of Limitations on Use Tax Returns. Normally the period within which notice of deficiency determination must be mailed is three years after due date of the return. This means that all periods for which returns have been filed up to and including 1944 cannot be included in deficiency determinations unless fraud or intent to evade the Use Tax Act exists. In cases where returns have not been filed, the time limitation does not restrict the finding of deficiency determinations.

Use tax returns have been combined with sales tax returns since the use tax was adopted. However, the majority of tax payers have not made entries on the line provided for declaration of use tax. Under a ruling of the Attorney General in October 1943, sales tax returns which do not include an entry on the line provided for use tax do not constitute a use tax return. *Consequently these taxpayers have not filed returns, and deficiency assessments for use tax may be levied on them at any time.* The retention of this material in the files as evidence that use tax has not been declared is the principal reason given by the sales tax division for not conducting the recommended purge of its files.

This is not a valid reason for not purging these files. Examination of a portion of the files showed that 98 percent of those accounts carried in the active files which started business before 1944, had been audited by the division at some time. Thirty-two percent of these accounts have been audited since 1943. *Audit of an account should have been conclusive that all use tax liability for periods prior to the audit had been satisfied or the audit was not adequate.*

The Sales Tax Division was aware in 1943 that the form of return being used was misleading taxpayers into thinking that both sales tax and use tax returns were being filed as required by law. No steps have been taken to notify the taxpayers that they are not getting the full protection of the time limit for notification of deficiency determinations, nor to change the form to clarify this point. Hundreds of thousands of taxpayers are acting in reliance on the time limitation in the law, and destroying their records after three years have elapsed. *The Sales Tax Division has been derelict in its duty to the taxpayers of the State and is now contending that this nonperformance of their duty is grounds for preserving records 14 years old.*

Many of the accounts in these active files started in 1933. They are being retained intact and take up space with inactive material. *We recommend that the division set up a program of continuous elimination of this inactive material, and recover the filing cabinets for filing current material or reassignment to field offices and other divisions needing filing cabinets.* We do not recommend the replacement of wooden filing cabinets or the acquisition of new cabinets until this has been done.

The reduction in equipment shown under each division in the following is the amount of equipment requested which fall in the third and fourth categories described.

GENERAL ADMINISTRATION

The amount of \$392,190 as shown on page 322 of the Budget is requested for support of the General Administration. This is an increase of \$31,616 or 8.6 percent over the amount of \$360,574 estimated for 1948-49.

The budgeted increase by object of expenditure is as follows:

Salaries and wages	\$10,267
Operating expenses	15,511
Equipment	5,838

Increase, General Administration	\$31,616
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The Legislative Auditor recommended in the analysis of the 1948-49 Budget Bill that the amount requested for support of the Accounting Section for 1949-50 be based upon a study to be made by the Department of Finance of the accounts, organization and procedures of this office. Such a study is currently under way. *We recommend that savings which result from this study be conserved and not used to augment money available to other functions or objects of the board.*

We recommend the amount requested for General Administration be reduced by \$2,704.

Salaries and Wages

The increase in salaries and wages is a result of normal salary increases and promotions.

We recommend the amount requested be approved.

Operating Expenses

The increase in operating expenses is a result of normal price increases plus the added cost of the filling of authorized positions.

Equipment

Included in the request for equipment are items costing \$2,056 which represent improvements in working conditions. There is \$648 requested for file cabinets. Neither amount is essential for maintenance of the existing level of service. *We recommend the amount requested be reduced by \$2,704.*

DIVISION OF RESEARCH AND STATISTICS

The amount of \$44,778, as shown on page 323 of the Budget is requested for support of the Division of Research and Statistics. This is a decrease of \$14,403 or 24.8 percent under the amount of \$58,181 estimated for 1948-49.

The budgeted decrease by object of expenditure is as follows:

Salaries and wages	\$12,529
Operating expenses	9,889
Equipment	1,882

Decrease, Division of Research and Statistics----- \$14,403

We recommend the amount requested be approved.

The decrease is a result of the completion of the coding of Sales Tax Permits project undertaken in 1947. One new position is requested to maintain the coding system and handle the coding of new permits. Temporary help costing \$13,284 is eliminated along with tabulating machine rental of \$1,000, both no longer required by the coding project.

DIVISION OF ASSESSMENT STANDARDS

The amount of \$171,538 as shown on page 324 of the Budget, is requested for support of the Division of Assessment Standards. This is an increase of \$15,976 or 10.3 percent over the amount of \$155,562 estimated for 1948-49.

The budget increase by object of expenditures is as follows:

Salaries and wages	\$6,771
Operating expenses	8,361
Equipment	844

Increase, Division of Assessment Standards----- \$15,976

We recommend that all Salaries and Wages, Operating Expenses and Equipment for the Division of Assessment Standards be eliminated from Item 120 of the Budget reducing this item by \$171,538.

The Assessment Standards Division has not been accomplishing the purpose for which the appropriations have been intended namely the bringing of property assessments in the various counties to a uniform level of 50 percent of true or actual value, consequently this appropriation should be discontinued and other methods of obtaining the equalization between counties resorted to.

We recommend that a separate budget item be set up, appropriating \$100,000 to the Board of Equalization Valuation Division to determine the ratio of assessed value to true value of property in the various counties, and report these ratios to the Board of Equalization and the Legislature before the close of the Budget Session in 1950.

The Valuation Division studied and reported these ratios to the Board of Equalization prior to 1938, and action materially bringing assessed values into equality as between counties was based on them. Since 1938 and the creation of the Division of Assessment Standards Division similar studies have not been made, nor effective action taken by the board equalizing local property assessments.

We recommend that the review of claims for tax exemption of property owned by welfare and charitable institutions be assumed by the Valuation Division.

This is a relatively minor duty now performed by the Division of Assessment Standards which can be assumed by the Valuation Division without requiring additional staff.

The cost of aiding and assisting the assessors of the various counties and cities should be borne by the county or city being assisted. It should not be assumed as a duty of the State to make surveys of property tax assessment procedures for the counties which are not required for state equalization processes.

The above recommendations are based upon the following facts:

1. The State is apportioning millions of dollars annually based on formulas which rely on equalization of the assessed value between counties at 50 percent of true value, and by such reliance has unjustly apportioned that money.

2. Even greater sums of money will be dispensed in Aid to the Aged with the assessed valuation of property of the applicant entering into the qualifications for such aid. Ratios of assessed values of property to its true value that are less than 50 percent and unequal between counties will require a greater appropriation from the State Treasury than the law requires and seriously impair the justice with which such aid is dispensed.

3. Equalization of valuation of property for taxation purposes between the several counties at true value or even 50 percent of true value has not been achieved by the Board of Equalization despite the constitutional duty of the board to accomplish it.

4. If public utility property is assessed according to the constitutional provision that utility property "so assessed by said board shall be subject to taxation to the same extent and in the same manner as other property," then such utility property is subject to a greater tax than common property unless the percentage of true value used as the assessed value of common property and utility property is the same and likewise if there is equalization on this basis between the several counties of the State. If the percentage of true value used in assessing public utility property is 50 percent then the same ratio must be used for assessing common property if the constitutional requirement is met.

5. The Division of Assessment Standards has not used their own *independent appraisals of property* as the basis for determining the ratios of assessed value to true value in the various counties but has relied on material gathered and used by local assessors for its conclusions as to the equality of assessments. Independent appraisals are *essential* to dependable determination of these ratios. Without the preparation of tables of these ratios, based on appraisals made independently of county assessors' offices, conclusions as to equality of the assessment ratios between counties are not valid.

6. The Division of Assessment Standards has, by process of fraternizing, patronizing, and cooperation with county assessors so confused and obscured the issue of equalization that the public and government officials have been misled into dependence on the fiction that equalization of assessment between counties has been accomplished.

7. If the ratio of assessments was equal between counties, the advisory and instructional services to assessors rendered by the Division of Assessment Standards, would be unnecessary as a State supported expense because the purpose of the constitutional requirement for equalization would be fulfilled.

8. The Division of Assessment Standards has no power to require assessors to put into practice the methods recommended by the Division; consequently most of the effort expended in the last 10 years has been futile and ineffective in achieving equalization of assessment levels between counties.

9. Without equalization orders by the Board of Equalization requiring county assessors to conform to basic measures of true value, there are definite reasons why assessors will tend to undervalue the properties they are assessing. *The formulas used for apportionment of State money to counties and districts put a premium on undervaluation of property since they consider total assessed value in a county as a measure of the need for assistance.* This premium is particularly great when the amount of money available is limited, and one county's assessments are at a lower level, compared to the average levels throughout the State. Pressure by taxpayers on assessors tends toward undervaluation of property.

10. The principal counteracting influence on unequal ratios of assessed value to true value is the power of the board to raise county assessment rolls to an equal level. *This power has not been used in the last ten years.* We are proposing that the board fulfill its constitutional duty and use this power.

11. The Valuation Division of the board, under its present chief, conducted surveys and made studies of assessments in the years prior to 1938. These studies resulted in action raising assessment rolls which achieved a measure of equalization of valuation of property for taxation purposes during those years as between counties.

12. Studies such as those made by the Valuation Division in the years 1935 to 1938 have not been made since. The board has not been furnished adequate information to actually determine what the ratios of assessments to true value are in the separate counties, or it has ignored such information with respect to its constitutional duty of equalizing assessments.

13. The requirement that the findings of ratios of assessed value to true value be transmitted to the Legislature will furnish invaluable information relative to State subventions.

The Board of Equalization has adopted a policy which does not firmly establish the ratio of assessed value to true value in each county, and does not support their findings each year that the taxable property in the several counties is equalized in accordance with the constitutional requirement. No assessment equalization orders have been issued since 1938, directing that county assessment rolls be raised or lowered. Instead the board's efforts and appropriations have been spent in improving assessors practices and procedures, which however laudable, has not produced equal ratios of assessments between counties.

We are recommending that the determination of the ratio of assessed values to true values in the various counties be performed by the Valuation Division of the Board of Equalization, and its findings be transmitted to the Legislature. The cost of such determination we recommend

be appropriated in a separate budget item, stipulating that it is to be expended solely for determination of the assessment ratios in each county on independent appraisals.

The net saving which will result from eliminating the cost of the Assessment Standards Division, and the performance of the constitutional duty of equalizing assessments by the Valuation Division will be at least \$71,538. The saving will be much greater by an improvement in the basis for subventions to local government, and the reduction in the requirement for old age benefits to individuals who will not qualify if proper assessment of their property to true value is established.

VALUATION DIVISION

The amount of \$264,475, as shown on page 324 of the Budget, is requested for support of the Valuation Division. This is an increase of \$17,708 or 7.2 percent over the amount of \$246,767 estimated for 1948-49.

The budgeted increase by object of expenditure is as follows:

Salaries and wages	\$15,684
Operating expenses	4,243
Equipment (decrease)	—2,219
Increase, Valuation Division	\$17,708

We recommend that \$100,000 be appropriated in a separate Budget item to the Board of Equalization, Valuation Division, to determine the ratio of assessed value to true value of property in the various counties and report these ratios to the Legislature.

Salaries and Wages

Salary adjustments are responsible for \$4,400 of the increase in this category. Three new positions are requested costing \$10,116 and one promotion at \$168 additional. Increases are required by work load of mapping and maintaining current data. We recommend the amount requested be approved.

Operating Expenses

The major increase in this category, not occasioned by increased prices, is an increase of \$3,000 in travel for valuation engineers in the field. The division anticipates increased travel to accomplish the work load of mapping and to keep appraisal data current. We recommend the amount requested be approved.

Equipment

The major item of equipment requested is a blue printing machine to handle the volume of maps required, and improve the speed in the reproduction of maps. We recommend the amount requested be approved.

SALES TAX DIVISION, HEADQUARTERS

Amount of \$1,798,337, as shown on page 326 of the Budget, is requested for support of the Sales Tax Division Headquarters. This is an increase of \$71,628 or 4.1 percent over the amount of \$1,726,709 estimated for 1948-49.

The budgeted increase by object of expenditure is as follows:

Salaries and wages	\$61,631
Operating expenses	31,130
Equipment	21,133
Increase, Sales Tax Division Headquarters	\$71,628

We recommend the amount requested be reduced by \$14,364.

Salaries and Wages

The increase of \$61,631 in salaries and wages consists of \$44,239 for salary adjustments, \$6,480 for new positions, \$912 for promotions, and a reduction of \$10,000 in salary savings.

The new positions are required by existing work load and anticipated increases in collection activity in connection with delinquent taxpayers and business failures. Promotions are justified by existing organization. We recommend the amount requested be approved.

Operating Expenses

The increase of \$31,304 in operating expenses is a result of price increases, office alterations, rent of and moving to additional space, and increased travel. An additional amount of \$4,550 is requested for travel of personnel transferred from General Administration to the Sales Tax Division. The Budget does not indicate this transfer of personnel, but we are advised that it is the intention of the board to place the internal auditing function under sales tax headquarters. We have recommended in previous reports that this function be continued at the highest level of administration, and that it not be made subordinate to any division which it may audit. Regardless of the transfer of positions, this increase in travel of \$4,550 is not related to any increase in personnel. *We recommend that operating expenses of this division be reduced by \$4,550.*

Equipment

There is \$26,511 requested for additional and replacement equipment in the Sales Tax Division headquarters. Of this \$7,663 is for replacement of 77 file cabinets and two additional cabinets, and \$2,151 for equipment which will improve working conditions above their present level.

We recommend the amount requested for equipment be reduced by \$9,814.

SALES TAX DIVISION, DISTRICT OFFICES

The amount of \$5,374,169 as shown on page 328 of the Budget, is requested for support of the Sales Tax Division, district offices. This is an increase of \$159,050 or 3.0 percent over the amount of \$5,215,119 estimated for 1948-49.

The budget increase by object of expenditure is as follows:

Salaries and wages	\$196,555
Operating expenses	25,633
Equipment (decrease)	63,138
Increase, Sales Tax Division, district offices	\$159,050

We recommend the amount requested be reduced by \$52,061.

Salaries and Wages

We recommend that the amount requested for salaries and wages for the district offices of the Sales Tax Division be reduced by the amounts requested for the following positions:

5 Intermediate typist-clerks -----	\$10,800
1 Junior typist-clerk -----	1,920
2 Accountant auditors, grade 1 -----	6,120
4 Investigators -----	12,240
1 Junior accountant auditor -----	2,640
Total -----	\$33,720

The work load of the Sales Tax Division district offices has never been reliably determined. Justification for new positions in previous years has been based largely on the number of active sales tax accounts, the number of new accounts, the number of accounts closed out, delinquent accounts, and *other* cash transactions. It has been on a state-wide basis. The justification for these positions is now presented on a basis of local work load without reference to the state-wide work load.

If the administration of the sales tax is to be uniform, and the organization economical, local increases in work load must be handled by transfer of personnel from areas where decreases occur, unless the over-all work load has increased.

Investigation and Clerical Work Load

The work load factors presented with the Budget request, which are for the State as a whole, do not show a work load for 1949-50 in excess of that presented to justify the staff allowed in the 1948-49 Budget. *Furthermore, the figures now presented as actual work load in 1947-48 are substantially lower than those presented in justifying the 1947-48 Budget request.* Therefore, the investigative and clerical staff of the district offices should be adequate to handle the work load.

Table I shows the changes in the various work load factors which the board has used to justify its Budget in previous years, and for 1949-50. It demonstrates clearly that in most of the factors, actual work load realized each year has been less than the estimates used in justifying the Budget request for that year.

Table I. Investigative Work Load as Presented for Budget
Justification and Actual Work Load

	1947-48 as estimated for budget justification	1947-48 actual	1948-49 as estimated for budget justification on 11-1-48)	1948-49 (estimated)	1949-50 (estimated)
Permits issued -----	217,231	128,967	159,374	119,978	131,975
Permits closed -----	114,770	114,925	127,499	120,853	121,975
Other cash transactions -----	442,733	477,795	697,431	457,500	500,000
Delinquent accounts -----	177,172	129,148	126,719	142,062	145,000
Active sales tax permits as of July 1, each year -----	265,000	260,303	282,000	275,085	285,085

Five intermediate typist-clerks ----- \$10,800

Five positions of *intermediate typist-clerk* are requested to handle an increased work load of 1,200 additional items of clerical work a year

in connection with audits to be made by the expended audit staff of the Los Angeles district. Much of the work for which these positions are requested should be done by the five new positions of *intermediate stenographer-clerk* we are recommending for the branch offices.

We recommend that whenever possible the audits, their transmittal letters, and working papers be submitted in longhand, without the retyping for which these typists are requested.

We recommend these five positions of intermediate typist-clerk not be approved, saving \$10,800.

One junior typist-clerk ----- \$1,920

One junior typist-clerk is requested for the Fresno office to take care of additional clerical work relating to audits produced by the additional audit staff. The present clerical staff of the Fresno office, as shown by tables of organization of sales tax personnel, is actually in excess of the clerical staff of similar offices in other districts. *The audit production of the Fresno office does not exceed that of other offices with even less clerical staff.*

We recommend that the Sales Tax Division establish ratios of clerical positions to audit positions and that the staff be uniform according to this ratio.

We recommend that the position of junior typist-clerk not be approved, saving \$1,920.

Two accountant auditors, grade 1----- \$6,120

Two accountant auditors, grade 1, are requested to renew two such positions which were reclassified into supervising investigator positions for the new Fourteenth District and the redistricted Twelfth District in 1948.

In the absence of a definite audit program, prepared and submitted with the Budget request, justifying all of the presently authorized positions, we do not recommend the increase of the audit staff by these two positions. The reclassification of auditor positions to supervising investigator positions does not represent a complete loss of authorized positions to the audit staff because in these districts a large percentage of investigative work is done by auditors. The increase in investigative positions should relieve auditors of part of this work.

Audit production has been substantially above the numbers estimated at the time 226 new auditor positions were authorized in 1947. Furthermore, some seventy of these positions have not been filled. Under these conditions, the board is not justified in expanding its audit staff any further without showing a substantial increase in work load over estimates made in 1947.

We recommend the two positions of accountant auditor, grade 1, not be approved, saving \$6,120.

Four investigators ----- \$12,240

The work load figures submitted with the budget request do not justify the addition of four more investigators to the district staffs of the State as a whole. If the work loads of the Los Angeles District branch offices are increasing, as contended in the justification for these positions,

then certain other areas of the State must be experiencing a decline in work load. The Los Angeles office of the board was allowed 11 more investigators in the 1948-49 Budget to handle increases in population and businesses in that area. Sixteen investigator positions were allowed for the entire State at that time. The problem of allocating investigators to the various districts of the State should be reviewed by the board before requesting additional positions.

We recommend the four positions of investigator not be approved, saving \$12,240.

One junior accountant-auditor ----- \$2,640

The position of junior accountant-auditor is requested for the Santa Barbara district office. A backlog of 175 uncompleted audits, and an anticipated increase in new businesses and reorganizations is presented as justifying the position.

The volume of auditing to be done in this office is definitely controllable by the Sacramento headquarters office. The backlog of 175 audits simply means that the Sacramento office has assigned more audits to the Santa Barbara office than the staff of that district can complete. Since the Sales Tax Division has not laid down a definite program of auditing retailers accounts, and justified all of its auditor positions by that program, this position should not be justified on the basis of local conditions.

It appears that this position is requested, not so much because the work load requires it, but because the opening of a new branch office in the Santa Maria City Hall will require staffing, and it is more expedient to request a new position than to transfer one of the presently authorized positions. The justification for the equipment for the new branch office at Santa Maria states that savings in travel and hotel expenses in this area will more than pay for the equipment. There is no reference to the saving of time lost in sending a group of auditors to the area, which will represent additional audit time available to perform the work for which this position is requested.

The present system of selecting accounts for audit by the Sales Tax Division is extremely wasteful of auditor's time, and includes audits of many taxpayers, which are chosen at random and not as part of a pre-conceived program.

Audits by the Sales Tax Division produced \$2.80 in additional taxes per dollar of cost of the audits. In the Department of Employment, whose accounts cover very much the same field of taxpayers, a better selection of accounts to be audited produces \$3.40 for each \$1 of cost. This is despite the fact that the tax rate applied by the Department of Employment averages 1.7 percent and the board applies a 2½ percent rate. Consequently, the Department of Employment is showing a much higher audit production at a lower tax rate than the board, by a better selection of audits. The Department of Employment audits approximate 7 percent of the employers who are taxpayers during a three-year period, whereas the Board of Equalization covers approximately 30 percent of the sales taxpayers. The total number of employers paying unemployment taxes is only slightly lower than the number of sales taxpayers.

We do not recommend any increase in the audit staff of the Board of Equalization and recommend this position not be approved.

Operating Expenses

Operating expenses are increased \$25,633 over the 1948-49 estimated amount of \$470,825. Principal increases are in automobile operation, \$7,384; and rent-building space, \$26,383. Other expenses are continued at approximately the same level or lower than in 1948-49.

Automobile operation is increased as a result of the addition of 10 cars and the filling of authorized positions requiring cars.

We recommend the amount requested be approved.

Equipment

The amount of \$117,054 is requested for replacement and additional equipment. This is a decrease of \$63,138 under the amount estimated for 1948-49.

Of this amount \$4,241 is requested for purchase of filing cabinets and \$14,100 for equipment to improve working conditions above their present level.

We recommend the amount requested be reduced \$18,341.

ALCOHOLIC BEVERAGE CONTROL DIVISION, HEADQUARTERS

The amount of \$305,745 as shown on page 329 of the Budget, is requested for support of the Alcoholic Beverage Control Division, Headquarters. This is an increase of \$8,737 or 2.94 percent over the amount of \$297,008 estimated for 1948-49.

The budgeted increases by object of expenditure are as follows:

Salaries and wages	\$16,817
Operating expenses (decrease)	—6,073
Equipment (decrease)	—2,007

Increase, Alcoholic Beverage Control Division	\$8,737
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We recommend the amount requested be reduced by \$6,315.

Salaries and Wages

We recommend that the amount of \$221,618 requested for salaries and wages of the Alcoholic Beverage Control Division Headquarters be reduced by \$6,060.

The position of supervising auditor, grade 1, at \$6,060, is requested to relieve the present Associate State Liquor Administrator of the duties of coordinating and supervising the audits of retail liquor stores in connection with the assessment of off-sale distilled spirits licenses. These audits are performed by beverage tax auditors and sales tax auditors at present.

Inasmuch as the present license fee is approximately 1 percent of retail sales, the audits of these licensees is not an important and lucrative field for any expansion of audit activity. Therefore we do not recommend this additional position. However, if rates are increased so that evasion becomes profitable, and the auditing of retailers more important, this position should be approved.

Operating Expenses

The \$80,445 requested for operating expenses is a decrease of \$6,073 under the amount estimated for 1948-49. Actually there is an increase of \$1,427 in operating expenses resulting from price increases.

The over-all reduction results from the removal of \$7,500 for fingerprint services from this budget item. The \$7,500 is to be appropriated directly to the Department of Justice. This is poor budgeting practice, and the Alcoholic Beverage Control Division budget should show the entire cost of its operation. Since this policy has been adopted by the Department of Finance in the 1949-50 Budget we are not recommending this particular item be replaced.

We recommend that all charges for fingerprint services to General Fund agencies as well as special fund agencies be shown as a charge to that agency, so that the total cost of a department's functions may be recognized.

We recommend that the amount requested for operating expenses be approved.

Equipment

Included in the amount of \$3,682 requested for equipment is \$255 for equipment which would improve working conditions above their present level.

We recommend the amount requested for equipment be reduced \$255.

BUREAU OF TAX ASSESSMENT

The amount of \$300,533 as shown on page 330 of the Budget is requested for support of the Bureau of Tax Assessment of the Alcoholic Beverage Tax Division. This is an increase of \$13,239 or 4.61 percent over the amount of \$287,294 estimated for 1948-49.

The budgeted increases by object are as follows:

Salaries and wages	\$13,849
Operating expenses	1,412
Equipment (decrease)	—2,022
Increase, Bureau of Tax Assessment	\$13,239

We recommend the amount requested be reduced by \$231.

Salaries and Wages

The amount of \$257,692 requested for salaries and wages is an increase of \$13,849 over estimates for 1948-49. Of this amount \$5,425 is for salary adjustments, \$924 for reclassifications of positions, and a \$7,500 decrease in salary savings.

We recommend the amount requested be approved.

Operating Expenses

An increase of \$1,412 results principally from price increases. We recommend the amount requested be approved.

Equipment

There is \$6,134 requested for equipment, a decrease of \$2,022 under 1948-49 estimates. Included in the amount requested is \$92 for filing cabinets, and \$139 for equipment to improve working conditions.

We recommend that the filing cabinets be obtained from those released by a purge of the Sales Tax files.

We recommend that the amount requested be reduced by \$231.

DISTRICT LIQUOR CONTROL OFFICES

The amount of \$1,661,745 as shown on page 331 of the Budget is requested for support of the District Liquor Control Offices. This is an increase of \$21,443 or 1.31 percent over the amount of \$1,640,302 estimated for 1948-49.

The budgeted increases by object of expenditure are as follows:

Salaries and wages	\$41,720
Operating expenses	12,507
Equipment (decrease)	—32,784

Increase, District Liquor Control Offices	\$21,443
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We recommend the amount requested be reduced \$5,476.

Salaries and Wages

The increase of \$41,720 in salaries and wages is made up of \$20,480 in salary adjustments, \$15 decrease in salary savings, and the establishment of three new positions costing \$6,240.

We recommend that the positions of intermediate clerk at \$2,160 and junior clerk at \$1,920, a total of \$4,080, not be allowed. We recommend that in lieu of obtaining new clerical positions the division reclassify two or more of its present liquor control officer positions for this work. We have evidence that a portion of the liquor control officers, ranging from 10 to 30 percent, now employed by the board are not competent or suited to enforcement work. It is the practice of the division to use these men for clerical and routine jobs which do not require independent initiative and judgment. Since the clerical positions requested are to perform routine work of filling out liquor license applications, furnishing information to the public, filing and miscellaneous office work, we recommend that these positions be obtained by reclassifying present liquor control officer positions.

The Board of Equalization has a great many more enforcement officers in California than does any similar organization of any of the other states. California has 266 officers including supervisors and special investigators. In 1946 New York had 137 similar positions. Texas had 145 such positions. In California in 1946 the ratio of liquor control officers to population was one officer to 43,412 persons. In New York the ratio was one to 100,305 persons. In Texas it was one to 47,996. Table No. II shows the states licensing liquor sales, the number of enforcement officers employed by each state, the population of the state, and the ratio of officers to population in 1946.

Table II. Comparison of the Number of Liquor Enforcement Officers to Population of States Licensing Liquor Sales

	<i>Number of enforcement officers ¹</i>	<i>Population of state ¹</i>	<i>Ratio of officers to population</i>
Arizona -----	14	622,804	44,486
Arkansas -----	²	1,884,659	
California -----	220	9,550,727	43,412
Colorado -----	14	1,137,581	81,255
Connecticut -----	15	1,963,519	130,901
Delaware -----	10	286,527	28,653
District of Columbia -----	3	843,451	281,150
Florida -----	57	2,310,303	40,531
Georgia -----	32	3,128,302	97,759
Illinois -----	40	8,028,453	200,711
Indiana -----	57	3,767,313	66,093
Kentucky -----	32 ³	2,745,590	85,799
Louisiana -----	83 ³	2,519,520	30,356
Maryland -----	11	2,186,872	198,806
Massachusetts -----	25	4,591,254	183,610
Minnesota -----	15	2,821,442	188,096
Missouri -----	40	3,776,250	94,406
Nebraska -----	18 to 25	1,275,713	51,029
Nevada -----	2	135,414	67,707
New Jersey -----	90	4,304,261	47,825
New Mexico -----	6	528,997	88,166
New York -----	137	13,741,836	100,305
North Dakota -----	1	537,084	537,084
Rhode Island -----	9	744,986	82,776
South Carolina -----	20	1,909,173	95,458
South Dakota -----	⁴	547,664	
Tennessee -----	50	2,997,826	59,956
Texas -----	145	6,959,481	47,996
Wisconsin -----	40	3,168,158	79,203
Vermont -----	4	352,998	88,249

¹ From Survey of State Liquor Control Laws and Regulations Relating to Enforcement, by the National Conference of State Liquor Administrators.

² County supervision.

³ Includes part time agents.

⁴ No data available.

The reason for the large staff in California is partly traceable to the lack of dependence by the Board of Equalization on local authorities. While the Alcoholic Beverage Control Act makes the enforcement of the act mandatory upon local peace officers and district attorneys, the board has assumed complete responsibility for its enforcement. This is evidenced by the entry in the minutes of the board, dated 7-30-35, recording a resolution passed by the board that states:

"And be it further resolved that the present system of divided authority between board operatives and local police shall be terminated and that the board shall exercise the powers granted it under the constitution to have sole jurisdiction of the licensing, control and supervision of all liquor establishments in the State of California."

There is no evidence that this action was ever rescinded. On the contrary, statements by liquor control officers and other peace officers show that this policy is continued by the present board.

The problem of liquor control in California requires further study to determine whether or not the police powers of this State are adequately carrying out the enforcement of the liquor laws in accordance with Legislative intent. Figures taken from the Federal Bureau of Investigation reports indicate that the problem of enforcement in California is serious and that present methods used in California are inadequate.

Federal Bureau of Investigation reports show that in 1947 the States of Oregon, Washington, and California combined had an average of 5,217 persons charged with drunkenness per one hundred thousand of population. The average for the United States was 2,471 per one hundred thousand of population. Since the California statistics dominate the average for the three western states, it is reasonable to assume that arrests for drunkenness in California greatly exceed the national average.

The three western states show 362 arrests for drunken driving per one hundred thousand of population, whereas the national average is 146 per one hundred thousand of population. These two averages indicate the seriousness of the problem of drunkenness in California.

In contrast to the average number of arrests for drunkenness and drunken driving, the arrests for violations of liquor laws in the three western states show an opposite trend. There were 40 arrests per one hundred thousand in Oregon, Washington and California, whereas the average for the United States, as a whole, is 53 arrests per one hundred thousand of population.

The average per capita consumption of liquor in California is 40 percent higher than the national average. The conclusion to be drawn from the above facts is that while the problem of liquor enforcement in California may justify the large staff of the Board of Equalization, indications are that actual enforcement efforts by the Board of Equalization and local authorities are not sufficient to control these conditions.

We recommend that a separate liquor enforcement board be set up, to perform such enforcement work as the Legislature deems necessary to supplement the enforcement responsibility of local peace officers. Issuance of licenses and collection of fees would be continued by the Board of Equalization.

Operating Expenses

The amount of \$254,417 requested for operating expenses is an increase of \$12,507 over estimates for 1948-49. The principal item of increase is \$8,110 for automobile operation. This increase is requested to cover the operation of four additional cars, and increased prices of gasoline and oil for the 140 cars now being used in the district offices. Other increases are for general price increases, rent and services. *We recommend the amount requested be approved.*

Equipment

The amount of \$35,366 requested for equipment includes \$1,396 for equipment requested to improve working conditions above the present level. *We recommend the amount requested be reduced by \$1,396.*

BOARD OF EQUALIZATION—MOTOR TRANSPORTATION LICENSE TAX DIVISION

For Support of the Board of Equalization, Motor Transportation License Tax Division, from the Motor Vehicle Transportation Tax Fund

Item 121, page 28 of the Budget Bill and page 332 of the Budget. The amount requested is \$622,271 from the Motor Vehicle Transportation Tax Fund. This is an increase of \$11,517 or 1.9 percent over the amount of \$610,754 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages-----	\$23,965	332
Operating expenses -----	—1,979	332
Equipment -----	—10,649	332
Total -----	\$11,517	
Budgeted increase for new or expanded service:		
None -----	-----	-----

Recommendations

Amount budgeted -----	\$622,271
Legislative Auditor's recommendations -----	\$658,390
Increase -----	\$36,119

Analysis

We recommend that the amount requested be increased by \$36,119, realizing a net saving of \$66,267 to the fund.

This is the amount estimated to be necessary for the division to take over from the Controller the *collection* of the motor transportation license taxes. The consolidation of the assessing and collecting function in the Motor Transportation License Tax Division of the Board of Equalization *will result in a reduction of \$102,386 in the Controller's Budget, with an increase of \$36,119 in the Board's Budget, a net saving of \$66,267.*

The division of the assessing and collection of the motor vehicle transportation license tax between the Board of Equalization and the Controller's office has resulted in a duplication of personnel and expenses. Operations are required to prepare and transmit tax rolls to the Controller's office which would not be required if the board had been assigned the collecting as well as the assessing function. Duplication of forms and files, and unnecessary correspondence could be eliminated by combining the functions. Tax collection is not a logical function of the Controller's office.

In the past the Controller has collected taxes more or less as a service to operating departments which charge fees or assess taxes, but whose organization is not adapted to a revenue collection function or where the collection function is related to other duties of the Controller. In this case the service results in a duplication of costs since the board field offices are well adapted to perform the collection function, as they do with other taxes assessed by the board.

The Motor Transportation License Tax Division has the accounting and field personnel to perform almost all of the duties of collecting the tax. Transfer of this function would require the following positions and operating expenses to be transferred from the Controller's Budget to the Board of Equalization Budget:

Positions to be transferred to the Board of Equalization Budget:	
1 Assistant chief -----	\$4,296
3 Investigators -----	10,770
1 Bookkeeping machine operator -----	2,400
1 Junior clerk -----	2,120
1 Senior account clerk -----	3,242
1 Intermediate stenographer-clerk -----	2,579
1 Seasonal help -----	2,500
9 Total positions -----	\$27,907

Operating expenses to be transferred to the Board of Equalization Budget:

Office -----	\$573
Printing -----	1,023
Telephone and telegraph -----	518
Postage -----	863
Freight, cartage, and express -----	75
Traveling -----	3,750
Automobile operation -----	2,015
Rent -----	1,718
Pro rata, Personnel Board services -----	211
Total operating expenses -----	\$10,746

One position in the Motor Transportation License Tax Division can be eliminated by consolidation of the assessing and collecting functions. This position has been required to prepare assessment rolls and correspondence for transmittal to the Controller's office. *We recommend that the position of intermediate clerk at \$2,534 be eliminated from the Board of Equalization, Transportation License Tax Division Budget.*

Other savings which may be accomplished by the consolidation of the assessing and collecting functions will result from the disposal of three cars valued at approximately \$3,150, now used by the Tax Collection Division of the Controller's office, which will not be needed by the Board of Equalization.

All other equipment now being used by the Tax Collection Division should be transferred to equip the personnel transferred, and any remaining that is not needed by the personnel remaining with the Controller should be turned over to the Department of Finance for reallocation.

Work Load

The work load of the Transportation License Tax Division is declining slightly in the number of active licensees and the rate of turnover of businesses. As of July 1, 1947, there were 24,556 active accounts. At July 1, 1948, there were 22,329 active accounts, a decrease of 1,718 accounts or 7.7 percent during the year. There were a total of 22,329 new accounts and accounts closed out during 1947-48 Fiscal Year, whereas in 1948-49 the changes totaled 15,924.

Weight Fee Credit

The principal additional work encountered by the division is in the accounting connected with the allowance of a weight fee credit against transportation taxes. The Collier-Burns Act provided that transportation tax licensees could apply 33 $\frac{1}{3}$ percent of the amounts paid to the State as weight fees on their equipment, against the transportation license tax.

The division now finds its accounting work increased 20 percent in auditing these claims for credit. Almost 50 percent of the claims are in error in one respect or another.

The principal complication involved in the allowance of the weight fee credit claims concerns equipment used entirely inside city limits, and on the earnings of which no transportation license tax is paid. These claims have to be recognized and disallowed.

A saving of approximately \$12,000 in administrative costs could be made by changing the law, without materially changing or shifting the tax burden.

The amount of weight fee credit claims allowed in 1948 was \$1,385,904. It is estimated that these claims will be approximately \$1,500,000 in 1949-50. One-half percent on the tax rate produces approximately \$1,500,000 in revenue. By reducing the tax rate from 3 percent to 2 $\frac{1}{2}$ percent and eliminating the weight fee credit provisions, the same amount of revenue would be received.

The net effect of the change would be the same amount of revenue to the State, the elimination of costly and complicated auditing functions by the Board of Equalization and only a slight change in the amounts paid by the various taxpayers. Operators who use their equipment for both taxable and non-taxable operations would lose a slight advantage which they now have in claiming the weight fee credit against their taxable earnings. Large operators would gain a slight advantage from the lower rate of tax. To offset such advantage of the large operator over the small operator or one whose operations are mainly nontaxable; i.e., in the city limits, it might be well to permit a \$600 a year gross receipts credit to all taxpayers which will place the operators on much the same footing they have under the weight fee credit.

We recommend legislation be adopted to eliminate the weight fee credit, reduce the motor vehicle transportation license tax to 2 $\frac{1}{2}$ percent and allow a \$600 a year gross receipts credit. This is a more practical way of achieving the purpose of the weight fee credit without its administrative difficulties.

Salaries and Wages

The amount of \$423,768 requested for salaries and wages of this division is an increase of \$23,965 over the \$399,803 estimated for 1948-49. Of this amount \$13,833 is for salary adjustments, \$1,200 for reclassifications, \$6,432 for new positions, and a decrease of \$2,500 in salary savings.

The new positions are warranted by current work load and organization.

We recommend that the amount requested for salaries and wages be increased by \$24,373 to provide for the positions to be transferred from the Controller's office in connection with the collection activity and the reduction of one position in this division.

Operating Expenses

The amount requested for operating expenses is \$188,391, a reduction of \$1,979 under the amount estimated for 1948-49.

We recommend the amount requested be increased by \$10,746 to provide for the assumption of the collection activity.

Equipment

The amount requested for equipment is \$10,112, a reduction of \$10,469 under the amount estimated in 1948-49. Principal items of additional equipment are two automobiles to replace cars on private mileage. Expenses for private car mileage are adjusted accordingly.

We recommend the amount requested be approved.

BOARD OF EQUALIZATION—MOTOR VEHICLE FUEL TAX DIVISION

For Support of the Board of Equalization, Motor Vehicle Fuel Tax Division, from the Motor Vehicle Fuel Fund

Item 122, page 28 of the Budget Bill and page 334 of the Budget. The amount requested is \$394,864 from the Motor Vehicle Fuel Fund. This is a decrease of \$8,989 or 2.2 percent under the amount of \$403,853 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increases or salary adjustments at existing levels of service:		
Salaries and wages-----	\$13,258	334
Operating expense-----	851	334
Equipment-----	—23,098	334
Total-----	—\$8,989	
Budgeted increase for new or expanded services:		
None-----	-----	----

Recommendation

Amount budgeted-----	\$394,864
Legislative Auditor's recommendations-----	394,864
Reduction-----	None

Analysis

Work load of the division is relatively static except in the section handling use fuel tax permits and returns. The use fuel tax is a tax which complements the motor vehicle fuel tax by taxing motorists and truckers using diesel oil, who otherwise would not pay a motor fuel tax. It is levied on owners of equipment using fuel other than gasoline, which is driven on state-owned or supported highways and streets.

Increases are related to work load, price and salary changes.

We recommend the amount requested be approved.

DEPARTMENT OF FINANCE

For Support of the Department of Finance, Exclusive of Buildings and Grounds Division, from the General Fund

Item 123, pages 28 and 29 of the Budget Bill and page 338 of the Budget. The amount requested is \$1,808,064 for support of the Department of Finance, exclusive of Buildings and Grounds Division, from the General Fund. This is an increase of \$198,224 or 12.3 percent over the amount of \$1,609,840 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages -----	\$93,668	340
Operating expenses -----	—9,219	340
Equipment -----	—10,070	340
Increases -----	\$74,379	340
Adjustments:		
Add: Deletion of charge to Site Acquisition Appropriation -----	6,565	340
Less: Increase charge to Fairs and Exposition Fund -----	—2,500	340
Increase Reimbursements—		
Audits Division -----	—3,000	340
Increase Reimbursements—		
Accounting Services Section -----	—1,142	340
Net increase based on work load--	\$74,302	340
Budgeted increase for new or expanded service:		
Communications Division:		
Salaries and wages -----	\$64,292	344
Operating expenses -----	24,985	344
Equipment -----	34,645	344
Total -----	\$123,922	344

Recommendations

Amount budgeted -----	\$1,808,064
Legislative Auditor's recommendation -----	1,783,926
Reduction -----	\$24,138

Summary of Reductions

<i>Item of decrease</i>	<i>Amount</i>
Communications Division:	
1 Assistant chief of the division -----	\$6,060
1 Associate communications engineer -----	4,980
Total reduction, Communication Division -----	\$11,040
Recommended increase	
Microwave development and study, operating expenses (increase) -----	—5,000
Net reduction, Communications Division -----	\$6,040

<i>Item of decrease</i>	<i>Amount</i>
Purchases Division:	
Salaries and wages -----	\$14,256
1 Junior buyer -----	\$3,216
3 Intermediate typist-clerks -----	6,480
2 Intermediate stenographer-clerks -----	4,560
Equipment -----	3,842
Total reduction, Purchases Division -----	\$18,098
Total reductions by object of expenditures (all divisions) -----	\$24,138
Salaries and wages -----	\$25,296
Less: Operating expenses (increase) -----	—5,000
Equipment -----	3,842
Total recommended reductions -----	\$24,138

Analysis

The major factor in the increase of \$198,224 in the 1949-50 Budget over estimated expenditures for 1948-49 is attributable to the proposed expansion of the Communications Division. By object of expenditure the net increase for salaries and wages over 1948-49 is \$157,960 or 11.0 percent; for operating expenses, \$15,766 or 6.1 percent; and for equipment, \$24,575 or 61.5 percent.

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

ADMINISTRATIVE DIVISION

The amount of \$241,666, as shown on page 341 of the Budget, is requested for support of the Administrative Division. This represents an increase of \$3,635 or 1.5 percent over the amount of \$238,031 estimated for 1948-49.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>
Salaries and wages -----	\$21,412
Operating expenses (decrease) -----	—14,343
Equipment (decrease) -----	—3,414
Increase, Administrative Division -----	\$3,635

The increase is primarily attributable to normal salary increases totaling \$9,562, plus \$9,024 to cover two new positions. The new positions are both for associate administrative analysts required because of increased number of studies being undertaken.

Operating expenses are scheduled to decrease from \$50,394 to \$36,031 in 1949-50, a decrease of \$14,363 or 28.5 percent. This decrease is a result of a reduction of \$10,000 in the amount budgeted for advisory services of communication engineers and a decrease of \$5,000 in printing costs which was the amount budgeted in 1948-49 for the printing of the Communication Report.

The amount requested for equipment seems in line with division requirements.

We recommend approval of the divisional budget as submitted.

ACCOUNTS AND DISBURSEMENTS DIVISION

An amount of \$216,758, as shown on page 342 of the Budget, is requested for the support of the Accounts and Disbursements Division. This is an increase of \$26,714 or 11.4 percent over the amount of \$190,044 estimated as expenditures for 1948-49.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>
Salaries and wages -----	\$19,021
Operating expenses -----	3,300
Equipment -----	4,393
Increase, Accounts and Disbursements -----	\$26,714

The indicated increase in salaries and wages is \$19,021 or 9.8 percent over 1948-49. This advance is attributable to normal salary increases totaling \$8,318 and the addition of four new positions. The positions requested are the result of increased work load.

Operating expenses total \$28,925, an increase of \$3,300 or 12.9 percent over the \$25,625 estimated for expenditure in 1948-49. The major item of increase is \$2,000 for printing.

Requests for equipment are scheduled to advance from \$6,197 in 1948-49 to \$10,590 in 1949-50. Other than additional office furniture and equipment related to new positions, the major items consist of an additional bookkeeping machine and the replacement of a posting machine.

We recommend the approval of the divisional budget as submitted.

AUDITS DIVISION

The amount requested for support of the Audits Division, as shown on page 342 of the Budget, is \$446,298, an increase of \$27,477 or 6.6 percent over the \$418,821 estimated for 1948-49 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

<i>Item of increase</i>	<i>Amount</i>
Salaries and wages -----	\$32,392
Operating expense -----	1,250
Equipment (decrease) -----	—3,165
Increase, Audits Division -----	\$30,477
Less: Increased reimbursements other agencies -----	—3,000
Net increase, Audits Division -----	\$27,477

Salaries and wages are scheduled to increase from \$385,771 to \$418,163, an increase of \$32,392 or 8.4 percent over 1948-49. Major increases in salaries and wages are as follows: \$13,086 for normal salary increases, \$13,692 to cover four proposed new positions, and a total of \$7,114 to provide for reclassification of 18 eligible trainees. Assurance was given to the Personnel Board at the time the trainee class was established that trainees would be upgraded when they had demonstrated on the job their ability to satisfactorily perform the work required of an accountant-auditor, grade 1. Additional positions requested will permit coverage of current activities and provide for further reduction of arrearage. It is estimated that on June 30, 1949, the division will be approximately four months in arrears on their audit program.

The increase of \$1,250 or 2.8 percent in operating expenses seem justified by normal price increases and additional staff requested.

The total amount requested for equipment is \$2,235, the major item being \$1,500 for the replacement of two automobiles.

It is recommended that the divisional budget be approved as submitted.

DIVISION OF BUDGETS AND ACCOUNTS

The amount requested for support of the Division of Budgets and Accounts, as shown on page 344 of the Budget, is \$340,760 for 1949-50. This reflects an increase of \$22,480 or 7.1 percent over 1948-49.

Budgeted increases by object of expenditure are as follows:

<i>Item of increase</i>	<i>Amount</i>
Salaries and wages	\$22,638
Operating expense	2,475
Equipment (decrease)	—2,633
Increase, Budgets and Accounts	\$22,480

Salaries and wages are scheduled to increase \$22,638 or 8.2 percent over the amount of \$280,202 estimated expenditure for 1948-49. Normal salary increases total \$19,068 and there is a request for one additional position. The proposed position is for an assistant financial research technician to provide for continuation of population studies formerly done by Research and Planning. The person filling this position will also prepare feeding cost indexes.

Requests for operating expense and equipment appear to be in line with divisional requirements.

We recommend approval of the divisional budget as submitted.

DIVISION OF COMMUNICATIONS

The total support requested for the Division of Communications, as shown on page 344 of the Budget, is \$171,360. *This represents an increase of \$134,783 or 368.5 percent over the amount of \$36,577 estimated for 1948-49.*

Budgetary increases by object of expenditure are as follows:

<i>Item of increase</i>	<i>Amount</i>
Salaries and wages	\$66,210
Operating expenses	34,655
Equipment	33,918
Total increases, Communications Divisions	\$134,783

We recommend that the Budget for the Division of Communications be approved in the amount of \$165,320, a decrease of \$6,040 from \$171,360 requested, in accordance with the following schedule:

Salaries and wages	\$79,520
Operating expenses	51,155
Equipment	34,645

Summary of Reductions

We recommend disapproval of the following two positions:

1 Assistant chief of the division	\$6,060
1 Associate communication engineer	4,980

Total new positions recommended for disapproval **\$11,040**

Recommended Increases

Item of increase	Amount
Increase for microwave development, operating expenses	\$5,000
Net decrease	\$6,040

We recommend that 14 new positions be approved as follows:

2 Senior communications engineers	\$10,992
3 Associate communications engineers	14,940
2 Senior telephone technicians	6,744
1 Communications supervisor	3,900
3 Radio-telegraph operators, grade 1	10,116
1 Supervising clerk, grade 1	3,060
2 Intermediate stenographer-clerks	4,560

Total new positions recommended for approval \$54,312

We further recommend that full responsibility for maintenance of radio equipment for all state agencies be placed in the Division of Communications and that operating responsibility for the interstate police radio-telegraph and the state teletype service be assumed by this division. To accomplish this purpose we recommend the transfer of budgeted positions and related support items from other departments as outlined below.

1. Interstate Police Radio-Telegraph

a. Transfer from the California Highway Patrol
5 Radio-telegraph operators, grade 1 \$16,860

2. Radio Maintenance and Service

a. Transfer from the California Highway Patrol
3 Supervising radio-telephone technicians 14,220
13 Senior radio-telephone technicians 52,379
Operating expenses (travel and automobile operation estimated) 14,400

Total \$80,999

b. Transfer from the Division of Highways
0.5 Supervising radio-telephone technician \$2,370
2.5 Senior radio-telephone technicians 10,230

Total \$12,600

c. Transfer from the Division of Forestry
1 Supervising radio-telephone technician \$4,740
8 Senior radio-telephone technicians 32,118
Operating expenses (travel and automobile operation estimated) 8,100

Total \$44,958

3. State Teletype Service *

a. Transfer from the Department of Justice
3 Teletype supervisors \$9,869
18 Teletype operators 50,089
Operating expenses

Office \$4,034
Telephone and telegraph 400
Teletype rentals 171,082
Rental—special equipment 10,800
Maintenance of equipment 600

186,916

Total \$246,874

* Transfer of the teletype service from the Department of Justice to the Division of Communications will require legislative action.

Recapitulation of recommended transfers from other departments by object of expenditure:

Salaries and wages-----	\$192,875
Department of Highways-----	\$12,600
California Highway Patrol-----	88,459
Division of Forestry-----	36,858
Department of Justice-----	59,958
Operating expense-----	209,416
California Highway Patrol-----	\$14,400
Division of Forestry-----	8,100
Department of Justice-----	186,916
Total recommended transfers-----	\$402,291

Automobiles and equipment utilized by services being transferred should be transferred with the positions.

The total amount by object of expenditure that would be made available for support of the Division of Communications by adjustments recommended above is as follows:

<i>Object of expenditures</i>	<i>Amount</i>
Salaries and wages (74 positions)-----	\$272,395
Operating expenses-----	260,571
Equipment-----	34,645
Total support-----	\$567,611

The approval of additional positions and the transfer of existing positions from other departments is recommended for approval subject to the activation of the Division of Communications as a service organization.

Consistent with the recommendations made by the California Communications Study, which was submitted to the Director of Finance, October 8, 1948, the division should be delegated responsibilities as follows:

1. Maintain a competent engineering staff to service all agencies.
2. Operate radio maintenance service for all state agencies.
3. Establish and operate coordinated state teletype services.
4. Supervise telephone operations.
5. Operate the interstate police radio telegraph stations.
6. Process all Federal Communications Commission radio license applications for state agencies.
7. Prepare specifications and analyze proposals received relative to radio equipment purchases for all state agencies.
8. Reject or give approval on awards for radio and other related technical equipment.
9. Be responsible for final approval of all expenditures for communication expansion programs.
10. Give engineering and technical supervision to communication installation and modernization projects.
11. Conduct engineering studies as required.

The total cost of communication systems in the State is large with annual requests for additional funds for expansion or modernization of existing systems rapidly increasing the state investment. *Because of the highly technical nature of the communications field, we believe the*

establishing of a central service division with a competent engineering staff will result in not only economy of installation and operation, but improved service through the development of technologically sound systems. The development of a master plan to meet the needs of all agencies is becoming a must because of the rapidly expanding use of radio telephone communication.

Though requests for funds for the installation of a Microwave system is not included in the 1949-50 Budget, continued study and research in the field is desirable, and allowance in staff has been made for that purpose. In addition, we are increasing the amount requested for operating expense by \$5,000 to defray expenses incidental to obtaining from the Federal Communications Commission an allocation of frequencies for the proposed Microwave system in the State.

The Division of Communications eventually should become a self-supporting agency by initiation of necessary procedures for equitably charging agencies for service rendered. However, during the period of communications development it must be recognized that the retention of a comparatively large staff of competent engineers will be required to insure the development of a sound system.

PURCHASES DIVISION

The amount of \$391,313, as shown on page 345 of the Budget, is requested for support of the Purchases Division. This is an increase of \$26,495 or 7.3 percent over the amount of \$364,818 estimated for 1948-49.

We recommend that the Budget for the Purchases Division be approved in the amount of \$373,215, a reduction of \$18,098 from the \$391,313 requested for 1949-50.

Summary of Reductions

Salaries and wages -----		\$14,256
1 Junior buyer -----	\$3,216	
3 Intermediate typist-clerks -----	6,480	
2 Intermediate stenographer-clerks -----	4,560	
Equipment -----		3,842
Total reductions -----		\$18,098
Budgetary increases by object of expenditure are as follows:		
<i>Item of Increase</i>		<i>Amount</i>
Salaries and wages -----		\$26,256
Operating expenses -----		3,450
Equipment (decrease) -----		—3,211
Total increase -----		\$26,495

Salaries and wages are scheduled to increase \$26,256 or 9.1 percent over 1948-49. This is attributable to normal salary increases totaling \$8,584, plus nine proposed new positions. Operating expenses show an increase of \$3,450 or 5.2 percent over 1948-49. Equipment requests total \$7,206, a decrease of \$3,211 from the amount of \$10,417 estimated for expenditure in 1948-49.

Adequate work load figures to support the request for new positions are not available. The necessity of a thorough time study and work load analysis was emphasized in our analysis of the division's 1948-49 Budget request. A total of 14 additional positions were requested by this division

for the current year. Due to inadequacy of work load data, eight of the fourteen positions were recommended for approval only on the condition assignment be deferred until a work load analysis had been completed by the Department of Finance and the study justified the additions. The Administrative Procedures Division was assigned to make a study of the methods and procedures of the division but their report has not been completed.

We recommend therefore that only the following additional positions be approved for 1949-50:

1 Supervising typist-clerk, grade 1 -----	\$3,216
1 Intermediate file clerk -----	2,160
1 Intermediate account clerk -----	2,640
Total -----	\$8,016

The supervising typist-clerk, grade 1, is to head a proposed clerical pool. This centralized clerical activity seems desirable and should result in increased production. The intermediate file clerk will relieve typists from filing responsibilities. The intermediate account clerk is a transfer from the Stores Division.

The following positions are recommended for disapproval:

1 Junior buyer -----	\$3,216
3 Intermediate typist-clerks -----	6,480
2 Intermediate stenographer-clerks -----	4,560
Total -----	\$14,256

We recommend that the amount for equipment be approved for \$3,364, a reduction of \$3,842 from the \$7,206 requested. This reduction in the amount for equipment is related to the positions recommended for disapproval. This item is subject to minor adjustment by the Department of Finance based on positions approved.

BUREAU OF LIQUIDATION

The amount of \$19,878 as shown on page 346 of the Budget is requested for support of the Bureau of Liquidation. This represents a decrease of \$911 or 4.4 percent under the \$20,789 estimated as expenditures for 1948-49.

The amount requested appears nominal and we recommend approval of the divisional Budget as submitted.

PUBLIC WORKS AND ACQUISITION DIVISION

The amount of \$27,531 as shown on page 347 of the Budget is requested for support of the Public Works and Acquisition Division. This represents an increase of \$8,115 or 41.8 percent over the amount of \$19,416 estimated for 1948-49.

Budgetary increases by object of expenditure are as follows:

Item of increase	Amount
Salaries and wages -----	\$1,247
Operating expenses -----	600
Equipment (decrease) -----	—297
Increased expenditures -----	\$1,550
Add: Deletion of charges to site acquisition appropriations -----	6,565
Net increase, support -----	\$8,115

The increase in estimated expenditures for the Public Works and Acquisition Division is \$1,550 or 6.0 percent over estimated expenditures for 1948-49. Charges of \$6,565 to site acquisition appropriations reduced the support necessary from the General Fund in the current year.

The increase in salaries and wages is attributable to normal salary increases amounting to \$455 and the reclassification of one position.

Operating expenses and equipment items seem related to requirements.

We recommend approval of the divisional Budget as submitted.

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

Item 124, page 29 of the Budget Bill and pages 338 and 339 of the Budget. The amount requested for support of the Audits Division from the Fair and Exposition Fund is \$47,500. This is an increase of \$2,500 over the amount requested for 1948-49. This increase is based on an estimate of requirements developed by the Audit Division and is made necessary by increased fair activities. This entire appropriation is supplemental to the amount of \$446,298 incorporated as a part of the amount provided by Item 123.

We recommend that Item 124 be approved as submitted.

For Payment of Premiums for Automobile Liability Insurance or Liability Claims and Necessary Expenses Incident to Investigation, from the General Fund

Item 125, page 29 of the Budget Bill and page 347 of the Budget. The amount requested is \$105,000 from the General Fund for payment of liability claims and expenses incident to investigation, adjustment and defense thereof, or for premiums for automobile liability insurance, Department of Finance.

This is the same amount as was requested for the 1948-49 Fiscal Year. A saving of \$6,415 or 6.1 percent is forecasted out of the amount appropriated for 1948-49, leaving a net expenditure of \$98,585.

We recommend approval of Item 125 as submitted.

For the Purchase of Public Liability Insurance from the General Fund

Item 126, page 29 of the Budget Bill and page 347 of the Budget. *This is a new item this year.* The amount requested covers premiums on comprehensive liability insurance to insure the liability of the State and its officers and employees for damage or injury to persons or property resulting from the dangerous or defective conditions of state-owned or controlled property.

We recommend that Item 126 be approved in the amount of \$2,500 as submitted.

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

Item 127, page 29 of the Budget Bill and page 347 of the Budget. The amount requested is \$2,500. This is the same as the amount requested in 1948-49.

We recommend that Item 127 be approved as submitted.

For Premiums on Official Bonds Required by Officials and Employees, Department of Finance, from the General Fund

Item 128, page 29 of the Budget Bill and page 348 of the Budget. The amount of \$5,000 requested is the same as estimated expenditures for 1948-49.

We recommend that Item 128 be approved as submitted.

For Painting Portrait of Governor, Department of Finance, from the General Fund

Item 129, page 29 of the Budget Bill and page 348 of the Budget. The amount requested is \$2,000 to cover the cost of painting a portrait of Governor Warren.

We recommend Item 129 be approved as submitted.

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

Item 130, page 29 of the Budget Bill, and page 348 of the Budget. The amount of \$25,000 requested for distribution of state documents to libraries is the same as requested in 1948-49.

We recommend that Item 130 be approved as submitted.

BUILDINGS AND GROUNDS DIVISION

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

Item 131, page 29 of the Budget Bill and page 349 of the Budget. The amount requested is \$1,609,009 from the General Fund for support of the Buildings and Grounds Division. This is an increase of \$134,372 or 9.1 percent over the amount of \$1,474,637 estimated to be expended in the 1948-49 Fiscal Year. In addition to the amount appropriated from the General Fund, \$1,001,384 is budgeted for appropriation from the Service Revolving Fund, comprising collections from other agencies. *This makes a total expenditure program of \$2,610,393 or a total increase over 1948-49 of \$274,970.*

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages-----	\$149,920	349
Normal salary increases-----	\$54,756	
46 new positions-----	105,364	
Temporary help (decrease)-----	—8,500	
Less increased salary savings-----	1,700	
Operating expenses-----	105,753	349
Equipment (decrease)-----	—1,991	349
	<hr/>	
Increase, work load, etc.-----	\$253,682	
Service Revolving Fund:		
Less: Increased collections		
appropriated for support-----	—140,598	349
	<hr/>	
Net increase, work load, etc.-----	\$113,084	349

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase for new or expanded service:		
Administration		
<i>Police training</i>		
Operating expense	\$1,880	\$3,669
Travel (estimated)		349
Supplies	1,789	
Total increase, police training	\$3,669	
Automotive inspection service		
<i>Automotive maintenance</i>		
Salaries and wages	\$7,707	350
3 positions	\$8,520	
Temporary help	312	
Less: Salary savings	—1,125	
Operating expenses (estimated)	6,054	350
Equipment	3,858	350
Total increase, automotive maintenance	<u>\$17,619</u>	<u>350</u>
Total increases—expanded service	<u>\$21,288</u>	

Recommendations

Amount budgeted	\$1,609,009
Legislative Auditor's recommendations	\$1,609,009
Reduction	None

Buildings and Grounds

We strongly recommend that definite charges be made to all agencies for rent and maintenance services irrespective of the fund from which such agency is supported. Upon the same premise, the budget of each individual agency should include rent for all space at a rate which will cover pro rata costs of operation, maintenance, service, and repair cost in order to provide a proper evaluation of its particular budget. The current practice of not charging rent or maintenance costs to General Fund agencies occupying space in state-owned buildings permits unfavorable comparison of budgetary support, especially since a large number of both General and Special Fund agencies are paying rent for quarters in private buildings. Changes made by departments from rent free state buildings to space from which charges are made also makes budget comparisons invalid from one year to another. Furthermore, the present system fails to provide an incentive for space conservation or economy by General Fund agencies occupying space in state buildings.

Both for economy and proper budgeting we recommend this procedure be set up as soon as possible and be incorporated in the 1950-51 Budget.

Analysis

The increases in the proposed 1949-50 Budget, including expenditures from the Service Revolving Fund, over estimated 1948-49 expenditures shown by function are as follows:

Function	Increase	Percent increase
Administration -----	\$12,181	8.9
Automotive inspection service -----	18,088	146.4
Sacramento buildings -----	127,325	9.8
San Francisco buildings -----	11,161	3.7
Los Angeles building -----	94,515	17.6
Rented buildings -----	11,700	22.5
Total increase -----	\$274,970	11.8

Salaries and wages show a total increase of \$157,627 or 10.4 percent over 1948-49. *This item includes a request for 49 new positions, 34 of which are in the janitor classification.* Sacramento buildings have requested 24 additional janitors and three additional head janitors. Four of the above additional positions of janitor are being transferred from the Department of Education and the State Controller's office to the Division of Buildings and Grounds. The remainder of the positions are based on added work load requirements. The positions of one head janitor and six janitors requested by Los Angeles buildings are required for maintaining and cleaning the Motor Vehicle Office Building which has been made the responsibility of the Division of Buildings and Grounds. The total amount requested for temporary help has been reduced by \$8,812.

Operating expenses show an increase of \$115,476 or 14.4 percent over 1948-49. The major factor in this advance is the increased cost of telephone exchange services. The budgetary request for telephone exchange services in San Francisco, Los Angeles, and Sacramento totals \$497,350, an increase of \$77,910 over the amount of \$419,440 estimated for 1948-49.

Two items of expanded service are included in the Budget request. Under Automotive Inspection Service, it is proposed to expend approximately \$17,619 to initiate an automotive maintenance service in Sacramento. The State now operates about 5,000 passenger cars with the cost of major overhauls estimated at \$150,000 per year. This proposed service will provide protective maintenance only. *It is believed that this service, through making minor repairs, will pay dividends in reducing expenditures for major repairs and overhauls.* After initial costs of organization, this service will become self-supporting. *We recommend that this service be approved on an experimental basis.*

Operating expenses under Administration includes an amount of \$3,669 requested to provide a training course for California State Police. Included in this item is the amount of \$1,789 for the purchase of supplies including ammunition and the balance, or \$1,880 will be required to cover travel expense of trainees. It is proposed to conduct all training in Sacramento which will involve bringing officers from Los Angeles and San Francisco for these training courses. *It is recognized that this special training is desirable and the special instruction in the use of firearms is a prerequisite to officers carrying sidearms.* However, the possibility of arranging for special training in the areas in which the officers are on

duty should be further explored, and if feasible training courses should be conducted in San Francisco and Los Angeles thereby effecting travel savings.

We also recommend that the Buildings and Grounds Division investigate the feasibility of installing a paper shredder and baler to provide for disposition of confidential or restricted material by various state agencies. This item was included in the Personnel Board Budget and recommended for deletion on the grounds that it should be available to all agencies and established as a central facility.

We recommend that Item 131 be approved in the amount requested, subject to administrative consideration of studies requested above.

For Alterations, Repairs and Equipment to State Capitol, State Office Buildings and Rented Office Buildings, Department of Finance, from the General Fund

Item 132, page 29 of the Budget Bill and page 353 of the Budget. The amount requested from the General Fund is \$212,900. This represents a decrease of \$642,600 from the amount of \$855,500 estimated for 1948-49.

We recommend approval of the amount requested.

For Maintenance of the State Burying Ground in San Mateo Known as the Union Cemetery, Department of Finance, from the General Fund

Item 133, page 29 of the Budget Bill and page 354 of the Budget. The amount requested is \$1,500 from the General Fund. The amount requested is to provide for maintenance of the Union Cemetery in San Mateo County and is identical with the amount requested for expenditure in 1948-49.

We recommend approval of Item 133 as submitted.

For Temporary Housing for Agencies in Sacramento, Including Alterations and Repair of Rented Office Buildings, Rental of Space in Privately Owned Buildings, and Expenses of Moving State Agencies, Department of Finance, from the General Fund

Item 134, pages 29 and 30 of the Budget Bill and page 354 of the Budget. The amount of \$265,000 is requested for the functions indicated. The delay in starting construction on the annex to the State Capitol has resulted in an estimated expenditure of only \$19,550 out of a \$265,000 appropriated for this function in 1948-49.

We recommend approval of the amount requested.

LOCAL ALLOCATIONS DIVISION

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

Item 135, page 30 of the Budget Bill and pages 356 thru 358 of the Budget. The amount requested is \$173,852 from the General Fund for support of the Local Allocations Division. This is an increase of \$6,308 or 3.8 percent over the amount of \$167,544 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase or salary adjustment at existing level of service:		
Administration		
Salaries and wages-----	\$9,937	356
Normal salary increases-----	\$10,072	
1 new position-----	2,030	
Reclassification-----	360	
Less		
Decrease, temporary help-----	—2,200	
Increase, salary savings-----	—325	
Operating expenses-----	8,600	----
Equipment (decrease)-----	—4,386	----
Total Increase—Administration-----	\$14,151	
Add: Decrease pro rata credits for administration services to programs for acquisition of surplus housing materials for veterans and farmers-----	+24,668	----
Net Increase-----	\$38,819	
Less: Increase appropriation for support from Unemployment and Construction Fund-----	—32,511	----
Net Increase—General Fund-----	\$6,308	
Budgeted increase for new or expanded service:		
None		

Recommendations

Amount budgeted-----	\$173,852
Legislative Auditor's recommendation-----	173,852
Reduction-----	None

Analysis

The Local Allocations Division is responsible for the administration of certain appropriations to local agencies. The activity relative to the administration of revolving funds for the acquisition and sales of surplus housing to veterans and farmers is being completed during the current year.

The budget request of \$175,852 from the General Fund and \$142,242 from the Unemployment and Construction Fund, makes a total amount of \$316,094 requested for the continued administration of the following activities during the 1949-50 Fiscal Year:

- Aid to local agencies for postwar plans and sites, Chapter 47, Statutes of 1944 (4th Extra Session).
- Aid to local agencies for postwar construction, Chapter 20, Statutes of 1946 (1st Extra Session).
- Aid to local agencies for emergency veterans housing, Chapter 29, Statutes of 1946 (1st Extra Session); Chapter 1, Statutes of 1946 (2d Extra Session); Chapter 391, Statutes of 1947; Chapter 1574, Statutes of 1947.
- Acquisition of housing facilities at colleges, Chapter 46, Statutes of 1946 (1st Extra Session).
- School Building Aid, Chapter 1575, Statutes of 1947.

The total of expenditures from all funds is scheduled to decrease from \$447,187 in 1948-49 to \$316,094 in 1949-50, a decrease of \$131,093 or 29.3

percent. This decrease is a result of the termination of activities connected with the acquisition and sale of surplus housing to veterans and farmers.

We recommend approval of this budget as submitted. However, we point out that additional positions should be eliminated during the 1949-50 Fiscal Year commensurate with any further declines in the activities of the division.

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

Item 136, page 30 of the Budget Bill and page 356 of the Budget. The amount requested is \$142,242 for additional support of the Local Allocations Division from the Postwar Unemployment and Construction Fund. This is an increase of \$32,511 over 1948-49. This entire appropriation is supplemental to the \$173,852 provided by Item 135.

We recommend approval of Item 136 as submitted.

DIVISION OF FAIRS AND EXPOSITIONS FROM THE FAIR AND EXPOSITION FUND

Item 137, page 30 of the Budget Bill and page 361 of the Budget. The amount requested is \$82,311 from the Fair and Exposition Fund for support of the Division of Fairs and Expositions. This is an increase of \$30,696 or 59.5 percent over the amount of \$51,615 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase or salary adjustment at existing level of service:		
Salaries and wages-----	\$953	361
Operating expense -----	3,600	----
Equipment -----	1,224	----
Total -----	\$5,777	
Budgeted increase for new or expanded service:		
Accounting Services		
Salaries and wages-----	\$6,360	361
1 Semi-senior accountant ----- \$3,720		
1 Senior account clerk ----- 2,640		
Operating expenses -----	2,140	----
Equipment -----	408	----
Total Accounting Services-----	\$8,908	
Maintenance Supervision:		
Salaries and wages-----	\$3,900	----
1 Assistant construction inspector ----- \$3,900		
Operating expenses -----	3,995	----
Equipment -----	2,452	----
Total Maintenance Supervision-----	\$10,347	
Plans and Specifications Reviews:		
Salaries and wages-----	\$4,470	361
1 Associate architectural draftsman -----		
Operating expenses -----	\$1,560	----
Equipment -----	249	----
Total Plans Review-----	\$6,549	
Total Cost Expanded Services-----	\$25,804	
Less: Estimated salary savings-----	--885	
Net Total Expanded Services-----	\$24,919	

Recommendations

Amount budgeted	\$82,311
Legislative Auditor's recommendation	82,311
Reduction	None

Analysis

The amount requested for salaries and wages is \$53,255. This is an increase of \$15,068 or 39.5 percent over the amount of \$38,187 estimated to be expended in 1948-49. Included in this increase is a request for four additional positions. Operating expenses are scheduled to advance from \$12,562 to \$23,857, an increase of \$11,295 or 89.9 percent. The major items of increase are travel, rent and automobile operation. Necessity of moving from the present quarters at the Fair Grounds plus the proposed increased staff has increased the amount for rent from \$2,180 to \$5,550. Increases in other items of expense are caused primarily by new and expanded services.

A total of \$5,199 is requested for equipment, included in this item is a request for two additional automobiles. One automobile is to replace a borrowed one now being used and the other is for the maintenance supervisor who will be in the field constantly. An amount of \$1,309 is budgeted for furniture and equipment for the proposed new positions.

It is estimated that the proposed expansion of accounting services will cost approximately \$8,908 during the 1949-50 Fiscal Year. This increase in service is proposed to give the various fairs additional service in connection with their budgetary, accounting, contracting, and other procedures. Audit reports covering the various fairs continue to show many deficiencies in these fields. The efforts of this unit should be directed toward the immediate correction of these administrative deficiencies.

The request for one assistant construction inspector is to provide maintenance supervision for fairs operating under the Fairs and Exposition Division. The person assigned to this position will assist fairs in organizing their maintenance work for the most effective results. He will also advise the various fairs relative to work necessary in order that property and equipment be properly maintained. This person will require a car and will be in the field continuously. It is estimated that the first year cost for this service will be approximately \$10,347. The major two items of cost for this service other than salary is \$1,800 for an automobile and \$3,000 set up for travel. *We recommend this service be approved on a trial basis. During the year a careful record should be maintained, listing improvements and economies effected by this service.*

It is proposed to establish a plans and specifications review service in the division at a total cost of \$6,549. One associate architectural draftsman is requested to provide competent review of plans and specifications for construction jobs which do not come under the supervision of the Division of Architecture. This function should result in more accurate information on which to invite bids or initiate contracts. This added assistance to the fairs is expected to expedite and improve the quality of the work to be performed.

We recommend that the budget for the Division of Fairs and Expositions be approved as submitted.

We recommend that the division take an aggressive attitude in seeing that corrective action is taken immediately on all audit exceptions. A close supervision should be established over the manner and type of expenditures made by district and county fairs receiving state support. It is particularly important to take immediate action to develop controls necessary to limit the use of funds, allocated under executive orders, to the purpose for which they were granted.

For Support of the State Agricultural Society, Division of Fairs and Expositions, Department of Finance, from the State Agricultural Society Contingent Fund

Item 138, page 30 of the Budget Bill and page 362 thru 366 of the Budget. The amount requested is \$1,833,752, from the State Agricultural Society Contingent Fund for support of State Agricultural Society, Division of Fairs and Expositions, Department of Finance. This is an increase of \$346,985 or 23.34 percent over the amount estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages-----	\$15,708	362
Less: Increase in salary savings-----	1,750	----
Operating expenses-----	—5,200	----
Equipment-----	1,423	----
Reserve for contingencies-----	33,000	----
Total-----	\$43,181	
Reimbursements: (add)		
Operations division expenditures chargeable to capital outlay-----	—73,800	----
Total-----	\$116,981	
Budgeted increase for new or expanded service:		
Salaries and wages-----	\$4,000	362
Operating expense-----	180,751	----
Equipment-----	28,253	----
Total-----	\$213,004	
Reserve for contingencies-----	17,000	----
Total-----	\$230,004	

Recommendations

Amount budgeted-----	\$1,833,752
Legislative Auditor's recommendations-----	1,665,504
Reduction-----	\$168,248

The recommended reduction of \$168,248 consists of the following items:

<i>Operating Expense</i>	
Elimination of paid advertising-----	\$70,000
Fifty percent of major increases scheduled under Exhibits and Horse Show exclusive of increase in premiums-----	20,497
Fifty percent of major increases scheduled under Promotions and Attractions, exclusive of increase in rental of equipment and paid advertising-----	13,625
	\$104,122
Deletion of item of Reserve for Contingencies-----	50,000

Equipment

Fifty percent of the amount requested for <i>additional</i> items of equipment representing improvements <i>above</i> the existing level of service -----	14,126
Total recommended reductions -----	\$168,248

Such a reduction will leave the sum of \$1,683,004 with which to put on the 1949 Fair. This is \$178,737 or 11.88 percent above the 1948-49 expenditure of \$1,504,267.

Expenditure Trend in Relation to Revenues

The problem of financing the operation of the California State Fair grows more acute with each succeeding year. *Total expenditures progress at a rate and volume of increase that outstrips operating revenues to the point where larger and larger appropriations must be made to offset these operating deficits.* The result has been a continuing depletion of the unbudgeted surplus available in the State Agricultural Society Contingent Fund.

By way of illustration, the following figures reflect the operating deficit created by the excess of support expenditures over operating revenues.

	1947-48	1948-49	Increase	
			Amount	Percent
Total expenditures -----	\$1,134,483	\$1,504,267	\$369,784	32.59
Total revenues -----	\$927,623	\$937,487 *	\$9,864	1.06
Operating deficit -----	\$206,860	\$566,780	\$359,920	173.99
		1949-50	Increase	
			Amount	Percent
Total expenditures -----		\$1,851,252	\$346,985	23.06
Total revenues -----		\$910,500	—\$26,987	—2.87
Operating deficit -----		\$940,752	\$373,972	65.98

* Includes \$37,237 allowed by United States Government for restoration of property, a non-recurring revenue item.

The foregoing figures point the way to an operating deficit of well over a million dollars by 1951-52, unless fair operations are substantially improved by a combination of reduced expenditures and improved revenues.

With a forecasted deficit of \$940,752 in 1949-50 representing a 65.98 percent increase over 1948-49 and total revenues scheduled to actually decline, there is every reason to effect substantial economies in the over-all operation. It should be noted that the decline in total revenue is attributable to the inclusion in the 1948-49 figures of an amount of \$37,237 representing an allowance by the Federal Government for restoration of the property. However, even with the exclusion of that item, the real operating revenue gain is only \$10,250, a relatively negligible amount when compared to the \$346,985 increase in expenditures. *Attention is also directed to the fact that the operating revenue for 1949-50 is \$17,123 or 1.84 percent less than the comparable figure for 1947-48.*

The Pass System

The State Agricultural Society is contributing to one phase of retarded revenues by retaining the unsound practice of issuing passes.

Estimates place the loss of revenue due to the pass "system," at between thirty-five to fifty thousand dollars.

It is an inconsistent philosophy of management that spends \$35,000 on paid advertising in 1948-49 and asks for the further sum of \$70,000 in 1949-50 to attract more patrons to the Fair in order to improve revenues, and disregards effectuating a policy that will net them \$35,000, without any expenditure, based on the present volume of attendance.

The matter of passes cannot be solved effectively by attempting merely to tighten up their issuance and reduce the number. Such attempts only result in more clearly marking the line of favoritism and bad public relations.

The only effective way to correct abuses incidental to the pass system and to improve revenues, is to entirely eliminate passes.

The facts are that in 1947 an estimated total of 269,169 passes were issued having a total revenue value of \$134,584.50 and 131,230 of these were honored. The honored passes had a revenue value of \$65,615.

In 1948, a total of 437,880 passes were issued having a total revenue value of \$218,940. A total of 126,185 passes were honored. The honored passes had a revenue value of \$63,092.50.

We recommend that the State Fair start now to get on a self-sustaining basis.

Attempting to get the California State Fair on a self-sustaining basis will not blaze any new trails in fair management. It has been done and is being done elsewhere.

Both the Texas and the Arizona State Fairs are run on a self-sustaining basis.

One of the best Eastern annual fairs, the Eastern States Exposition, is run by a private fair corporation which pays both taxes and a profit.

We recommend that further substantial increases in the State Fair Budget be curtailed until the management has exhausted every means at its disposal to improve the technique and quality of the presentation and increases in revenues warrant increased expenditures.

Salaries and Wages

The total increase in salaries and wages amounts to \$17,958 or 2.54 percent.

This increase is attributable to the following changes:

Normal salary adjustments -----	\$15,516
0.5 Proposed new positions -----	4,192
Less: Increase in salary savings -----	1,750
	<hr/> \$17,958

The presently authorized positions total 86.2.

The sum of \$4,192 is required to finance salaries and wages for 0.5 proposed new positions at a cost of \$4,000 and one reclassification at a cost of \$192.

The proposed new position is that of a part time exhibit superintendent, grade 2, at a cost of \$4,000.

Recommendation

Position approved. There is considerable room for improvement in obtaining the right type of varied exhibits that will enhance the drawing power of the State Fair, if it is to be truly a State Fair and not a glorified regional fair with Hollywood attractions. The added expenditure is nominal when considered in the light of potential increase in the quality of exhibits.

Reclassification of supervising account clerk, grade 1, to supervising account clerk, grade 2.

Recommendation

Approved. Audit reports on the accounting function indicate the need for added controls to be exercised by supervising personnel. Added responsibility in line with effecting the required controls merit the reclassification, whether or not such added controls can be achieved by a reclassification, is a management problem which is the responsibility of the State Agricultural Society.

There is included in the total cost for salaries and wages, the sum of \$76,600 for overtime. This represents 10.56 percent of the total cost of salaries and wages.

We are cognizant of the fact that some preparatory work on an over-time basis must of necessity be done during the last few days prior to the opening of the Fair as well as during the actual operation of the Fair. *However, the amount expended for overtime is unduly large in relation to the total pay roll. Some savings should be effected on this item with proper programming sufficiently in advance to enable the major labor costs, for skilled trades particularly, to be met on the basis of regular time pay.*

The excessive cost of overtime is graphically illustrated by the following examples of actual payments made to individuals on the pay roll for the 1948 State Fair. The following are examples of actual earnings for straight time and overtime work performed by 11 individuals between September 1st and 15th, 1948, a two weeks period.

Classification	Straight time	Overtime	Total earned in two weeks
Electrician foreman -----	\$127.20	\$734.05	\$861.25
Electrician -----	153.60	489.60	643.20
Electrician -----	153.60	652.80	806.40
Plumber foreman -----	126.24	728.51	854.75
Plumber -----	96.39	473.62	570.01
Plumber -----	83.30	511.70	595.00
Carpenter foreman -----	174.96	530.33	705.29
Carpenter -----	102.24	480.80	583.04
Sheetmetal worker -----	96.00	324.00	420.00
Laborer -----	61.20	272.34	333.54
Laborer -----	48.96	426.87	475.83
	<u>\$1,223.69</u>	<u>\$5,624.62</u>	<u>\$6,848.31</u>

The above indicates that 11 employees earned a total of \$6,848.31 during the first 15 days of September, 1948. This is an average of \$622.57 per employee for 15 days, or an average of \$41.50 per employee per day. The actual average is higher since these payments were largely made for work actually performed through the 12th of September, 1948.

The cost of overtime pay was 459.6 percent more than the cost of the straight time pay.

While the example stated represents a peak, nevertheless it is clear that only a few such peaks are needed to consume funds for overtime pay at a terrifically high cost for the basic value of the services received.

Operating Expense

Operating expenses are scheduled at \$1,005,909 for 1949-50. This is an increase of \$175,551 or 21.14 percent over the amount of \$830,358 estimated to be expended in the 1948-49 Fiscal Year.

The trend, by function, for operating expenses is indicated below:

Function	Increase in operating expense	
	Amount	Percent
Administration -----	\$6,795	17.65
Exhibits and horse show -----	76,628	33.23
Operations -----	—9,753	—3.82
Promotion and attractions -----	99,258	32.61
Concessions and commercial space -----	2,623	147.61
	<hr/> \$175,551	<hr/> 21.14

The major increase in the State Fair budget occurs in the category of operating expenses. The increase in operating expenses represents 50.59 percent of the total increase in the State Fair budget.

Many of these items are more easily controllable and many of the contemplated increases are due to an expansion above the existing level of service. It follows, therefore, that in view of the static condition of revenues that such items should be subject in the most part to such reductions as will afford a better balance and yet not unduly disturb revenue expectations.

The largest increases in operating expenses are reflected under the functions of "Exhibits and Horse Show" and "Promotions and Attractions," the increases being \$76,628 or 33.23 percent and \$99,258 or 32.61 percent respectively.

Exhibits and Horse Show—Operating Expenses

The major items of increase under the Exhibits and Horse Show function listed in the order of the greatest dollar amount of increase are:

Item	Total expenditure for 1949-50	Increase over 1948-49	
		Amount	Percent
Premiums -----	\$155,584	\$32,174	26.28
Free attractions -----	10,000	8,300	488.33
Bands and music -----	16,700	7,323	78.09
Printing -----	19,600	5,350	37.54
Judges -----	18,615	4,264	29.71
Contests -----	6,500	4,245	188.24
Special days -----	5,600	3,950	263.33
Fashion show -----	10,000	3,090	44.71
Trophies, medals and ribbons -----	11,075	2,255	25.56
Receptions -----	10,000	2,217	28.48
Totals -----	<hr/> \$263,674	<hr/> \$73,168	<hr/> 27.74

We recommend a reduction in operating expenses of this function in the amount of \$20,497. This represents 50 percent of the major increases in operating expenses, exclusive of the increase in premiums.

Promotions and Attractions—Operating Expenses

The major items of increase under the function of Promotions and Attractions, listed in the order of the greatest dollar amount of increase are:

Item	Total expenditure for 1949-50	Increase over 1948-49	
		Amount	Percent
Rental of equipment -----	\$56,150	\$37,150	195.52
Paid advertising -----	70,000	35,000	100.
Promotions and promotional contests ----	19,500	13,500	225.
Attractions -----	68,500	9,000	15.12
Fireworks -----	17,500	3,000	20.61
Traveling -----	5,500	1,750	46.6
Totals -----	\$237,150	\$99,400	41.9

It is to be noted that the stated increases listed in the above tables total \$172,568 which is 49.73 percent of the total budget increase of \$346,985. Further, the outlined increases comprise 98.3 percent of the total increase scheduled in operating expenses.

We recommend a reduction in operating expenses of this function in the amount of \$13,625 consisting of 50 percent of the amount of the increase in the items listed above, exclusive of paid advertising and rental of equipment.

We recommend a further reduction in operating expenses of \$70,000 covering paid advertising.

The question of paid advertising for the State Fair presents a few problems some of which are analogous to the pass system in that everybody wants to get into the act.

Some of the advertising media feel that they are not getting their share of the total advertising allotment, with the result that somebody always feels injured irrespective of what advertising policy is followed.

The State Fair is supposed to be a public program representative of the entire State. As such it deserves the support of each component unit of the State. We believe that a program of advertising support can be developed on an industry-wide basis the same as industry-wide exhibits should be developed.

Such an advertising program would be tied in directly with the industries and members thereof exhibitnig at the fair. They are collectively far greater users of advertising media than the State Fair can ever hope to be. As such they are in a beter position to influence the support of the very advertising media which they use, to lend a cooperative hand for the benefit not of their individual products but for the benefit of the State Fair when they exhibit and indirectly of the community wherein they are located.

Such a program, we believe, can be made far more effective than the direct expenditure of twice the sum asked for paid advertising in this Budget.

If properly carried out, it cannot help but enhance the ultimate quality of the exhibits generally, and afford a wider, more effective publicity coverage, both of which in turn mean more profitable attendance records and revenues.

We recommend deletion of the amount of \$50,000 set up as an item of reserve for contingencies.

We reiterate our comment of last year that such a practice in effect defeats to a large degree the fundamental purpose of budgeting by function and object and substantially renders effective analysis of such a budget difficult.

We note that no accounting is made in the present Budget as to the manner of expenditure of the \$50,000 set up for this item last year.

The Budget as presented on page 365, line 48, indicates either that it was all spent or none was set up. If the former is true, then the expenditure is already distributed among the various functions, objects, and items as reflected for 1948-49 and to again include the amount for 1949-50 as a lump sum is adding just so much padding to the Budget.

Equipment

Equipment expenditures are scheduled at \$53,067 for 1949-50. This is an increase of \$29,676 or 126.87 percent under the amount of \$23,391 estimated to be expended in 1948-49.

The trend by function is as follows :

Function	Increase in equipment	
	Amount	Percent
Administration -----	—\$64	—4.58
Exhibits and horse show -----	2,583	932.49
Operations -----	25,306	120.65
Promotions and attractions -----	2,194	716.99
Concessions and commercial space -----	—343	—78.85
Total -----	\$29,676	

Out of the total of \$53,067 for equipment, the sum of \$21,970 is for items of replacement and the further sum of \$31,097 is for additional equipment.

A resume of the equipment schedule for this facility shows that the total amount required for additional items of equipment to equip all proposed new positions, plus some items due to normal expansion at the existing level of service totals \$2,844. Deducting this latter sum from the total of \$31,097 requested for additional items leaves \$28,253 for equipment additions that represent improvements above the existing level of service.

It is therefore recommended that a reduction of 50 percent or \$14,126 be made in the amount of additional equipment, representing improvements above the existing level of service.

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

Item 139, page 30 of the Budget Bill and page 366 of the Budget. The amount requested is \$915,000 from the Fair and Exposition Fund to augment the State Agricultural Society Contingent Fund. This is an increase of \$665,000 or 266 percent over the amount of \$250,000 appropriated in Item 172 of the Budget Bill for the 1948-49 Fiscal Year.

Recommendations

Amount budgeted -----	\$915,000
Legislative Auditor's recommendations -----	915,000
Reduction -----	None

Analysis

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

The large increase in the amount requested is due to continued large deficits in the fair operation, which over a period of time has reduced the estimated unbudgeted surplus in the Contingent Fund to only \$25,436 as of July 1, 1949. This, together with a further deficit of \$940,752 estimated for the 1949-50 Fiscal Year necessitates the requested increase in the appropriation in order to meet expenditures totaling \$1,979,370. *Based upon the amount requested, together with estimated operating revenues from the State Fair, there will be left an unbudgeted surplus in the State Agricultural Society Contingent Fund in the amount of \$11,566 as of June 30, 1950.*

SIXTH DISTRICT AGRICULTURAL ASSOCIATION

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

Item 140, pages 30 and 31 of the Budget Bill and pages 367 through 369 of the Budget. The amount requested is \$110,827 from the Fair and Exposition Fund for support of the Sixth District Agricultural Association. This is an increase of \$13,997 or 14.5 percent over the amount of \$96,830 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages		367
Salary adjustments -----	\$3,698	
New positions -----	4,080	
Decrease in salary savings -----	—55	
Operating expenses -----	\$7,723	
Equipment -----	3,935	
	2,339	
Total -----	\$13,997	
Budgeted increase for new or expanded service----	None	

Recommendations

Amount budgeted -----	\$110,827
Legislative Auditor's recommendations-----	95,827 *
Reduction -----	\$15,000

* If rental of Coliseum not increased by \$15,000 per year.

Analysis

The work load of the Sixth District Agricultural Association is not based upon any determinable factors. The district operates an exposition building in Exposition Park, Los Angeles. *Its exhibits, housed in the building, can be as moderate or expensive as the Legislature chooses to make them.* Certain continuing costs are determined by the size and number of exhibits provided by the previous year's budget. Improvements one year may cause increased attendance the next, with higher costs of maintenance and operation. The increased attendance is used to justify further improvements and expansion which results in higher budgets.

The 1947-48 Budget provided \$175,000 for capital improvements, and the 1948-49 Budget provided \$125,000. *This has resulted in the expansion which, with price and salary increases, has almost doubled the support costs over the 1945-46 Budget.*

Attendance at the Exposition Building is shown in Table 1 below:

Table 1
Attendance at the Sixth District Agricultural Association Exhibits

Year	Attendance
1946-47 Actual -----	289,076
1947-48 Actual -----	380,000
1948-49 Estimated -----	380,000
(Closed for two months during remodeling)	
1949-50 Estimated -----	760,000

The justification submitted with the Budget request for additional equipment for exhibits outlines the program of modernization to be undertaken. A part of this statement is set forth below:

"The program generalized above is predicated upon a complete rework of the exhibit areas and calls for abandonment of fully 90 per cent of the formerly employed techniques (chiefly dioramas), and in conformity with this departure, all areas will be reevaluated from a lighting engineering standpoint.

"Techniques currently employed by outstanding exhibit and merchandising designers throughout the world involve a lighter, more open and free display of objects; and, the use of 'space' above, below and around objects to lessen oppressiveness and permit 'see through' from one area to the next involves a completely new type of lighting installation.

"Rather than an *inflexible general room illumination or a completely concealed system* (commonly employed behind uninterrupted wall cases), this new approach requires individual lighting, often with the fixtures exposed and many with special light distribution characteristics.

"Whereas in the past the larger portion of the lighting employed in exhibits in this building have consisted of inexpensive glass reflectors of heterogeneous design with brass shell receptacles and extension cord connectors, the current requirement is for enclosed light units such as spun aluminum reflector spots and finished metal sheathed trough lights (incandescent and fluorescent). This approach to a zone control of lighting permits raising or lowering the level of illumination to accommodate such techniques as automatic slide projectors and movies adjacent to other types of graphic treatments requiring high light levels.

"Where formerly installations were inexpensive and not properly considered items of equipment, the new exhibit lighting (in keeping with modern treatments being developed by the State Department of Architecture for lobby and office areas) will necessarily be more expensive and come under the heading of equipment."

The revenue from rental of the Coliseum property which accrues to the Sixth District Agricultural Association is estimated at \$30,000. *In 1948, at the time the 1948-49 Budget was prepared, it was anticipated that the rental contract would be re-negotiated in 1949 and a larger part*

of the support borne by this revenue. It now appears that the rental contract is to be extended at \$30,000 a year, leaving the State to bear the large part of the cost of the association each year. We recommend it be placed at least at \$45,000 per year or the Budget be cut \$15,000.

The Sixth District Agricultural Association receives \$15,000 a year, by statute, from the Fair and Exposition Fund. The balance of the difference between proposed expenditures (\$117,525) and revenues (\$45,000) is also requested from the Fair and Exposition Fund.* Since it is probable that expenditures will continue at the present level or higher, *it is recommended that this session of the Legislature consider the whole matter of appropriation to this district an amount which will be solely on a budget of needs from the Fair and Exposition Fund and eliminating all statutory appropriation.* Its present support is comparable to the State Fair which now enjoys a statutory appropriation of \$125,000 a year, the Los Angeles County Fair which gets \$125,000, and the 1-A District Agricultural Association \$100,000. Almost all the other fairs are now receiving at least a minimum of \$65,000 a year whether they need it or not. *They also should be on a true annual budget basis.*

For Augmentation of the Sixth District Agricultural Association Fund, Payable from the Fair and Exposition Fund

Item 141, page 31 of the Budget Bill and page 369 of the Budget. The amount requested is \$65,000 for augmentation of the revenues and statutory appropriation to the Sixth District Agricultural Association Fund. This is \$35,000 or 116.6 percent more than the \$30,000 augmentation required for the 1948-49 Fiscal Year.

Recommendation

Amount budgeted	\$65,000
Legislative Auditor's recommendations	50,000
Reduction	\$15,000

Analysis

Source of funds for support of the Sixth District
Agricultural Association :

	1949-50
Estimated unbudgeted surplus July 1, 1949	\$15,058
Statutory appropriation from first balance	
Fair and Exposition Fund	15,000
Item 141 (SB 444) (AB 1100) from second balance	
Fair and Exposition Fund	50,000
Coliseum revenue	45,000
	\$125,058

The amounts listed above, less an estimated \$7,533 which will be unexpended by the end of the 1949-50 Fiscal Year, will be necessary to permit the appropriation by Item 140 of \$110,827 from the Sixth Agricultural District Fund.

We recommend that the statutory appropriation of \$15,000 annually to the Sixth District Agricultural Association be eliminated and that

* The \$6,698 difference between the \$110,827 requested in the Budget and the \$117,525 total expenditures is for contributions to the Employee's Retirement System, an item not subject to budget appropriation.

the whole matter of appropriation to this association be on the basis of budgeted needs.

We recommend that the amount of \$50,000 in Item 141 be approved. This amount plus the \$15,000 statutory appropriation and \$45,000 in revenues is necessary to finance the expenditure program costing \$110,-827 recommended in Item 140.

DIVISION OF STATE LANDS

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

Item 142, page 31 of the Budget Bill and pages 371 through 375 of the Budget. The amount requested is \$289,596 from the State Lands Act Fund for support of the Division of State Lands. This is an increase of \$17,331 or 6.4 percent over the amount of \$272,265 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages-----	\$9,158	372
Normal salary increases-----	\$4,795	
1 new position-----	3,307	
Add: Decrease in salary savings-----	1,056	
Operating expenses-----	11,286	372
Equipment (decrease) -----	—11,455	373
Total -----	\$8,989	
Reimbursements:		
Add: Decrease land appraisals, survey, and laboratory services -----	\$300	
Net total increases-----	\$9,289	
Budgeted increase for new or expanded service:		
Files indexing service:		
Salaries and wages-----	\$2,160	372
Operating expense -----	4,000	372
Equipment -----	882	373
Total, files index service-----	\$7,042	
Auditing service:		
Operating expense -----	\$1,000	372
Total, auditing service-----	\$1,000	
Total, new or expanded service-----	\$8,042	

Recommendations

Amount budgeted -----	\$289,596
Legislative Auditor's recommendations-----	289,596
Reduction -----	None

Analysis

The State Lands Act Fund receives its money from the sale and rental of state lands and royalties from mining and petroleum production on state lands. The fund is used for the administration of the Division of State Lands and for transfer to the General Fund and agencies supported out of the money so received.

All oil royalties from certain tidelands will continue to be impounded by the United States Government until a final determination is made as to their disposition or as to the disposition of the controversial tidelands.

The revenues to the State Lands Act Fund are estimated at \$1,329,810 in 1949-50, compared to \$1,247,809 in 1948-49, an increase of \$82,001 or 6.6 percent.

Expenditures for the Division of State Lands are scheduled to increase \$17,331 or 6.4 percent with two new positions being requested. The position of land title abstractor is requested to permit the continuation of an existing position charged to the appropriation for the installation of a public lands record system. The person occupying the position will continue to assist in the establishment of the record system and maintain the index thereafter. Under new and expanded service, an additional intermediate file clerk is requested to assist, under the guidance of a files expert, in the establishment of a comprehensive file index in the Los Angeles office. After the completion of the project, the additional clerk will be required to maintain the index.

Operating expenses show an increase of \$16,286 or 20.8 percent over 1948-49. Included in this increase is a request for \$4,000 for an expert service required to survey and initiate an adequate indexing system for the files of the Los Angeles office. The increasing public demand for leases indicates a need for further systemization of internal procedures. Provision is made under Equipment for necessary files for this installation.

The sum of \$1,000 is requested under Operating Expenses for auditing services. This allotment is requested for the purpose of entering into a contractual agreement with the Division of Audits for the audit of special lease accounts. There is a need for part, but not full time, services of an auditor and we believe the recovery of additional royalties will more than pay for the additional service. We recommend approval of this item.

Requests for equipment are \$9,893, as compared with \$20,466 in 1948-49, a decrease of \$10,573 or 51.7 percent. Equipment requests seem to be related to requirements.

We repeat our recommendation of 1948-49 that all agencies receiving support from the State Land Act Fund other than from the sale of school lands should be transferred to support from the General Fund and all money collected by the Division of State Lands, with the exception of that which goes into the State School Fund, should be paid into the General Fund. The State School Fund receives money from mineral royalties and rentals and from the sale of school lands. All impounded tideland moneys when and if released should also be paid into the General Fund. Funds, other than the General Fund, which now receive money from the State Lands Act Fund by transfer are: The Veterans' Dependents Education Fund, the State Beaches Fund, and the State Parks Fund. The transfer to the General Fund of these agencies now supported from the State Lands Act Fund would allow a greater control over the expenditures of the agencies and would permit a better evaluation of the financial needs of these agencies in relation to other activities supported by the General Fund.

For the Installation of a Public Lands Record System from the State Lands Act Fund

Item 143, page 31 of the Budget Bill and page 371 of the Budget. The amount requested is \$15,000 from the State Lands Act Fund to complete the installation of a record system for all public lands. The Budget request for 1948-49 indicated completion during the current year, but the project has been continued into 1949-50 in order to include sovereign lands in the index. It is now estimated that the system will be completed by January 1950.

We recommend that Item 143 be approved in the amount of \$15,000 as requested.

For Support of the Proprietary Lands Survey from the State Lands Act Fund

Item 144, page 31 of the Budget Bill and page 373 of the Budget. The amount requested is \$4,300 from the State Lands Act Fund to complete a comprehensive index of all proprietary lands owned by the State or its agencies. This is a final request. The amount requested will provide for two positions for a period of six months.

We recommend that Item 144 be approved in the amount of \$4,300 as requested.

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

Item 145, page 31 of the Budget Bill and page 374 of the Budget. The amount requested is \$70,000 for contract services, materials and supplies requested to continue the State's fight to regain control of the tide and submerged lands. This is the same amount requested for 1948-49.

We recommend that Item 145 be approved in the amount of \$70,000 as requested.

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

Item 146, page 31 of the Budget Bill and page 374 of the Budget. The amount requested is \$10,000 from the State Lands Act Fund. This is to cover expense of further litigation in the case against the Bureau of Power and Light, City of Los Angeles, for flooding the state-owned mineral deposits in the bed of the Owens and Mono Lakes. The case is now on appeal and it is anticipated it will be carried to the Supreme Court.

We recommend that Item 146 be approved in the amount of \$10,000 as requested.

For Defense of Quiet Title Actions from the State Lands Act Fund

Item 147, page 32 of the Budget Bill and page 374 of the Budget. The amount requested is \$25,000 from the State Lands Act Fund to be used for quiet title actions brought against the State, as provided by Chapters 1164 and 1154, Statutes of 1947.

We recommend that Item 147 be approved in the amount of \$25,000 as requested.

For Expense of Survey and Report to Legislature on Torrens Title Act from the State Lands Act Fund

Item 148, page 32 of the Budget Bill and page 375 of the Budget. The amount requested is \$10,000 from the State Lands Act Fund to cover

expenses of a comprehensive survey and report to the Legislature on the Torrens Title Act. The Torrens Title Act Fund is now bankrupt.

We recommend that Item 148 be approved in the amount of \$10,000 as requested.

NAPA STATE FARM

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

Item 149, page 32 of the Budget Bill and page 376 of the Budget. The amount requested is \$36,257 from the General Fund for support of the Napa State Farm. This is an increase of \$1,215 or 3.5 percent over the amount of \$35,042 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages	\$340	376
Operating expense	400	376
Equipment	475	376
Total Increase	\$1,215	
Budgeted increase for new or expanded service:		
None		

Recommendations

Amount budgeted	\$36,257
Legislative Auditor's recommendations	\$35,402
Reduction	\$825

Summary of Recommendations

Equipment Reductions:	
Automobile—replacement (difference)	
1 Light car for medium car requested	\$325
Carpets and rugs	500
Total reductions recommended	\$825

Analysis

The Northern California Subcommittee of the Legislative Joint Agriculture and Livestock Problems Committee, after its meeting at Napa State Farm on December 8, 1948, repeated recommendations made after a similar meeting on January 14, 1948, which were as follows:

1. That the farm be turned over to the Department of Mental Hygiene at the earliest possible moment, to be operated to satisfy the requirements of the Napa State Hospital, the Veterans Home, and the Sonoma State Home.

2. The Napa Hospital hog ranch and the hog ranch of the Veterans Home should both be consolidated at the Napa State Farm.

We recommend that action be taken to accomplish this consolidation as soon as possible.

Salaries and wages and operating expense show only nominal increases. We recommend, however, the reduction of \$825 in the amount

requested for equipment. An amount of \$1,075 is requested to replace a 1942 Buick sedan with a medium car. We recommend that \$750 be approved for this item—the amount required to make a light car replacement. We recommend that a request of \$500 for carpets and rugs be disapproved on the basis of economy.

FRANCHISE TAX COMMISSIONER

For Support of the Franchise Tax Commissioner

Item 150, page 32 of the Budget Bill and page 377 of the Budget. The amount requested is \$2,196,654 from the General Fund for support of the Franchise Tax Commissioner. This is an increase of \$245,823 or 11.2 percent over the amount of \$1,950,831 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at the existing level of service:		
Salaries and Wages:		
Salary adjustments -----	\$50,353	
New positions (5) -----	10,560	
Promotions -----	1,800	
Salary savings -----	147,966	
	<u>\$210,679</u>	377
Operating expense -----	30,735	377
Equipment -----	4,409	377
	<u></u>	
Total increase -----	\$245,823	
Budgeted increase for new or expanded service:		
None -----		

<i>Recommendations</i>	<i>Amount budgeted</i>	<i>Legislative Auditor's recommendations</i>	<i>Increase</i>
For transfer of Inheritance and Gift Tax	\$2,196,654	\$2,223,085	\$26,431*
Division from Controller -----		367,406	367,406
		<u></u>	<u></u>
Total -----		\$2,590,491	\$393,837

* Composed of: Increase of \$30,000 in temporary help contingent on elimination of temporary rates, personal exemptions and credits. Recommended reduction of \$1,323 in operating expense and \$2,246 in equipment.

Analysis

We recommend that the duties, personnel and equipment of the Inheritance and Gift Tax Division of the State Controller be transferred to the Franchise Tax Commissioner, with the budget of \$367,406 for its support.

Budgeted increase based on work load, price increase, or salary adjustment at the existing level of service:

The principal increase in the budget of the Franchise Tax Commissioner for the 1949-50 Fiscal Year results from a decrease of \$147,966 in salary savings. As of January, 1949, there were 30 examiner positions still unfilled. It is expected that these positions can be filled by July of

1949, and consequently salary savings will be reduced by the amount of their salaries, plus salaries of sundry other unfilled clerical positions.

The positions to be filled are essential to the efficient operation of this office. While the work load itself has not increased, except as noted below, it has not been adequately or satisfactorily coped with. It has been necessary for much of the work to be covered superficially or passed over entirely in order to permit the existing staff to perform the essential work. *Almost half of the Personal Income Tax Returns are not examined; although there is evidence that revenue is lost to the State by such omission.* Full use of available information is not made because of lack of personnel to do the job. The study made by the Department of Finance in reorganizing the Personal Income Tax and Franchise Tax Divisions called for these positions.

Two of the new positions are required by the work load of the Legal Section. Two others are the replacement of temporary clerical help in Los Angeles with permanent positions, the amount for temporary help being reduced accordingly. One clerical position in San Francisco is required to improve the handling of audit material.

Other increases are related to salary adjustment, price increases and maintenance of the existing level of service.

Recommended Increase

Although estimates of revenues in the Budget are based on the elimination of the temporary tax rates, exemptions and credits in accordance with the provisions of Chapter 12, Statutes of 1948, *the budget of the Franchise Tax Commissioner is based on continuation of the temporary rates, personal exemptions and credits through the 1949-50 Fiscal Year.*

However, if the rates, exemptions and credits are permitted to automatically return to the 1943 level, it will affect the work load of the Personal Income Tax Division during the last three months of 1949-50 Fiscal Year. We estimate that there will be approximately two hundred thousand more returns received during those three months than the 1,000,000 which were anticipated in preparing the expenditure portion of this Budget.

The additional returns will require a larger allowance for the printing of returns, more postage, probably \$25,000 additional for temporary help to assist in processing the returns, and an increase in rent for the space to house the temporary employees. There will be no additional examiner positions required for 1949-50 because the examination of these returns will not be started until the 1950-51 Fiscal Year.

The largest part of the additional returns will be in the small taxpayer group, which warrant little or no attention from the examiners. However, the change in rates, exemptions, and credits will enlarge the group of taxpayers whose returns are examined and investigated. Consequently, there will be increased need for examiners in the 1950-51 Fiscal Year.

The Franchise Tax Division will experience no material change in work load as a result of the change in the temporary tax credit for corporations because all registered corporations are required to file returns, regardless of tax due.

The over-all cost of the change in rates, exemptions and credits will probably approximate \$30,000. *We recommend the Franchise Tax Commissioner's Office be allowed an amount not to exceed \$30,000 in Budget Item 150 to be contingent on the change in the rates becoming effective during the 1949-50 Fiscal Year, and on the commissioner's submitting a detailed estimate of the additional costs accruing from this increased work load.*

Recommended Reduction

The amount recommended for reduction is the cost of rugs for various offices and the rental on the Santa Rosa office. The office for which each rug is requested is listed below in Table I with its cost:

Office	Table I	Size	Cost
San Francisco, associate counsel.....		12' x 15'	\$320
Sacramento, chief, Franchise Tax Division.....		15' x 18'	342
Sacramento, assistant chief, Franchise Tax Division.....		15' x 18'	342
Sacramento, chief, Personal Income Tax Division.....		15' x 15'	400
San Francisco, assistant income tax supervisor.....		12' x 15'	320
San Francisco, area supervisor, rug and pad.....		15' x 18'	522
Total			\$2,246

We do not recommend the acquisition of these rugs for the individual employee's offices. This expenditure of the State's money results in enhancing the prestige of the particular employee and aggrandizing his position. It does not contribute to the efficiency of the organization nor improve the service to the taxpayers. It raises the policy question of how far the State should go in placing carpets and rugs in offices throughout all state agencies.

Observation of the branch office at Santa Rosa disclosed that there is an insufficient volume of work required at this location to justify the payment of \$1,323 in rent, and \$2,400 in salary for one intermediate typist-clerk. The office, at present, provides desk space for an income tax examiner engaged in field investigations and auditing, and is a receiving office for income tax returns during April and May of each year.

The examiner's time is largely in the field, and the work of the typist is primarily answering telephone calls and occasionally taking dictation. There is so little work to be done by the typist that work is sent to her by the San Francisco area office for typing and remailing.

We recommend that the separate office of the Franchise Tax Commissioner in Santa Rosa be discontinued, saving \$1,323, that the position of intermediate typist-clerk be transferred to the San Francisco office, that the facilities of the Board of Equalization in Santa Rosa be used for telephone calls to the examiner and distribution of tax forms to taxpayers.

Incorporation of Franchise Tax Commissioner's Office Into a Revenue Department

We recommend that the Office of the Franchise Tax Commissioner be abolished and that the divisions thereof be incorporated in a Revenue Department to be established administering all major state taxes.

The consolidation of the Franchise Tax Commissioner's Office with other revenue divisions in a Department of Revenue would make possible

savings of \$75,000 or more per year in salaries, rent, supplies, telephone expense, printing, travel, automobiles, postage, and equipment. Larger saving would follow from coordinated auditing. Improvements in efficiency would be realized through uniformity of procedures, forms and supervision. The greatest benefit would accrue to taxpayers, from the greater convenience in reporting taxes, obtaining information, and forms for the various taxes now being assessed and collected by a number of unrelated departments, and in the auditing of the taxpayers' books.

An alternative to the establishment of a Department of Revenue would be the incorporation of the various Divisions of the Franchise Tax Commissioner into the State Board of Equalization organization. The same savings mentioned above would be realized, namely approximately \$75,000 per year. The board facilities are much more extensive than those of the Franchise Tax Commissioner's. The board has more than 50 branch offices throughout the State, whereas the commissioner has 12 offices, all of them in towns in which there is a Board of Equalization office. Such functions as collection of unpaid taxes, and distribution of information and forms, could well be handled by the field offices of the board for the Personal Income Tax and Franchise Tax Divisions. This would result in a better service to the taxpayer.

Duplication of audit information could be eliminated, and exchange of information between Sales Tax and other board divisions with Personal Income Tax and Franchise Tax Division would increase the effectiveness of all the divisions.

Some of the service groups of the board and the commissioner's office would operate more efficiently as part of a consolidated organization. The board is expanding its Personnel Section, and this section could well take over personnel procurement and records for the commissioner's office. The Research and Statistics Division of the board, the administrative analyst, the legal section, and the internal auditors of the board could standardize procedures between the operating divisions to the end that greater efficiency could be achieved, and better service rendered the public.

As an alternative to the establishment of a full new Revenue Department, or using the Board of Equalization as a base for such, we recommend that the commissioner's position be abolished and a position of Director of Revenue be established, appointed by the Governor with the confirmation of the Senate. This director would administer the Bank and Corporation Franchise Tax, the Corporation Income Tax, the Personal Income Tax, and such other taxes as may be assigned to him by the Legislature.

This action would create an office with definite responsibility and authority, and answerable to the Governor for its administration.

Headquarters of the Franchise Tax Commissioner

We recommend that the commissioner or whoever administers this agency, make his headquarters in Sacramento, releasing the office which he now uses in San Francisco to relieve congestion in that office. No added expense would be incurred since an office in Sacramento is now reserved for the commissioner.

The headquarters of the Franchise Tax Commissioner are stated as being in Sacramento in the Governor's Budget for 1948-49 Fiscal Year. During the early years of the operation of the Franchise Tax Commissioner's Office, the commissioner made his headquarters in Sacramento. In 1938, he transferred his headquarters to San Francisco and he has maintained office space in both San Francisco and Sacramento since that time. The reason given for the requested transfer was that the majority of corporations reporting and paying taxes to the Franchise Tax Commissioner had head offices in San Francisco and it would be more convenient to them if they had access to the Franchise Tax Commissioner in San Francisco.

It is quite true that the attorneys for corporations and large income taxpayers desired to confer with the upper level franchise tax employees in both San Francisco and Los Angeles. The records show that the commissioner, himself, has held few if any conferences with taxpayers or their representatives in San Francisco.

Organizationally, the presence of the commissioner in San Francisco is unsound. The chiefs of his divisions, namely, the Corporation Franchise Tax Division, the Personal Income Tax Division, the accounting officer, statistician, the supervisor of collections, the legal counsel, and the appeals and review officer are located in Sacramento. Since the commissioner no longer comes to Sacramento to assume responsibility for his administration, the assistant commissioner, and the division chiefs have conducted the affairs of the commissioner's office. Policy and procedure have been largely determined by men who lack the full responsibility for the results of their decisions. The authority for such decisions has been theirs by default of the commissioner. The commissioner is fortunate in having the loyalty of these men, but such loyalty has interfered with the correction of what is inherently a bad situation.

Automobile Assigned to the Commissioner

We recommend that the automobile now assigned to the commissioner be placed in pool use, to be used by such officials as require State transportation and for the occasional official use which the present commissioner now gives the car.

This action would eliminate the use of the car for personal purposes which investigation has shown to be the principle use of the car. The commissioner has admitted that he does not require a car to be assigned to him personally.

OPERATIONS OF THE FRANCHISE TAX COMMISSIONER'S OFFICE

Method of Appointment

The Franchise Tax Commissioner is appointed by the Chairman of the Board of Equalization, the State Controller, and the Director of the Department of Finance. It was contemplated at the time his appointment was made that he would be removable by the same officers.¹ How-

¹Sec. 22, Chap. 13, of the Statutes of 1929:

"Sec. 22. The Franchise Tax Commissioner, herein referred to, shall be appointed by the Director of the Department of Finance, the Controller of the State and the Chairman of the State Board of Equalization, who are authorized to provide him with such assistants as they may deem necessary, and he shall serve for such period, and for such compensation, and under such conditions as they may prescribe."

ever, the law which provided for a classified Civil Service failed to name the Franchise Tax Commissioner as being one of the officers not included under the Civil Service.² Consequently, the Franchise Tax Commissioner is removable only by the filing of charges under the provisions of the Government Code.³ He is the only Civil Service employee not responsible to anyone in the conduct or performance of his duties.

No provision was made in the creation of the office for the Franchise Tax Commissioner taking direction, assuming responsibility, or deriving his authority from the three officers who appointed him. He was not then a Civil Service employee. Now that he is Civil Service he is entirely beyond their control and operates his office as he sees fit. This situation should be corrected by appropriate legislation.

The failure of the Franchise Tax Commissioner to take an active and progressive part in directing the work of his office has permitted conditions to develop which should not exist.

Deficiencies in Organization

Notwithstanding that the Department of Finance has completed studies of the Franchise Tax Division and the Personal Income Tax Division, looking to improving their organizational structure and flow of work, there is still poor coordination between the divisions of the Franchise Tax Commissioner's Office. The Accounting, Collection and Statistical Divisions operate independently and within well defined limits. Consequently, there is a lack of close relationship between these divisions and the other divisions which would assist in improving the efficiency of the whole organization. Such close cooperation, under the direction of the Franchise Tax Commissioner, would result in closer control over taxpayers' returns, more effective collection work, improvement of forms and procedures, elimination of duplicate functions, and more effective planning.

Control Over Delinquent Taxpayers

Under present procedures in both the Franchise Tax Division and the Personal Income Tax Division, there is virtually no control over taxpayers who do not file returns. This results from the lack of comparison of returns filed with lists of taxpayers. In the Franchise Tax Division, the nonfiling of a return is not disclosed until an auditor reviews that taxpayer's file. This may take from six months to two years after the due date of the return. Of the 36,000 corporations required to file returns in 1947, some 30,000 returns were received. No analysis was readily available to show which taxpayers had failed to file returns. A cumbersome control system has recently been installed which will provide a list of delinquent taxpayers, but only at the expenditure of much clerical effort. At one time the Accounting Division provided a list of taxpayers whose accounts had not been posted for the period in question. There is no indication that this list has ever been used to follow up the delinquent taxpayers, although its compilation involved considerable effort.

² Article XXIV, Section 4, of the State Constitution.

³ Section 19500, Government Code.

The personal income tax returns are mailed to persons filing returns the previous year. No comparison is made between returns received with the names to whom they are mailed, consequently a taxpayer's failure to file a return is not noted until other evidence of his liability is uncovered.

Loss of revenue to the State results from this inadequate control over taxpayer's returns.

Credits Remaining on Books

Department of Finance audits of the Commissioner's Office disclose a large number of credits standing on the books for several years for which no apparent liability had been established to justify the withholding of a refund to the taxpayer. Efficient administration would require the clearing of these amounts either through assessment or refund. On October 31, 1947, there were 3,513 active accounts with credit balances aggregating \$2,470,345.27 on the books.

Inefficient Filing System

The files of the Franchise Tax Division are poorly maintained. Material in the folders is not organized, voluminous and hard to handle. Withdrawal records are not accurate and it is frequently difficult to locate folders. Too many folders at a time are withdrawn with the consequence that much of the filed material is actually found on auditor's desks.

Revision of Forms Needed

Many of the forms used in the commissioner's office are obsolete, complicated, and impractical. Much clerical work and correspondence could be eliminated with competent analysis of the forms used. Much of the correspondence with taxpayers could be reduced to form letters.

Some specific instances of poor drafting of forms is seen in the following:

1. The final notice of assessment notifies the taxpayer that he owes taxes and will be subject to penalty for nonpayment. Nowhere on the form is the date by which the payment must be made to avoid penalty.

2. Two forms are used in the Franchise Tax Division to record reductions in amounts due. One applies to refunds, the other to abatements. In the Personal Income Tax Division one form suffices for both entries. A similar simplification could be used in the Franchise Tax Division.

3. Much correspondence results from the inadequacy of the form sent to new corporations regarding their income year for tax purposes. The form fails to notify the taxpayer that the income year must end on the last day of a month. Needless correspondence arises from the lack of this detail. Some 150 to 200 dictated letters a month could be replaced by use of form letters on this subject alone.

4. The present "Demand for Delinquent Return" does not state the rate of interest to be paid. This causes delinquent returns to be received without the interest due, necessitating further correspondence.

5. "Adjustment of Taxpayer Liability" forms are inadequate and frequently require further correspondence with the taxpayer to explain the basis for the adjustment.

6. There is need for study and revision of tax forms in both the Franchise Tax Division and the Personal Income Tax Division. The corporation franchise tax returns are lengthy, complicated, and unwieldy. Their form has been dictated by the federal forms, because of similarity in the tax laws. A study of the possibility of using short income tax forms should be made in conjunction with the Department of Finance. The State of New York has adopted a machine record tax form that provides numerous advantages. Use of such a form should be considered in view of the increased number of taxpayers anticipated in 1949-50.

Outside Accounting Work by Examiners and Auditors

Substantial investigation of the activity of the Franchise Tax Commissioner's Office disclosed that many of the technical staff were employed as accountants and auditors by private enterprises. It is apparent that these employees are in a position where their private employment conflicts with their state employment. The commissioner has not seen fit to define the outside employment which would be incompatible with state duties, consequently the employees are in doubt as to their status.

We recommend that the following policy be adopted by this office:

Proposed Policy Regarding Performance of Public Accounting and Auditing by Examiners in the Employ of the State Franchise Tax Commissioner

Public accounting work is incompatible with the duties normally engaged in by examiners in the Franchise Tax Commissioner's office under two sets of conditions.

1. When the examiner is placed in a position where he *might* review a tax return which he himself has prepared for a client or which a client has prepared from figures audited by the examiner. This condition is distinguishable from a case where the examiner had done bookkeeping and accounting for a client but where the entries in the books of the client were subject to audit by another auditor or public accountant. In the latter case, errors or principles of accounting determined by the state examiner would be passed upon by the client's auditor and, thereby, not be the final decision of the state employee. In the first case, where the state examiner prepared the figures or return, he would be in a sense serving two masters, the State and his client, whose interests are in opposition to one another.

2. The other position under which outside accounting would be incompatible with the duties of the examiner would occur when there was a *possibility* the outside accounting interfered with the proper performance of the state duties. Such a situation would arise when the state examiner consulted with clients during state office hours, on state premises, and where state equipment was used in the outside accounting. It would also arise where the volume of outside accounting work done outside of office hours rendered the state examiner unable to produce the normal volume of work which his duties required. This might occur when the examiner is working long hours at night, on week ends, and on his vacation.

The outside accounting would become incompatible with the state work when it was first undertaken rather than at the time the state examiner received an assignment which would cause him to review, on behalf of the State, either returns or figures which he has prepared for private clients, or where he is rendered unfit for the state work by virtue of excess work on outside accounting. While up to that point there may be no active conflict with the State's interest, if it is inevitable or reasonably inevitable that such a point will be reached, the work is incompatible at its inception rather than at the point of conflict.

In the orderly administration of state functions the public and taxpayers are entitled to have confidence that the employees of the State will not engage in practices which would lead a reasonable person to suspect them of using their state position for private gain. It is the responsibility of the administration in charge of the state examiner to take all necessary precautions that the activities of his employees are above suspicion. If this requires administrative ruling to prevent such suspicions arising, then it is the responsibility of the administrator to make such ruling.

Where the same qualifications which render an employee valuable to the State as an examiner are those which make his service desirable as a public accountant, then an administrative decision should be made at the time of employing the examiner as to whether he will be permitted to use those qualifications in work which will later conflict with state interests. Furthermore, when the position which the examiner holds is one which would make it likely that taxpayers would employ him because of his position or because of the qualifications which his position certifies to, the administrator should make a decision as to whether the employee will be permitted to take advantage of these contacts in furthering his outside accounting work.

Under existing state revenue laws the period of greatest demand on the state examiner's time by his state duties coincides roughly with the period when there is the greatest demand for his services by outside clients. This is caused by the closing of books shortly after the end of the calendar year, and the filing of federal income tax by March 15. This fact raises a presumption that the conduct of public accounting work will cause a conflict with the performance of state duties.

In the event that federal tax returns and reports are relied on in state determinations of tax due, a further field of conflict exists. While the original purpose of preparation of a federal return is the payment of tax to a separate government entity, reciprocal agreements between state and federal authorities place the federal return in the position of being a supporting document to the state return. A discrepancy between the two returns becomes the basis for investigation and adjustment of the state return. Consequently, preparation of federal returns and schedules is inseparable from the preparation of state returns.

Further incompatibility of state duties with outside accounting work for private clients is seen in the fact that the information examined by the employees of the Franchise Tax Commissioner's office is confidential in nature. There is always the possibility that such information may be turned to private gain for the advantage of the client or the employee. In the case where the state employee is hired by private client to perform accounting and auditing work, the master and servant relationship

between the client and the state employee would make the possession of confidential information concerning competitors of great value to the client.

The improvements in procedure and organization which have been recommended would result in greater efficiency within the Franchise Tax Commissioner's office. This improved efficiency could be expressed in reductions in staff and operating expenses or in increased production. *Inasmuch as both operating divisions are working on a backlog of two years, and in some cases three years old, just managing to stay ahead of the statute of limitations in auditing returns, we recommend that the savings which should be made by streamlining operations be plowed back into putting the examination and audit of returns on a current basis.*

STATE TREASURER

For Support of the State Treasurer from the General Fund

Item 151, page 32 of the Budget Bill and pages 382 and 383 of the Budget. The amount requested is \$151,730 from the General Fund for support of the State Treasurer. This is a decrease of \$4,481 or 2.87 percent less than the amount of \$156,211 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages -----	\$6,258	382
Operating expenses -----	—1,971	382
Equipment -----	—8,768	382
Total -----	—\$4,481	
Budgeted increase for new or expanded service:		
None -----	-----	-----

Recommendations

Amount budgeted -----	\$151,730
Legislative Auditor's recommendations -----	\$151,730
Reduction -----	None

Analysis

The budgeted increase of \$6,258 in salaries and wages for the fiscal year 1949-50 is explained as follows:

Normal salary adjustments -----	\$2,139
New position, 1 assistant cashier -----	2,160
Temporary help -----	600
Salary savings -----	1,359
Total -----	\$6,258

The average number of warrants one cashier can process is 20,000 per month. The Controller's office estimates a minimum increase of 20,000 warrants per month during the fiscal year 1949-50. Due to anticipated increase in work load of warrants we recommend approval of the new position of one assistant cashier. However, in view of the mechanized

system now installed in the disbursement division of the Controller's office, we recommend that when the mechanization program has progressed to the extent that the bank reconciliation of warrants in the Treasury Department is mechanized that personnel now performing these functions who are made unnecessary by this mechanization be eliminated from the Budget.

The major items which explain the decrease of \$1,971 in the amount budgeted for operating expenses are a decrease of \$4,100 in the amount budgeted for collection agency expenses, and a decrease of \$471 for insurance. The decrease in collection agency expenses is explained in part by a decline in amounts invested by the Treasury and the increased purchases of municipal bonds with a long maturity instead of the purchase of Treasury notes with a shorter maturity period. The above decreases were partially offset by increase for other operating items due to normal price increases.

The budgeted amount for equipment decreased \$1,191 and is due to additions to the vaults amounting to \$6,500 in 1948-49. The only additional equipment to be purchased in the 1949-50 Fiscal Year is a coin dispensing machine estimated to cost \$450. This machine is designed to accelerate operations at the cashier's window during peak periods and assure more accuracy in change transactions.

For Preparation and Advertising the Sale of Bonds, State Treasurer, Payable from the Veterans Farm Home and Building Fund of 1943

Item 152, page 32 of the Budget Bill and page 383 of the Budget. The amount requested is \$14,346 for the preparation and advertising of the sale of bonds under the authority of Chapter 18, Statutes of 1946. This amount is an augmentation of the original appropriation of \$35,000 for this purpose. The amount of \$14,346 appears to be necessary to complete sale of the bonds.

We recommend approval of the amount of \$14,346 as requested.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

For Support of the Department of California Highway Patrol from the Motor Vehicle Fund

Item 153, pages 32 and 33 of the Budget Bill and pages 384 to 388, inclusive, of the Budget. The amount requested is \$9,683,969 from the Motor Vehicle Fund for support of the Department of California Highway Patrol. This is an increase of \$1,623,115 or 20.1 percent over the amount of \$8,060,854 estimated to be expended in the 1948-49 Fiscal Year.

<i>Item of increase</i>	<i>Amount</i>	<i>Budget page</i>
Budgeted increase based on work load, price increase, or salary adjustment at existing level of service:		
Salaries and wages -----	\$358,734	384
Operating expenses -----	303,693	384
Equipment -----	—35,411	384
Total -----	\$627,016	