

under the provisions of Sections 20152 and 20153 of the Education Code. These sections are as follows:

"20152. The sum of 7 percent per annum upon one hundred thousand dollars (\$100,000) shall be appropriated annually by the State and shall be paid in semiannual payments to the directors of the college.

"20153. If the State fails to pay to the directors of the college the sum of seven thousand dollars (\$7,000) annually, pursuant to Section 20152, or if the college ceases to exist, the State shall pay to the heirs or legal representatives of S. C. Hastings, the sum of one hundred thousand dollars (\$100,000), and all unexpended accumulated interest, unless the failure is caused by mistake or accident, or the omission of the Legislature to make the appropriation at any one session."

We recommend that the amount of \$7,000 be approved as requested.

BOARD OF CONTROL

ITEM 110 of the Budget Bill

Budget page 354

Budget line No. 6

For Support of the Board of Control From the General Fund

Amount requested	\$21,445
Estimated to be expended in 1951-52 Fiscal Year	20,944
Increase (2.4 percent)	\$501

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$121	\$121	—	354	41
Operating expense	829	529	\$300	354	55
Equipment	—449	—449	—	354	58
Total increase	\$501	\$201	\$300		

RECOMMENDATIONS

Amount budgeted	\$21,445
Legislative Auditor's recommendation	21,445
Reduction	None

ANALYSIS

The amount of \$21,445 requested for the Fiscal Year 1952-53 represents an increase of \$501 or 2.4 percent over estimated expenditures for 1951-52.

The net increase of \$121 in salaries and wages is the result of merit salary adjustments. Operating expenses are scheduled to increase in the amount of \$829. Of this total, an additional \$500 is requested for accountant services to audit claims. The estimated increase in the number of claims justifies the additional amount requested. An amount of \$300 is requested for travel to provide for Board of Control meetings in Los Angeles at least twice a year. This is a new service but one we feel is justified because of the number of claims originating in that area. The balance of the increase in operating expenses is for minor price adjustments.

The amount requested for equipment is in order.

We recommend approval of this item as submitted.

GENERAL SUMMARY

Included in the budget of the Board of Control is \$11,500 for services of accountants by contract with the Department of Finance in auditing claims. This is largely for review of claims for tax refunds of taxes administered by the Franchise Tax Board and the Board of Equalization. Board of Control approval of tax refunds is required for taxes administered by the Franchise Tax Board and by the Board of Equalization, although it is not required for refunds made by the Controller, Department of Employment, Department of Motor Vehicles and Department of Agriculture. Although the amount of the expenditure by the Board of Control is not great, the requirement of Board of Control approval of refunds adds to the requirements of the agencies administering the tax and reflects an additional cost in their budgets.

It is recommended that a study be made of the entire system of tax refunds for all taxes in the State of California, with a view to determining proper safeguards consistent with lowest administrative costs.

STATE CONTROLLER

ITEM 111 of the Budget Bill

Budget page 356
Budget line No. 22

For Support of the State Controller From the General Fund

Amount requested	\$1,897,923
Estimated to be expended in 1951-52 Fiscal Year	1,746,617
Increase (8.7 percent)	\$151,306

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$81,522	\$81,522	---	366	40
Operating expense	40,505	40,505	---	366	41
Equipment	33,192	33,192	---	366	42
Plus:					
Decreased reimbursements of audit services to special programs	16,706	16,706	---	366	46
Less:					
Increased reimbursements for amount payable from Public School Building Loan Fund	—20,619	—20,619	---	355	18
Total increase	\$151,306	\$151,306	---		

RECOMMENDATIONS

Amount budgeted	\$1,897,923
Legislative Auditor's recommendation	1,875,362
Reduction	\$22,561

ANALYSIS

The recommended reduction of \$22,561 is related to the following positions and includes operating expense and equipment:

	New positions	Amount	Budget page	Line No.
1 Senior accountant, Accounting Division-----		\$5,885	357	53
1 Accountant auditor, Grade 1, Claim Audit Unit-----		4,076	357	60
	Established positions			
5 Intermediate account clerks, Claim Audit Unit-----		12,600	361	28
Total reduction -----		\$22,561		

1 Senior Accountant—\$5,885

The senior accountant is requested by the Accounting Division for the purpose of assisting in the preparation of an accounting manual and other duties related with central control accounts.

We recommend deletion of the position for the following reasons: (1) The preparation of an accounting manual is a responsibility of top level personnel, which we believe is sufficiently staffed at the present time. (2) The preparation of a manual is a one-time assignment which does not justify the establishment of a permanent position. (3) Two vacancies at the level of senior accountant have existed intermittently over a long period of time.

1 Accountant Auditor, Grade 1—\$4,076

This position is requested to audit pay rolls in the central pay roll unit. When this program was initiated, three positions were established for this purpose; one to be stationed in San Francisco, one in Los Angeles and one in Sacramento. We recommended disapproval at that time on the basis that the post-audit function is being performed by the Department of Finance and that sufficient internal control in the centralized pay roll unit should be established to assure average accuracy. The audit procedure outlined by the agency covers the review of almost every document and calculation and checking of practically all extensions. If this type of audit by the agency is to be made, it should be on not more than a 10 percent sampling basis, limited entirely to those transactions which have not been reviewed or audited by any other source. The Office of the Controller originally justified these positions on the basis that the operation was a new one. The program has now been in effect for approximately two years and it appears that this justification is no longer valid.

5 Intermediate Account Clerks—\$12,600

These five positions, which we recommend to be deleted, are employed in the claims audit unit—purchase order auditing. This function was transferred from the Department of Finance to the Controller's Office on October 1, 1949. A total of nine positions was transferred with the function. At the time of the transfer we recommended deletion of eight of these positions, leaving one to perform this function. The systems section of the Department of Finance has made a study of the results obtained by this audit and its cost and concluded that the cost and the duplicate effort did not warrant the expense incurred to perform a 100 percent audit. It was further recommended in the study that one employee would be sufficient to perform a 10 percent sampling check for an average agency. The deletion of five of these positions will leave three

intermediate account clerks and one senior account clerk. On the basis of one being sufficient to perform this function in 1949, and taking into consideration the increased work load that has occurred since that period, three positions should be more than sufficient to do a 10 percent sampling test check. It is the opinion of those connected with audits of this type in private industry that this percentage of audit furnishes ample protection against loss of funds. The same percentage of audits should apply to the similar function being performed by the State and should also provide the same protection.

Apart from the above positions which we have recommended for elimination, several positions for which we recommend approval have been added to the budget. They are as follows:

<i>Number of positions</i>	<i>Salaries and wages</i>
Administration	
1 Intermediate stenographer-clerk -----	\$2,640
Accounting	
1 Semi-senior accountant -----	4,296
Field Audits	
1 Auditor, Grade III -----	5,232
2 Auditors, Grade II -----	8,592
2 Accountant auditors, Grade I -----	7,080
Social Welfare Audit	
1 Auditor, Grade II -----	4,296
Disbursements	
1 Bookkeeping machine operator -----	2,640
1 Tabulating machine operator -----	2,916
1 Intermediate account clerk -----	2,520
1 Key punch operator II -----	2,640
1 Intermediate clerk -----	2,520
1 Junior tabulating machine operator, San Francisco -----	2,400
1 Junior tabulating machine operator, Los Angeles -----	2,400
8 Intermediate account clerks -----	20,160
Inheritance and Gift Tax	
1 Assistant counsel -----	4,740
1 Senior information clerk -----	2,916
1 Auditor II -----	4,296

The above positions are justified on a work load basis. However, it should be pointed out that 10 new positions are being added to the central pay roll system. Due to the fact that only approximately half of the state agencies' pay roll functions have been absorbed by the central pay roll system, additional personnel during this conversion is justified. Nevertheless, these positions can be cut back in the near future. Many refinements in the present procedure are being studied and when put into effect should result in savings. Further savings in personnel can result if and when the recommendations of the Assembly Interim Committee on Governmental Reorganization made at the 1951 Session of the Legislature are put into effect.

The additional county welfare auditor makes a total of four auditors who accompany the audit teams of the Social Welfare audit. Continuing study should be made by the agency and by the Department of Finance of the procedures and the accomplishments gained by the Social Welfare audit.

The five additional positions for general disbursements are justified by a considerable increase in warrants. However, there are still savings that can be realized in this function. The Disbursements Division, at present,

is performing part of its functions by punch card method and part by bookkeeping machines. If further utilization of the punch card equipment is made in the issuance of warrants in the general disbursements function there can be savings in the agency and also savings would result in the State Treasurer's Office.

STATE CONTROLLER

ITEM 112 of the Budget Bill

Budget page 368
Budget line No. 68***For Support of Tax Collection Division From the Motor Vehicle******Transportation Tax Fund***

Amount requested	\$101,699
Estimated to be expended in 1951-52 Fiscal Year	101,608
Increase (0.1 percent)	\$91

RECOMMENDATIONS

Amount budgeted	\$101,699
Legislative Auditor's recommendation	101,699
Reduction	None

ANALYSIS

Although a change in the law is required for the transfer of the functions of this division to the Board of Equalization, which assesses the Motor Vehicle Transportation Tax, we repeat our recommendations made in the previous year's analysis that this transfer be considered by the committees making studies of governmental reorganization or tax administration. Previous studies made by this office indicate the possibility of savings of from \$60,000 to \$70,000 by such transfer.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 367
Budget line No. 13***For Audit of Aid to Local Government From the General Fund***

Amount requested	\$2,308
Estimated to be expended in 1951-52 Fiscal Year	23,000
Decrease (90.0 percent)	\$20,692

RECOMMENDATIONS

Amount budgeted	\$2,308
Legislative Auditor's recommendation	2,308
Reduction	None

ANALYSIS

This amount is expended to audit the school building aid to impoverished school districts, Chapter 1575, Statutes of 1947. All projects will have been completed and audited by the end of the 1952-53 Fiscal Year.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 357
Budget line No. 33

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

Amount requested	\$29,263
Estimated to be expended in 1951-52 Fiscal Year	8,644
Increase (238.5 percent)	\$20,619

RECOMMENDATIONS

Amount budgeted	\$29,263
Legislative Auditor's recommendation	29,263
Reduction	None

ANALYSIS

Under Chapter 1389, Statutes of 1949, the Field Audits Division of the Controller's Office performs audits of all expenditures on construction projects of school districts for which the State has granted loans. This audit covers the examination of all expenditure documents to determine the legality thereof. It is anticipated that an increased number of projects will be in progress during the 1952-53 Fiscal Year. For that reason, an increase of \$20,619 is the amount necessary to audit the increased volume.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 115 of the Budget Bill

Budget page 367
Budget line No. 49

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

Amount requested	\$73,302
Estimated to be expended in 1951-52 Fiscal Year	69,316
Increase (5.8 percent)	\$3,986

RECOMMENDATIONS

Amount budgeted	\$73,302
Legislative Auditor's recommendation	73,302
Reduction	None

ANALYSIS

The increase of \$3,986 is due to the expense of an anticipated increase of 520 audits in the 1952-53 Fiscal Year over the 1950-51 Fiscal Year.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 116 of the Budget Bill

Budget page 369
Budget line No. 52

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

Amount requested	\$87,729
Estimated to be expended in 1951-52 Fiscal Year	84,584
Increase (3.7 percent)	\$3,145

RECOMMENDATIONS

Amount budgeted	\$87,729
Legislative Auditor's recommendation	87,729
Reduction	None

ANALYSIS

No anticipated increase in work load is expected in this function. The total increase is due to normal salary adjustments and price increases.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 117 of the Budget Bill

Budget page 370
Budget line No. 73

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

Amount requested	\$196,718
Estimated to be expended in 1951-52 Fiscal Year	188,326
Increase (4.5 percent)	\$8,392

RECOMMENDATIONS

Amount budgeted	\$196,718
Legislative Auditor's recommendation	196,718
Reduction	None

ANALYSIS

It is anticipated that there will be an increased volume of refund claims for the 1952-53 Fiscal Year due to increased gasoline consumption. To handle this increased work load, one new position of field representative, to be supplied with an automobile, is justified. This explains the above increase in the budget request.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 118 of the Budget Bill

Budget page 372
Budget line No. 67

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

Amount requested	\$177,899
Estimated to be expended in 1951-52 Fiscal Year	179,914
Decrease (1.1 percent)	\$2,015

RECOMMENDATIONS

Amount budgeted	\$177,899
Legislative Auditor's recommendation	177,899
Reduction	None

ANALYSIS

The decrease of \$2,015 is due to a decrease of \$580 in salaries and wages, an increase of \$2,088 in operating expenses resulting from price increases, and offset by a decrease of \$2,523 in equipment, and \$1,000 increased reimbursements. Three positions were abolished in the current year that were budgeted in the 1950-51 Fiscal Year, but which were not filled.

We recommend approval of the amount requested.

**Board of Equalization
GENERAL ACTIVITIES**

ITEM 119 of the Budget Bill

Budget page 373
Budget line No. 48

For Support of Board of Equalization From the General Fund

Amount requested	\$11,336,781
Estimated to be expended in 1951-52 Fiscal Year	11,208,360
Increase (1.1 percent)	\$128,421

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$52,044	\$27,385	\$24,659	387	44
Operating expense	71,484	56,484	15,000	387	45
Equipment	25,852	25,852	---	387	46
Less:					
Reimbursements	-20,959	-20,959	---	387	49
Total increase	\$128,421	\$88,762	\$39,659		

RECOMMENDATIONS

Amount budgeted	\$11,336,781
Legislative Auditor's recommendation	11,328,889
Reduction	\$7,892

ANALYSIS

The total amount requested from the General Fund for 1952-53 for the Board of Equalization is \$11,336,781. This is an increase of \$128,421, or 1.1 percent, over the amount estimated to be expended for 1951-52.

The gross increase in salaries and wages over 1951-52, including two requested additional positions, is \$229,737. This is offset by an increase in salary savings of \$177,693, leaving a net increase of \$52,044. Exclusive of adjustments in salary savings, the over-all increase would be \$306,114, or an increase of 2.7 percent.

The detail of recommended reductions is as follows:

	Amount	Budget page	Line No.
Administration			
1 Calculator, reduction in cost	\$241	376	14
1 File cabinet	143	376	14
Service Division			
Rent	3,352	378	30
2 Files	230	378	39
1 Automobile replacement	1,238	378	40
Assessment Standards			
4 File cabinets	460	379	54
Retail Sales Tax, headquarters			
2 File cabinets	230	383	33
2 Calculators, reduction in cost	552	383	33
Retail Sales Tax, districts			
6 Calculators, reduction in cost	1,446	384	49
Total reduction	\$7,892		

General Administration

On September, 1951, the Board of Equalization was taken into the centralized pay roll system, and employees of the agency are now being paid under that plan. A preliminary survey which was made prior to the

change indicated the possibility of a savings in the staff of the Board of Equalization equivalent to about four positions which would result from transfer of pay roll functions to the Division of Disbursements in the State Controller's Office. The budget, as submitted, does not reflect these savings. It is our understanding that both the agency and the Department of Finance are engaged in a current survey of possible savings in staff which resulted from the actual change-over in the pay roll system. We do not yet have the results of these studies, but it is recommended that the positions originally determined to be engaged in pay roll operations for the Board of Equalization be reappraised and rejustified to the extent they are assigned to different duties. The savings involved in these four positions tentatively identified with the pay roll function amount to \$10,080.

Operating Expenses

Operating expenses are substantially the same as for last year. We recommend approval.

Equipment

Included in the budget request for general administration is one fully automatic electric calculator at \$679 and one file cabinet at \$143. Our comments on calculators and files appear in a separate section under that heading.

Research and Statistics

This division shows a decrease of \$12,442 from the amount estimated to be expended for 1951-52. This is due chiefly to the elimination of two positions of research writer at \$10,992. These positions were used in the preparation of reports of county assessment practices under Chapter 1523, Statutes of 1947. This program will be completed during the current fiscal year. We recommend approval of the amount as requested.

Service Division

This is a new division of the Board of Equalization which was established on July 1, 1951, by reassignment of personnel from other divisions as follows:

Sales Tax Division, headquarters.....	114
Valuation Division	5
ABC Division, headquarters.....	4
ABC Division, Bureau of Tax Assessment.....	3
Total	126

The personnel transferred from the Valuation and ABC (Alcoholic Beverage Control) divisions was all tabulating machine personnel, while those transferred from the Sales Tax Division consisted of tabulating machine personnel plus those engaged in the service functions of cashiering, mailing, supply, addressograph, and general office. The office manager of the Sales Tax Division was placed in charge of the new Service Division. Positions in the five units of the Sales Tax Division formerly responsible to the office manager were assigned to other supervisors in the Sales Tax Division. The office manager now reports directly to the secretary of the board rather than to the chief of the Sales Tax Division. A major objective of the creation of the new Service Division was to consolidate all tabulating machine operations under one head in a new unit.

With the creation of the Service Division, total building rental for the entire agency is now shown in the budget as a single item in the amount of \$628,098 for 1952-53. Included in this amount at budget page 378, line 30, is \$3,352 for additional space for the Division of Assessment Standards, which was included in error. This amount should be deleted, leaving the total rental for the budget year at \$624,746. This is an increase of \$84,650, or 15.7 percent, over 1951-52. This increase is composed of the following:

Increase in rates for existing space.....	\$48,002
Additional space requested for 1952-53.....	19,704
Additional space occupied during a part of 1951-52 on which rental will be due for the full year 1952-53.....	16,944
Total increase	\$84,650

New space requested for 1952-53 is as follows:

<i>Location</i>	<i>Square feet</i>	<i>Rent</i>
Santa Monica	1,400	\$3,360
Long Beach	2,000	4,264
Hollywood (new office)	7,000	11,000
San Luis Obispo	243	1,080
Total	10,643	\$19,704

Additional space occupied during 1951-52, the 1951-52 rental and the 1952-53 rental for the same space, as well as the date from which the 1951-52 rent was computed are as follows:

<i>Location</i>	<i>Date</i>	<i>Square feet</i>	<i>Rent</i>		
			<i>1951-52</i>	<i>1952-53</i>	<i>Increase</i>
Downey	1-1-52	5,374	\$6,450	\$12,900	\$6,450
Fresno	1-1-52	2,625	3,150	6,300	3,150
San Bernardino	1-1-52	800	960	1,920	960
Riverside	11-1-51	686	700	1,050	350
Santa Ana	6-1-52	980	398	4,770	4,372
San Rafael	10-1-51	320	450	600	150
Modesto	1-1-52	430	516	1,032	516
Headquarters	7-1-52	12,842	15,682	15,682	—
Headquarters	10-1-51	4,530	2,986	3,982	996
Total		28,587	\$31,292	\$48,236	\$16,944

Included in additional office equipment, Budget page 378, line 39, are two file cabinets for \$230 for which we recommend that approval be withheld as discussed in the section dealing with filing equipment.

It is proposed to spend \$22,928 for the purchase of equipment and \$2,780 for equipment rentals to modernize addressing, folding, stuffing, and photographic reproduction procedures, which, together with the modernization already completed during the current year, is expected to save approximately \$24,000 per year. Approximately \$14,000 of this will be realized through the elimination of six clerical positions, three junior clerks for mailing, and three addressing machine operators. The remainder of the savings are to result from decreased operating expenses. We recommend approval of these purchases.

It is proposed to replace a panel truck used by the supply unit of the Service Division for hauling supplies and equipment for short distances around Sacramento. This vehicle averages about 2,600 miles per year.

The ABC Division in Sacramento owns a panel truck which it acquired by seizure in 1945, which has been used for enforcement purposes but not for transporting supplies or equipment. It is driven an average of about 3,700 miles per year. Since this type of equipment is not needed for liquor enforcement purposes, as evidenced by the fact that it is the only vehicle of its kind operated by the Alcoholic Beverage Control Division throughout the State, we recommend that it be assigned to the Service Division and that the panel truck now operated by the Service Division be disposed of rather than replaced.

Accordingly, we recommend deletion of the item of \$1,238, Budget page 378, line 40.

Division of Assessment Standards

Chapter 1523, Statutes of 1947 (new Sections 15640 to 15645 of the Government Code), directed the board to make surveys in each county of the State to determine the adequacy of the procedures employed by the assessors in the valuation of property for purposes of taxation, and to file reports of these surveys with county officials and the Legislature. An appropriation of \$30,000 was made initially for this purpose for 1947-48. As a consequence, five positions were added to the staff of the Division of Assessment Standards in 1948 consisting of four real property appraisers, one each at the senior, associate, assistant and junior levels, and one intermediate clerical position. Five comparable positions, whose salaries total \$24,659, are in the survey unit at the present time. Two research writers were added in the Division of Research and Statistics in 1949-50 to assist in completing the reports, but these are to be dropped at the end of the current fiscal year because of completion of the reports.

Although the field work on the surveys has all been completed, the agency proposes to continue the staff for other purposes; namely, advising and assisting assessors under Section 15606 of the Government Code and making comparative appraisals under Section 1831 of the Revenue and Taxation Code which was added by Chapter 1466, Statutes of 1949.

Since these positions were established under a specific special program which has now been completed (or will be completed during the current fiscal year) their continuance under the general duties and responsibilities of the Division of Assessment Standards raises a clear policy question which should be governed by legislative determination.

Although the positions cannot, in our opinion, be supported on any direct work load basis, and the agency does not propose a continuation of the same program, we would recommend that the positions or some part of them be continued. We make this recommendation for the reason that, since intercounty equalization has not been realized by application of the direct method of ordering reassessments, increased technical services for surveys and cooperation in the counties may tend to improve assessment levels by the indirect process.

Because of the size of state subventions which are based upon tax rates and assessed valuations, the interest of the State in county equalization is sufficient to warrant increased services in this field.

We recommend withholding approval of the purchase of four filing cabinets at a cost of \$460 from the amount shown on Budget page 379, line 54, for the reasons commented on in our discussion under that heading.

Valuation Division

The total increase in the amount requested for this division is \$9,829, accounted for chiefly by the addition of two junior engineers at a cost of \$7,800. Since these are supported on a work load basis, we recommend approval of the budget as submitted.

Retail Sales Tax Division

The total increase in the Sales Tax Division is an increase of \$68,353, or 1.1 percent, over estimated expenditures of \$7,068,060 for 1951-52. No new positions or change in program is planned. Subject to the equipment items mentioned below, we recommend approval of the budget.

A purchase of two accounting machines for \$7,000 will eliminate four intermediate clerical positions for half the budget year and for each full year thereafter. The savings during 1952-53 will be \$5,888 and for subsequent years \$11,447. These positions are shown on Budget page 381, line 44. We recommend approval of the purchase of these machines for this reason.

We recommend withholding approval of \$230 included in the \$13,311 requested for additional file equipment, Budget page 383, line 33, for reasons commented on in our discussion under that heading.

Also included in additional equipment, Budget page 383, line 33, is \$1,428 for two fully automatic electric calculators for the out-of-state auditing staff, of which there are nine auditors in New York and eight in Chicago. We recommend the substitution of semiautomatic calculators to cost \$438 each, or \$876 for the two at a saving of \$552.

In the district offices, request is made for six additional calculators of the fully automatic type. These are included in the amount of \$14,333 requested for office additional, Budget page 384, line 49. We recommend substitution of the semiautomatic at \$438, or a savings of \$1,446.

Alcoholic Beverage Control Division

The requested budget of the Alcoholic Beverage Control Division is \$2,293,666, or an increase of \$4,049 over estimated expenditures for 1951-52. We recommend approval of the budget as submitted.

Calculating Machines

Included in the requests of various divisions is a request for nine new calculator machines at \$679 each. These are:

	Machines	Budget page	Line No.
General administration	1	376	14
Sales tax, headquarters	2	383	33
Sales tax, districts	6	384	49

Based upon a survey made by the agency designed to measure the savings in time which would result from the use of fully automatic machines as against printing calculators, and bar-type machines; and the savings in cost which would result from higher trade-in allowances from the fully automatic machines, the agency proposes to adopt the fully automatic machines as standard equipment.

Although the conclusions of this survey would undoubtedly have validity with reference to machines which are in constant operation, we cannot concur in the findings that the agency would be justified in purchasing the fully automatic machines in all cases.

Our own experience has demonstrated to us that the difference in speed of operation between a fully automatic machine and the semiautomatic, is insignificant for most operations. Any savings resulting from difference in speed of the machines could be realized only in operations that require constant use. Furthermore, savings in time which could result in faster speed of the machine could be realized only in the hands of highly skilled operators. The type of general use to which these machines are put in audit work, in assisting taxpayers in filing returns, and even at the counter, precludes the possibility of any considerable savings due to speed of operation.

For this reason we recommend that the total amount of the requests be reduced by the difference in cost between the fully automatic and the semiautomatic machine for the requested additions. This would amount to a total reduction of \$2,239.

Files

Total request for new files throughout the budget of the Board of Equalization are as follows:

	Amount	Budget page	Line No.
1 General Administration -----	\$143	376	14
2 Service Division -----	230	378	39
4 Assessment Standards -----	460	379	54
2 Retail Sales Tax, headquarters -----	230	383	33

Although this request is not more than normal expansion for an agency with the requirements of the Board of Equalization, we have identified all of these requests throughout the budgets and recommend that these be acted upon in connection with the report and recommendations of the Assembly Committee on Governmental Reorganization which has been engaged in an active program of surveying filing systems and filing requirements in all state agencies.

Automobile Operation

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

This led to the recommendation that consideration be given to greater use of pool facilities, not only in the Board of Equalization, but in all other state agencies, in order to get maximum use at the cheapest cost.

At present the number of automobiles operated by the Board of Equalization, classified by estimated mileage per car for 1952-53 is as follows:

Miles per car	Number of cars	Percent
10,000 and over -----	270	69.6
9,000 under 10,000 -----	35	9.0
8,000 under 9,000 -----	24	6.2
7,000 under 8,000 -----	21	5.4
6,000 under 7,000 -----	20	5.2
Under 6,000 -----	18	4.6
Total cars -----	388	100.0

This tabulation indicates that for 1952-53, 118 cars out of a total of 388, or 30.4 percent, will be driven less than 10,000 miles each, substantially the same percentage as in 1948-49.

The large number of low mileage cars owned by the Board of Equalization is an indication of the need for further study of this problem, and an indication that economies might be effected by further pooling or substitution of private cars on a mileage basis for some of the low mileage state cars.

The new state garage in Sacramento, expected to open on March 15, 1952, with a storage capacity of 698 vehicles, located at Tenth and O Streets directly opposite the building occupied by the Board of Equalization, would provide excellent facilities for the operation of a joint car pool for all state agencies in Sacramento.

We recommend that with the exception of cars assigned to elected constitutional officers, consideration be given to the assignment of cars stationed in Sacramento to a central automotive pool operated by the Division of Automotive Management under an arrangement which would permit the requisitioning of cars as needed by the agency.

Use Tax on Automobiles

Pursuant to action taken by the 1951 Session of the Legislature in approving the budget request for continuation of the program of enforcement with respect to use tax on automobiles purchased out of the State, the Board of Equalization has made further analysis of its program and has submitted a progress report on the activities, direct costs and revenues of this phase of its enforcement program. This report has been made available to us and, in our opinion, complies with the legislative intent. It is our understanding that the agency hopes to present fuller data regarding the problem of use tax on out-of-state purchases of automobiles through its annual report to the board and to the Legislature.

In summary, the report shows the following:

1. Amendment to the board rules on April 18, 1951, with respect to the application of penalty provisions in the statute has considerably reduced the number of cases where it has been necessary to impose the penalty.
2. Out-of-state purchases subject to use tax are estimated to increase from 190,772 to 248,000 for the calendar year 1952 and decrease to 204,500 for 1953.
3. Direct identifiable salary costs attributable to the program for the Fiscal Year 1950-51 were \$113,976, while revenue resulting from the tax was \$1,437,893.

We recommend continuation of the program at the same level so long as present statutory provisions exist, but recommend, further, that continuing study be given to possible amendments to the law to remove the double tax liability which exists with respect to out-of-state purchases upon which sales tax has already been paid.

Continued experience with enforcement should result in opportunities to reduce the high level legal and auditing time required in the initial stages of this program.

Sales Tax Field Audit Program

In our analysis of the 1951-52 Budget, we reported the findings of a special study of the costs and characteristics of the field audit program in the Sales Tax Division. The full report was subsequently published in July of 1951. This was a detailed analysis of the characteristics of audits completed during the Fiscal Year 1948-49 and over-all costs and yield for other years.

1952-53

The basic conclusion reached in that report was the high cost of the audit program in relation to yield for a large proportion of the total number of audits made. This study led us to the conclusion that a legislative standard should be adopted, capable of application through the device of appropriation, which would have the effect of limiting the extent of nonproductive audits. This recommendation was approved by the Senate Finance Committee which recommended further that continuing studies be made by the Legislative Auditor and the agency, in collaboration with the Division of Audits and the Division of Budgets and Accounts, which would lead to its development and application.

It is fully recognized that an audit program is a necessary part of the enforcement machinery of any self-assessed tax, and that within reasonable limits it should be conducted in such a way as to achieve not only maximum additional direct revenue per dollar of cost but also maximum voluntary compliance with the law from the long range viewpoint. To accomplish this it should embrace a sufficient cross section of taxpayers so that no group can assume that it is immune from the possibilities of an audit.

This latter aspect of the program is particularly important with a tax such as the federal income tax where almost 40 percent of the total population (in California at least) are taxpayers, and where funds and resulting audit coverage are necessarily very limited because of the gigantic size of the job. This has led the Federal Government to make extensive statistical and analytical studies to determine how best to achieve these objectives with the available means. (Some of these are commented on in this report in connection with the Franchise Tax Board.)

In the case of the California sales tax, however, with only 262,000 taxpayers, where the field audit coverage is actually about 48 percent, the necessity for making audits for other than direct revenue producing purposes is questionable, since the volume of audits completed is sufficiently large in any event to achieve reasonable "policing" results as a by-product of the revenue producing function.

As was pointed out on page 197 of our 1951-52 Budget Analysis, of the audits completed in 1948-49, 73.4 percent of total audits representing 64 percent of the total audit time did not pay their way and this group of audits cost the taxpayers, net, in excess of \$2,000,000 after offsetting direct recoveries against total costs.

During the year continuing study of this aspect of the program has been made both by the Sales Tax Division and by our office and by the Department of Finance. Outside authorities have been consulted. The Sales Tax Division has undertaken to compile adequate cost data as to its audit program on a permanent basis and to conduct a sample audit program patterned after that of the Federal Government. The Division of Audits of the Department of Finance will study a sample of completed audit reports in order to analyze them from a qualitative standpoint, and the Legislative Auditor has made an analysis of the audit results for 1950-51 by size of deficiency per audit hour similar to that appearing on page 197 of our 1950-51 report.

It is too soon to comply with the request of the Senate Finance Committee that a standard be developed and applied for limiting the proportion of nonproductive audit time for the sales tax field audit program,

but the needs for such a standard are as great today as ever and we recommend that the studies be continued for further report to the 1953 Session of the Legislature.

Within recent weeks the Sales Tax Division has completed cost analyses of its field audit program for 1950-51. This indicates net revenue of \$1.77 per dollar of cost for the field audit program in California. The cost per audit hour, including audit collection costs, was \$4.74, while revenue per audit hour was \$8.41.

By classifying audits completed in 1950-51 into two categories of profitable and nonprofitable on the basis of the unit cost per hour, similar to the analysis reported for 1948-49, we find that the unit recovery per hour did not exceed the unit cost per hour in 65.6 percent of the audits, representing 55 percent of total audit time. This group of audits produced 7.4 percent of the total net recovery, or \$551,191, in comparison with costs of \$2,211,082.

The Division of Audits of the Department of Finance is now engaged in a survey of audit procedures in the case of typical low-yield audits on a random sample basis. These results are as yet inconclusive but indicate the possibility of reducing audit hours by a greater degree of selectivity in choosing cases for audit, and by the application, through supervision and general instructions, of procedures for test checks and other time-saving devices.

Sales Tax Division

Analysis of "Compliance" Costs

Total Sales Tax Division costs for 1950-51, including all overhead, amounted to \$8,062,233, of which the agency estimates the audit program costs to be \$4,512,641, leaving a remainder attributable to all activities other than auditing of \$3,549,592. These nonaudit activities are of two general kinds: (1) what one authority terms "servicing taxpayers" which are the costs which any tax collector must incur even if he has no enforcement or investigation program whatsoever but merely acts as a receiver of voluntary remittances by the taxpayer; and (2) enforcement activities. Most of the nonaudit costs in headquarters are in the first category and consist of such operations as receiving and recording tax payments, maintenance of files, mailing return blanks to taxpayers, etc., but in the district offices they are of both kinds, the "enforcement" costs consisting of such things as field investigations, collection of delinquent accounts other than those resulting from the audit program, obtaining delinquent returns, processing security deposits, etc. These nonaudit activities in the field are classified by the agency as "compliance activities," the cost of which is included in the \$3,549,592 previously mentioned. Through studies recently completed we are now better able to assign cost values for total audit and for total compliance activities. These studies are highly desirable, since they furnish a basis for evaluating the cost of various parts of the total sales tax enforcement program. We believe, however, that continuing study and further cost analysis should also be made of compliance activities, since a part of these are uncontrollable service activities and a part are enforcement activities subject to considerable administrative discretion.

The figures show, for instance, that field auditors, a relatively high salary cost professional force, spend approximately 8.2 percent of their total time on nonaudit work. This is the equivalent of about 55 man-years. If these activities could be assigned to 55 field representatives, the difference in salary cost involved would be as much as \$50,000. It is desirable, therefore, to be able to place a price tag on each type of activity.

State Tax Administration

On previous occasions we have recommended that consideration be given to the reorganization of services for state tax administration which would place all tax administration within a single department of taxation. We again make that recommendation.

The economies which would result from such a consolidation are particularly apparent with respect to field activities, including auditing, in connection with the various self-assessed state taxes, such as sales tax, unemployment insurance tax, and personal income tax, where the same taxpayer is often subject to all three tax laws and is now subject to the unnecessary annoyance of audit and investigation by representatives of three different tax agencies. We refer to our analysis of the Franchise Tax Board, where this matter is discussed more fully.

As is pointed out there, much can be done within the framework of existing organizational structure to secure some of the advantages which would result from centralized tax administration, such as routine exchange of audit information, and we recommend appropriate legislation providing for the interchange of such information among state tax agencies and removing any legal barriers to such exchange which may now exist.

A good example of what can be accomplished by legislation is furnished by Chapter 309, Statutes of 1949, which added Section 7057 to the Revenue and Taxation Code, and requires automatic registration by the Board of Equalization of employers subject to the Unemployment Insurance Act at the time they apply for a sales tax permit.

We have also recommended elsewhere in this report that consideration should be given to the reorganization of systems for the administration of refunds of taxes and tax appeals.

Board of Equalization

MOTOR TRANSPORTATION LICENSE TAX DIVISION

ITEM 120 of the Budget Bill

Budget page 373
Budget line No. 59

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

Amount requested	\$723,088
Estimated to be expended in 1951-52 Fiscal Year	705,914
Increase (2.4 percent)	\$17,174

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages-----	\$7,944	\$7,944	---	389	62
Operating expense-----	11,770	11,770	---	389	63
Equipment-----	164	164	---	389	64
Less:					
Reimbursements-----	—2,704	—2,704	---	389	68
Total increase-----	\$17,174	\$17,174	---		

RECOMMENDATIONS

Amount budgeted-----	\$723,088
Legislative Auditor's recommendation-----	717,148
Reduction-----	\$5,940

ANALYSIS

Salaries and wages budgeted for the Fiscal Year 1952-53 show a gross increase of \$13,019 (Budget page 389, line 59) over the total gross salaries for 1951-52. This is offset by an increase in estimated salary savings of \$5,075, leaving a net increase in salaries and wages of \$7,944.

The increase of \$11,770 in operating expenses represents the following:

Services rendered by Service Division and Retail Sales Tax Division----	\$9,403
Travel, headquarters-----	1,375
Sundry small increases-----	992
Total-----	\$11,770

Total expenditures requested for the Fiscal Year 1952-53 are from the following funds:

Motor Vehicle Transportation Tax Fund-----	\$723,088
Itinerant Merchants Fund-----	16,491
Total-----	\$739,579

Personnel, operating expenses and equipment are not detailed separately by funds in this budget, all being included under the major activity, with the Itinerant Merchants Fund reimbursing the Motor Vehicle Transportation Tax Fund for its pro-rata share under a plan for financial settlement.

Details of our recommended reductions are as follows:

	Amount	Budget page	Line No.
Headquarters			
Travel-----	\$1,375	388	59
Replacement of 8 files-----	396	388	71
Districts—1 field representative-----	4,169	389	21
Total-----	\$5,940		

Headquarters—travel-----\$1,375

We recommend a reduction in travel expense requested, (Budget page 388, line 59) of \$1,375 to the 1951-52 level, since no showing has been made that an increase in travel for this unit is justified.

Headquarters—replacement of 8 files-----\$396

Included in the amount of \$814 requested for replacement of office equipment (Budget page 388, line 71) is \$396 for eight five-drawer letter size files.

This division proposes to sell eight 5-drawer legal size files to the Fuel Tax Division for \$524, as commented upon in our analysis of the budget request of that division on page 235, and to use that \$524 plus the \$396 requested here to purchase eight 5-drawer letter size files in lieu thereof for \$920.

We recommend withholding approval of this purchase pending the final recommendations to the 1952 Legislature of the Assembly Committee on Governmental Reorganization which has made a special study of records management for the state service as a whole, including the problem of filing equipment.

Districts—1 field representative-----\$4,169

Chapter 507, Statutes of 1951, effective October 1, 1951, transferred administration of Chapter 4, Division 7, of the Business and Professions Code which covers the licensing of itinerant merchants from the Public Utilities Commission to the Board of Equalization. It also transferred available money and personnel.

The Itinerant Merchants Act went unenforced by the Public Utilities Commission for a number of years because of the lack of staff for enforcement, and as a consequence no license fees were collected. During the current fiscal year, money was appropriated to the Public Utilities Commission sufficient to reactivate enforcement of this act. This appropriation provided a staff of two field representatives and one senior stenographer. Three field representatives were used by the Public Utilities Commission and transferred to the Board of Equalization.

In our analysis of the budget for the Fiscal Year 1951-52 and for prior years, we recommended the transfer of the Itinerant Merchants Act from the Public Utilities Commission to the Transportation License Tax Division of the Board of Equalization in the interests of economy. Because of the existence in this latter agency of a field organization including 22 field representatives who are engaged in a similar activity and who have direct contacts with the chief trucking operations in the State, it appeared logical that considerable savings in enforcement could be realized by transfer to the Transportation License Tax Division where it could be carried on simultaneously with other similar activities.

The budget as submitted for 1952-53 reflects no savings as a result of shifting the act from an agency unsuited for enforcement to one well suited for enforcement with its existing staff.

In our opinion the addition of two field representatives to the present staff of the Transportation Tax Division is ample for reasonable enforcement of the Itinerant Merchants Act. Consequently, we recommend the deletion of one position of field representative at a saving of \$4,169. Unless this deletion is made, a legislative action taken partly on the basis of economy will result only in increased costs.

GENERAL SUMMARY

Total revenues from the truck tax for 1950-51 amounted to \$10,538,685, and costs of administration were as follows (exclusive of the State's contribution to the employees' retirement system):

Board of Equalization, truck tax division-----	\$664,596
State Controller—collection division-----	88,123
Total -----	\$752,719

Costs thus amounted to \$71.42 per \$1,000 of revenue as compared to \$42.80 for diesel tax, \$17.69 for sales tax, and \$2.42 for gasoline tax.

As pointed out in our analysis of the State Controller's budget, page 218, past studies have indicated that substantial savings would result if the collection of the motor vehicle transportation license tax were to be handled by the Board of Equalization which assesses the tax, rather than by the State Controller, and we recommend that this matter be given study by the appropriate legislative committees. In this connection, it is pertinent to point out that in the case of the retail sales tax, the unemployment insurance tax, the bank and corporation tax, and the personal income tax, the assessing and collecting is done in each instance by the same agency.

In our analysis of the Motor Vehicle Fuel Tax Division of the Board of Equalization, we have recommended that, unless the diesel fuel tax law is amended to change the legal incidence of the tax, administration of the diesel tax and the truck tax should be completely integrated. Transfer of the collection function for the truck tax from the State Controller would facilitate this integration, since the diesel tax is both assessed and collected by the Board of Equalization.

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

ITEM 121 of the Budget Bill

Budget page 374
Budget line No. 6

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

Amount requested	\$16,491
Estimated to be expended in 1951-52 Fiscal Year	13,787
	\$2,704
Increase (19.6 percent)	\$2,704

RECOMMENDATIONS

Amount budgeted	\$16,491
Legislative Auditor's recommendation	16,491
Reduction	None

ANALYSIS

Chapter 507, Statutes of 1951, effective October 1, 1951, transferred the function of licensing itinerant merchants under Chapter 4, Division 7, of the Business and Professions Code from the Public Utilities Commission to the Motor Transportation License Tax Division of the Board of Equalization.

Expenditures for personnel, operating expenses and equipment incurred in licensing itinerant merchants are paid out of the Motor Vehicle Transportation Tax Fund in the first instance, and this appropriation is for the purpose of reimbursing that fund for a pro-rata share of these expenditures under a plan of financial settlement.

The increase is due primarily to the fact that 1952-53 will cover a full year's operations instead of the nine-month period covered in 1951-52.

We recommend approval of the amount requested.

Board of Equalization
MOTOR VEHICLE FUEL TAX DIVISION

ITEM 122 of the Budget Bill

Budget page 374
Budget line No. 20

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

Amount requested	\$454,269
Estimated to be expended in 1951-52 Fiscal Year	454,852
Decrease (0.1 percent)	\$583

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages				391	61
Operating expense	\$736	\$736		391	62
Equipment	—1,319	—1,319		391	63
Total increase	—\$583	—\$583			

RECOMMENDATIONS

Amount budgeted	\$454,269
Legislative Auditor's recommendation	453,745
Reduction	\$524

ANALYSIS

Salaries and wages as budgeted for the Fiscal Year 1952-53 (Budget page 391, line 58) shows a gross increase of \$7,419 over total gross salaries for 1951-52, which is exactly offset by an increase in salary savings of a like amount.

This division assesses and collects the use fuel (diesel) tax and assesses but does not collect the motor vehicle fuel (gasoline) tax, which is collected by the State Controller, although the Board of Equalization administers the provisions of the law requiring distributors of gasoline or liquefied petroleum gas to file bonds as security for payment of the tax.

The Use Fuel Tax Law imposes a tax of 4½ cents per gallon on all diesel fuel used by trucks on the highway, and during 1950-51 some \$5,700,000 in tax was collected from some 4,300 taxpayers, all of whom were truck operators.

The Motor Vehicle Fuel License Tax Law imposes a tax on the distribution of gasoline and liquefied petroleum gas at 4½ cents a gallon, and during 1950-51, this division assessed \$159,476,000 against 115 distributors of gasoline and \$2,068,000 against 200 distributors of liquefied petroleum gas.

The staff is distributed as follows, geographically and between the two laws:

	Total	Use fuel tax	All other activities
Sacramento	40	29	11
Los Angeles	41	20.9	20.1
San Francisco	2	—	2
Total	83	49.9	33.1
Percent	100.0%	60.12%	39.88%

8 *File cabinets—headquarters*\$524

Included in additional office equipment of \$873 (Budget page 390, line 67), is \$524 for eight five-drawer, legal size files. We recommend withholding approval of the purchase of these files pending final recommendation to the 1952 Legislature of the Assembly Committee on Governmental Reorganization which has made a special study of records management for the state service as a whole, including the problem of filing equipment.

The files in question, which are justified by the agency on a work load basis, are to be purchased from the Transportation Tax Division of the Board of Equalization which will use this money plus \$396 requested by itself, or \$920, to purchase eight five-drawer letter size files to replace the eight five-drawer legal size files involved here.

Diesel Fuel Tax

In a special report to the Joint Legislative Budget Committee on November 30, 1951, we recommended that the Legislature give consideration to amending the Use (Diesel) Fuel Tax in such a way as to shift the legal incidence of the tax, as to the largest group of taxpayers, from the ultimate consumer to the vendor of diesel fuel. The disproportionately high cost per gallon in the collection on diesel fuel in comparison with gasoline arises from the fact that, in the case of diesel, it is necessary to audit and collect from individual consumers a diesel fuel, many of whom are operators of a single vehicle. It was also pointed out that costs of collection of the diesel fuel tax, under the present law, will continue to increase much more rapidly than the gasoline tax, since administrative costs for diesel tax are related to number of users rather than to number of distributors as in the case of gasoline.

In the event that the present diesel tax law should not be amended, other economies are possible, particularly in travel and automobile expense in the field organization, by administrative action which would integrate enforcement of the diesel fuel and truck tax.

Travel and Auto Expense

The use fuel tax staff in Sacramento handles all field work in the northern part of the State, which includes the San Francisco Bay area and all territory north of the Tehachapi Pass. The staff in Los Angeles handles all field work in the nine southern counties, including San Luis Obispo County. The travel and auto expense of this division requested for 1952-53, most of which relates to use fuel tax enforcement, is as follows:

	<i>Total</i>	<i>Headquarters</i>	<i>District</i>
Travel	\$26,564	\$17,500	\$9,064
Auto expense	16,767	7,339	9,428
	<u>\$43,331</u>	<u>\$24,839</u>	<u>\$18,492</u>

Auditors, investigators, and administrative personnel in this division are assigned as follows:

<i>Assignment</i>	<i>Total</i>	<i>Positions Headquarters</i>	<i>Districts</i>
Use fuel tax	30.6	13	17.6
Gasoline and liquid petroleum gas	22.7	4	18.7
Truck tax (investigators only)	1.7	—	1.7
Total	55.0	17	38.0

Details as to the exact number of men traveling are not available, nor is the breakdown of travel expense as between use fuel tax and all other activities, but the amounts requested for travel and auto expense average \$1,461 per man for the 17 in Sacramento who might travel, and \$487 for the 38 in the districts.

On the other hand, in the Transportation Tax Division, which administers the truck tax, no field work is handled directly from headquarters, all being handled by men resident in various localities throughout the State, of which there are 71. The total travel, auto expense and automobile mileage requested for these 71 for the Fiscal Year 1952-53 amounts to \$23,754, or an average of \$335 per man. This is less than the corresponding amount requested for the 17 on the fuel tax headquarters staff alone.

In the report of the Division of Audits of the Department of Finance, dated September 27, 1949, page 63, it was pointed out that many of the operators of diesel propelled trucks are also subject to the transportation tax and it was recommended that consideration be given to merging the activities of the Diesel Tax Unit and the Transportation Tax Division.

It was also pointed out that men engaged in field work for sales tax, truck tax and liquor tax are assigned to various branch offices throughout the State and it was recommended that consideration be given to a similar arrangement for use fuel tax field personnel in order to avoid loss of time through travel and reduce expenses.

On page 217 of our report on the 1950-51 Budget, we endorsed both of these recommendations.

A beginning has been made in Los Angeles toward integrating the administration of use fuel tax and truck tax where a staff of 12 investigators work jointly on both, as well as gasoline tax, but integrated administration has not yet been extended to auditing activities.

Our studies have convinced us that, with proper supervision and training, the same auditor can complete a truck tax and a use fuel tax audit simultaneously where the taxpayer is subject to both taxes, and we believe this to be highly desirable, not only because it will increase the audit coverage under both taxes and reduce operating costs, but because it will reduce annoyance to taxpayers.

Use Fuel Tax—Characteristics

During the Fiscal Year 1950-51 it cost an estimated \$244,421 to collect \$5,711,414 in use fuel tax revenue, or \$42.80 per \$1,000. This was almost 18 times as high as the cost of collecting \$1,000 in gasoline tax revenue. One factor which makes for very high costs is the large number of small taxpayers involved.

During the month of June, 1951, the distribution of use fuel tax assessments by size of payment was as shown in the following tabulation:

Size of tax payment	Number of returns		Amounts reported		Average per return
	Number	Percent	Amount	Percent	
\$0 - \$49.99	3,149	66.0	\$47,762	8.7	\$15.17
50.00- 99.99	774	16.2	54,212	9.9	70.04
100.00-149.99	253	5.3	30,427	5.6	120.26
150.00-199.99	134	2.8	23,000	4.2	171.64
200.00-499.99	271	5.7	82,979	15.2	306.20
500.00 and over	191	4.0	308,040	56.4	1,612.77
Total	4,772	100.0	\$546,420	100.0	\$114.51

As indicated in this table, 66 percent of the taxpayers paid less than \$50 each, or an average of \$15.17 each, which represented 8.7 percent of the total tax collected, while at the other extreme 4 percent of the taxpayers paid \$500 or over, an average of \$1,612.77 each, which represented 56.4 percent of the total tax collected.

Gasoline Tax—General

It cost the State approximately \$348,000 to collect \$144,000,000 in net revenue from motor vehicle fuel tax during 1949-50, or \$2.42 per \$1,000. These costs were as follows:

	Amount	Percent
Board of Equalization-----	\$163,000	46.8
State Controller—refund section-----	179,000	51.4
State Controller—collection costs-----	6,000	1.8
Total -----	\$348,000	100.0

Gross collections amounted to some \$159,000,000, while refunds amounted to \$15,000,000. It is interesting to note that the cost of making refunds amounted to 51.4 percent of total costs of administration, which suggests the possibility that savings might result if all phases of gasoline tax administration were centralized in one agency. We recommend that studies be made looking toward this possibility.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 123 of the Budget Bill

Budget page 395
Budget line No. 39

**For Support of the Department of Finance, Fiscal Affairs, From the
General Fund**

Amount requested -----	\$2,077,850
Estimated to be expended in 1951-52 Fiscal Year -----	2,019,571
Increase (2.9 percent) -----	\$58,279

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages-----	\$33,610	\$28,630	\$4,980	407	70
Operating expense -----	—14,398	—14,398	---	407	71
Equipment -----	—3,186	—3,186	---	407	72
Plus:					
Decreased reimburse- ments -----	157,383	157,383	---	407	75
Less:					
Increased cost supported by Item 124 -----	—115,130	—115,130	---	407	59
Total increase -----	\$58,279	\$53,299	\$4,980		

RECOMMENDATIONS

Amount budgeted -----	\$2,077,850
Legislative Auditor's recommendation-----	2,062,058
Reduction -----	\$15,792

ANALYSIS

Summary of Reductions

Function and position	Amount	Budget page	Line No.
Administration			
1 Assistant administrative advisor-----	\$5,772	400	14
1 Assistant investment advisor-----	4,980	400	17
Account and disbursements division			
2 Intermediate account clerks-----	5,040	401	38
Total reduction -----	\$15,792		

Operating expenses and equipment related to these positions should also be deleted.

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

Budget Item 123 (General Fund)-----	\$2,077,850
Budget Item 124 (General Fund)-----	127,175
Budget Item 125 (Fair & Exposition Fund)-----	50,000
Total amount requested -----	\$2,255,025

The total expenditure program of \$2,255,025 for the Department of Finance, General Activities, for the Fiscal Year 1952-53 represents an increase of \$173,409, or 8.3 percent, over the amount of \$2,081,616 estimated for expenditure in the current fiscal year.

The major reason for this increase in the over-all expenditure program is the increase in the net cost to the State of liquidating leases acquired by the Department of Social Welfare for administration of Article XXV of the Constitution. The increased cost in this program accounts for \$115,130 of the over-all increase in the total expenditure program. Scheduled expenditures for the Department of Finance, General Activities, exclusive of the amount required for the liquidation of leases, shows a net increase of \$58,279, or 2.8 percent, over estimated expenditures for the current year.

Reimbursements are scheduled to decrease a total of \$157,383, of which the amount of \$149,000 is a decrease in estimated reimbursements in the liquidation program.

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

Administration

The amount of \$325,518 is requested for support of the Administration Division. This represents an increase of \$32,614, or 11.1 percent, over the amount of \$292,904 estimated for expenditure in the 1951-52 Fiscal Year.

The budgeted increase by object of expenditure is as follows:

Item of increase	Amount	Percent increase
Salaries and wages-----	\$26,616	9.8
Operating expenses -----	2,289	5.8
Equipment -----	3,347	215.8
Add: Decreased reimbursements-----	362	2.0
Total increase -----	\$32,614	11.1

A total of five new positions is requested for the Administrative Division.

We recommend that the following positions, plus operating expenses and equipment, related to the positions, be deleted:

1 Assistant administrative advisor.....	\$5,772
1 Assistant investment advisor.....	4,980
Total saving	\$10,752

The additional assistant administrative advisor is requested on the basis that, as of September 1st, there remained in the office of the administrative advisor 274 uncleared items. It should also be noted that as of July 1st there were 477 uncleared items, the backlog having been substantially reduced by the existing staff. No analysis was submitted as to the nature of the items creating the backlog, and in an office of this type such a count can be only an indication of work not completed and cannot be converted into man-hours. This office, at present, has a staff of six persons, the administrative advisor, four assistant administrative advisors and one junior counsel. Since the beginning of the 1950-51 Fiscal Year two additional staff members have been added. We have consistently questioned the advisability of large legal staffs attached to departments. The need for this office is not questioned, however, because of the responsibilities of the Director of Finance in connection with the review and approval of contracts and leases and other matters requiring legal review or interpretation. We do wish to point out, however, that there is a tendency to use such an office as an independent legal office, and to refer matters to it which should more properly be referred to the Attorney General for an opinion. There is no indication of an increasing work load in the budget year, and we do not believe an increase in the level of service is justified.

The position of assistant investment advisor is requested on the basis of increased work load, plus the need for improvement of service through increased supervision of present investments, increased and more thorough analysis of offerings and improved consultative services. This position was requested by the investment advisor, but not included in the budget request for the current year. The Management Analysis Section of the Department of Finance, in a report dated May 21, 1951, recommended against inclusion of the position in the 1951-52 Budget, but recommended that it be considered for inclusion in the 1952-53 Budget "if the work load remains high and demand for expanded services continues." The same analysis points out that the work load has increased very materially since prewar years and even more materially since the period covered by World War II. Since 1948, however, the work load has remained relatively stable. We recommend, therefore, that this position be deleted on the basis that it is an expansion in service.

We recommend approval of the following additional positions requested:

2 Senior architectural designers.....	\$13,344
1 Intermediate account clerk.....	2,520

The large building program has constantly pointed up the need for the establishing of uniform construction standards, standards of utilization upon which to base space requirements and a thorough review of all preliminary plans to insure that such standards are followed and all economies have been effected. This review should be by an agency interested

in the fiscal and budget aspects of the building program so that consideration will be given not only to cost of the original facility but cost of maintenance in succeeding years.

The two senior architectural designers will make available a total staff of four to approach this problem. We do not believe that this is the full answer to the problem of securing the control necessary for the expanding building program in the State, but it is a step in the right direction, and we recommend approval of the positions requested.

The additional intermediate account clerk is requested because of work related to the sale of state and confiscated vehicles. We recommend approval on a work load basis.

The amount of \$7,500 is requested for services of special consultants in the budget year. The same amount was made available for the current year as a budget item in operating expenses. Previously, special studies of this type have been conducted by allocations from the Emergency Fund. As we pointed out in our analysis of the 1951-52 Budget, we believe the inclusion of an amount for this purpose as an operating expense is better budgeting and will permit a better analysis of the values to be derived from such surveys. We recommend, however, that final reports on surveys and studies be given adequate distribution to insure that all persons directly concerned with the improvement of state service, or its management phase, have an opportunity to profit from the findings, and to eliminate the possibility of duplicate effort by legislative committees or other state agencies.

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

Accounts and Disbursements Division

The amount of \$262,630 is requested for support of the Accounts and Disbursements Division. This represents an increase of \$10,090, or 4 percent, over the amount of \$252,540 estimated for expenditure in the 1951-52 Fiscal Year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages	\$3,980	1.6
Operating expenses	4,419	12.5
Equipment (decrease)	—1,585	—11.9
Plus : Decrease in reimbursements	3,276	8.6
	<u>\$10,090</u>	<u>4.0</u>

A total of five new positions is requested for the Accounts and Disbursements Division as follows:

3 Intermediate account clerks	\$7,560
2 Intermediate typist-clerks	5,040
Total for new positions	<u>\$12,600</u>

We recommend deletion of two intermediate account clerks at a saving of \$5,040, plus operating expenses and equipment directly related to these positions. The request is based on the budgeted increase in positions to a total of 1,414 in the Department of Finance in the 1952-53 Fiscal Year. This represents an increase of 181 over the number of positions

authorized for 1950-51. There are, at present, 15 authorized positions in the Personnel Section, approximately one position for each 95 employees.

This is an extremely high ratio and, giving consideration to additional work load added by the large number of temporary employees should be adequate for the work load indicated in the budget year. Transfer of pay roll functions to the centralized pay roll should be effected early in the budget year, which should result in additional reductions in the existing staff.

We recommend approval of the one intermediate account clerk and the two intermediate typist-clerks on a work load basis.

The proposed increase in operating expenses is primarily due to increased rent because of additional space assigned to this function.

The amount of \$11,728 requested for equipment includes \$9,281 for additional tabulating equipment. In view of recent mechanization of certain operations in the division the entire operation should be re-evaluated and the saving to be expected from the new operation set forth in detail. Original estimates of the saving seem no longer valid because of additional equipment requirements indicated and adjustment of the personnel requirements.

Audits Division

The amount of \$533,691 is requested for support of the Audits Division. This represents an increase of \$10,803 over the amount of \$522,888 estimated for expenditure in the 1951-52 Fiscal Year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages-----		
Operating expenses-----	\$5,435	9.1
Equipment-----	623	22.3
Plus: Decrease in reimbursements-----	4,745	8.4
	<hr/>	
	\$10,803	2.1

Chapter 1259, Statutes of 1951, added the auditing of school districts as a responsibility of this division. The division will absorb this additional activity during the budget year without additional positions. The program of school audits is in the test stage, and the ultimate personnel requirements to effectively carry out provisions of the law are not known at this time.

The increase in operating expenses is the result of added travel required to carry out the school audit program and price increases.

Equipment requests have been checked and seem in line with division requirements.

We recommend approval of the divisional budget as submitted.

Division of Budgets and Accounts

The amount of \$483,979 is requested for support of the Division of Budgets and Accounts for the 1952-53 Fiscal Year. This represents an increase of \$5,188, or 1.1 percent, over the amount of \$478,791 estimated for expenditure in the 1951-52 Fiscal Year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages -----	\$4,664	1.0
Operating expenses -----	933	3.1
Equipment -----	-409	-13.4
Total increase -----	\$5,188	1.1

No additional positions are requested and the increase is due to the estimated fuller occupancy of existing positions and price increases. Equipment requests have been checked and seem in line.

We recommend that consideration be given to the adding of an equipment expert to the staff. We believe that a continual inspection of equipment will result in savings to the State through the adoption of uniform standards for replacement and standards for usage, which is especially needed to determine the need for office equipment under various operating conditions. Information could be gathered on maintenance costs and conditions after various periods of service that would be of value to the Purchasing Division in determining types and quality of various items that should be procured for future state needs.

We recommend approval of the divisional budget as submitted plus the amount necessary for the equipment position proposed by us.

Division of Communications

The amount of \$95,178 is requested for support of the Division of Communications for the 1952-53 Fiscal Year. This represents a decrease of \$1,314, or 1.4 percent, under the amount of \$96,492 estimated for expenditure during the current year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages -----	---	---
Operating expenses -----	\$348	2.1
Equipment (decrease) -----	-1,662	-60.2
Total decrease -----	-\$1,314	-1.4

The budget for the Division of Communications proposes to continue the present level of service through the budget year. No additional positions are requested and increased operating expenses reflect price increases.

Equipment requests have been reviewed and seem in line with requirements.

We recommend approval of the divisional budget as submitted.

Purchasing Division

The amount of \$396,514 is requested for support of the Purchasing Division for the 1952-53 Fiscal Year. This represents an increase of \$1,327, or 0.3 percent, over the amount of \$395,187 estimated for expenditure in the current year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages -----	---	---
Operating expenses -----	\$4,437	8.9
Equipment (decrease) -----	-3,110	-63.8
Total increase -----	\$1,327	0.3

No increase in authorized positions is proposed for the budget year. The increase in operating expenses results from price adjustments, plus an additional \$1,500 for laboratory services. The total amount of \$2,500 requested for testing seems reasonable when compared with the magnitude of the purchasing program in the State.

Equipment requests have been reviewed and adjustments made prior to preparation of the final budget. The amount requested is believed in line with requirements.

We recommend approval of the divisional budget as submitted.

Public Works and Acquisition Division

The amount of \$30,340 is requested for support of the Public Works and Acquisition Division for the 1952-53 Fiscal Year. This represents a decrease of \$429 under the amount of \$30,769 estimated for expenditure in the current year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages-----	\$350	1.4
Operating expenses (decrease)-----	—389	—6.7
Equipment (decrease)-----	—390	—88.6
Total decrease-----	—\$429	—1.4

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

We recommend approval of the divisional budget as submitted.

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

The amount of \$127,175 is requested for the liquidation of surplus equipment and leases during the budget year. This represents an increase of \$115,130, or 955.8 percent, over the amount of \$12,045 estimated for expenditure during the 1951-52 Fiscal Year.

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

<i>Item of increase</i>	<i>Amount</i>	<i>Percent increase</i>
Salaries and wages (decrease)-----	—\$2,000	—40.0
Operating expenses (decrease)-----	—31,870	—4.3
Equipment-----	---	---
Plus:		
Decrease in reimbursements-----	149,000	20.1
Total increase-----	\$115,130	955.8

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

The amount of \$127,175 requested for this activity represents the difference between rental payments, plus operating expenses of \$718,175, and estimated income from subleases in the amount of \$591,000. The estimated decrease in reimbursements of \$149,000 is due primarily to

the supposition that the remainder of the surplus equipment will be disposed of during the current year. It is estimated that the income from subleases will decrease \$4,000 in the budget year.

We recommend approval of the amount requested for the liquidation of equipment and leases.

Department of Finance
GENERAL ACTIVITIES

ITEM 124 of the Budget Bill

Budget page 395
Budget line No. 39

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

Amount requested	\$127,175
Estimated to be expended in 1951-52 Fiscal Year	12,045
Increase (955.8 percent)	\$115,130

RECOMMENDATIONS

Amount budgeted	\$115,130
Legislative Auditor's recommendation	115,130
Reduction	None

ANALYSIS

The amount of \$127,175 requested from the General Fund is supplemental to General Fund support provided the Department of Finance, General Activities, by Item 123 of the Budget Bill. The amount requested represents the estimated net cost to the State in the 1952-53 Fiscal Year, resulting from the liquidation of equipment and leases acquired by the Department of Social Welfare for administration of Article XXV of the Constitution. It is further provided that proceeds from subleases and the sale of equipment are also made available to the Department of Finance to meet expenses related to this activity.

The activity budget is analyzed under Item 123.

We recommend approval.

Department of Finance
GENERAL ACTIVITIES

ITEM 125 of the Budget Bill

Budget page 395
Budget line No. 57

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

Amount requested	\$50,000
Estimated to be expended in 1951-52 Fiscal Year	50,000
Increase	None

RECOMMENDATIONS

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

ANALYSIS

The amount of \$50,000 is requested from the Fair and Exposition Fund for support of the Audits Division. This appropriation represents the estimated amount necessary for the Audits Division to provide adequate audits of fair activities during the budget year. This appropriation is supplemental to the amount of \$483,691, incorporated as a part of the amount provided by Item 123 of the Budget Bill.

We recommend approval.

**Department of Finance
AUTOMOBILE LIABILITY INSURANCE**

ITEM 126 of the Budget Bill

Budget page 408
Budget line No. 13

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

Amount requested	\$160,000
Estimated to be expended in 1951-52 Fiscal Year	152,000
Increase (5.3 percent)	\$8,000

RECOMMENDATIONS

Amount budgeted	\$160,000
Legislative Auditor's recommendation	160,000
Reduction	None

ANALYSIS

The amount requested represents the estimated portion of the total cost of automobile liability insurance chargeable to the General Fund. The estimate of the amount required is based on a per vehicle cost of \$28, with an estimated 12,500 vehicles to be covered. The present rate per vehicle is \$24.75, and increased rates in general and the State's experience record indicate the cost per vehicle for this coverage will increase in the budget year.

The State should continue to intensify its efforts in its safety campaign. A decrease in the accident rate would result in more favorable rates for this coverage.

We recommend approval as requested.

**Department of Finance
PUBLIC LIABILITY INSURANCE**

ITEM 127 of the Budget Bill

Budget page 408
Budget line No. 24

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

Amount requested	\$2,500
Estimated to be expended in 1951-52 Fiscal Year	2,500
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval.

Department of Finance
OFFICIAL ADVERTISING

ITEM 128 of the Budget Bill

Budget page 408
Budget line No. 34

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

Amount requested	\$18,000
Estimated to be expended in 1951-52 Fiscal Year	18,000
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Increase	None

RECOMMENDATIONS

Amount budgeted	\$18,000
Legislative Auditor's recommendation	18,000
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Reduction	None

ANALYSIS

The amount of \$12,000 was appropriated for official advertising for the current year. This amount has been augmented by an allocation of \$6,000 from the Emergency Fund. The amount requested is to cover official advertising as required by law.

We recommend approval.

Department of Finance
PREMIUMS ON OFFICIAL BONDS

ITEM 129 of the Budget Bill

Budget page 408
Budget line No. 45

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

Amount requested	\$3,000
Estimated to be expended in 1951-52 Fiscal Year	3,000
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Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval.

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

ITEM 130 of the Budget Bill

Budget page 408
Budget line No. 56

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

Amount requested	\$40,000
Estimated to be expended in 1951-52 Fiscal Year	40,000
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval.

**Department of Finance
BUILDINGS AND GROUNDS DIVISION**

ITEM 131 of the Budget Bill

Budget page 396
Budget line No. 65

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

Amount requested	\$2,560,983
Estimated to be expended in 1951-52 Fiscal Year	2,158,747
Increase (18.6 percent)	\$402,236

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$280,441	\$277,921	\$2,520	417	76
Operating expense	171,960	171,960	---	417	77
Equipment	—5,693	—5,693	---	417	78
Less:					
Increased collections ap- propriated for support	—44,472	—44,472	---	396	73
Total increase	\$402,236	\$399,716	\$2,520		

RECOMMENDATIONS

Amount budgeted	\$2,560,983
Legislative Auditor's recommendation	2,560,983
Reduction	None

ANALYSIS

All expenditures for the support of the Division of Buildings and Grounds are made from the Service Revolving Fund. In addition to the amount of \$2,560,983 to be appropriated from the General Fund by this item, there will be available an estimated \$1,678,466 which represents

collections to the Service Revolving Fund appropriated for support. Collections are made from special fund agencies for janitorial and maintenance services and from all agencies for special services. These funds will support a total expenditure program of \$4,239,449, an increase of \$446,708, or 11.8 percent, over the amount of \$3,792,741 estimated for expenditure in the 1951-52 Fiscal Year.

Salaries and wages are scheduled to increase in the amount of \$280,441, or 11.2 percent, over estimated expenditures for the 1952-53 Fiscal Year. A total of 112 new positions is requested plus the filling of 32 positions authorized but not used during the current year.

Operating expenses are scheduled to increase \$171,960, or 13.7 percent, over estimated expenditures for the current year.

The amount of \$24,361 is requested for equipment during the budget year. Requests for replacement and additional equipment have been reviewed prior to final preparation of the budget and we believe the amount requested is in order.

We recommend approval of the divisional budget as requested.

Administration

The amount of \$159,110 is requested for administration for the budget year. This is an increase of \$35,136 or 28.3 percent over the amount of \$123,974 estimated for expenditure in the current year.

Salaries and wages are scheduled to increase \$26,240, or 31.7 percent, over estimated expenditures for the current year. The detail on the proposed increases is as follows:

Normal salary adjustments	\$2,583
2 New positions	6,060
2 Positions transferred from Sacramento buildings	6,504
Full year cost of three architectural positions transferred from the Division of Architecture January 1, 1952	12,030
Increased temporary help	260
Less: Increased salary savings	<u>—1,197</u>
Net increase salaries and wages	<u>\$26,240</u>

Two additional positions are requested as follows:

- 1 Junior staff technician
- 1 Intermediate clerk

We recommend approval of the additional positions requested. The junior staff technician will provide assistance to the administrative service officer in developing manuals of procedure, operating standards, cost analysis and time studies and other data needed to properly manage and economically budget the rapidly expanding activities of this division. The additional clerk is requested on a work load basis and is directly related to the increase in number of buildings and total space to be serviced.

An increase of \$10,918 in estimated operating expenses is scheduled for the Fiscal Year 1952-53. The increased amounts requested for travel and mileage are required to cover travel for architectural positions transferred from the Division of Architecture, an increase in travel for police training, travel for the additional technicians plus additional field inspection by the supervising building manager. Other increases are directly related to the over-all expansion of divisional operations.

Sacramento Buildings

The amount of \$2,721,497 is scheduled for expenditure in the budget year for the maintenance and servicing of Sacramento buildings. This is an increase of \$363,269, or 15.4 percent, over estimated expenditures for the current year.

Salaries and wages are scheduled to increase \$242,859, or 14.6 percent, over estimated expenditures for the current year. Detail on the increase in salaries and wages for Sacramento buildings are as follows:

Normal salary adjustment.....	\$76,743
94 New positions.....	175,036
32 Positions presently authorized (effective Dec. 1, 1952).....	46,208
Increase—Temporary help	11,267
Increase—Legislative help	15,970
Less—1 position transferred to Administration.....	—3,540
Less—Increased salary savings.....	—78,825
Net increase	\$242,859

A total of 88 new positions is requested for the maintenance and operation of the new Motor Vehicle and Education buildings scheduled for occupancy January 1, 1953. An additional 32 positions which have been authorized for the operation and maintenance of the Public Works Annex have not been filled during the current year but will be used during the budget year. The Public Works Annex is presently scheduled for occupancy January 1, 1953, and positions have been budgeted accordingly.

An additional 16 positions are requested to augment the present staff for maintenance and operation and are justified on the basis of expanded activities of the division in Sacramento.

Operating expenses are scheduled to increase \$123,275, or 18.1 percent, over estimated expenditures for the current year. The gross increase in operating expenses is attributable to the servicing of new buildings scheduled for completion, and related increases in utility costs, the increase in estimated special work orders, which is offset by a comparable increase in reimbursements, and in central telephone exchange costs and in a new item established during the current year for general maintenance. The increase in the budgeted amount for general maintenance is being offset by a reduction in the contingency item for alterations, repairs and equipment, state buildings and rented offices. We believe expenses for general maintenance should be shown and reviewed as a legitimate operating expense for this division. Therefore, the establishment of this item and the reduction of the contingency item is a desirable procedure.

We recommend approval of the amount requested for Sacramento buildings.

San Francisco Buildings

The total expenditure for the maintenance and operations of San Francisco buildings is scheduled to increase \$30,054, or 6.0 percent, over estimated expenditures for the current year. A new position of intermediate information clerk is requested to provide information services for the public at the State Building in San Francisco. This service is provided in Sacramento and in Los Angeles. Inquiries at present are being

handled by the police officer, if on the floor, elevator operators or by occupants of state offices on the first floor. The number and growth of the various state agencies or branch offices located in San Francisco would indicate that the establishment of a central information desk is needed as a service to both state agencies and the general public.

We recommend approval of this expanded service.

Operating expenses reflect price increases, plus the addition of a new item for general maintenance in the amount of \$4,400.

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

Los Angeles Buildings

The total expenditure for the maintenance and operations of Los Angeles buildings is scheduled to increase \$18,249, or 2.4 percent, over estimated expenditures for the current year.

The following new positions are requested:

- 1 Stationary engineer
- 2 Laborers
- 2 Janitors

This division will take over the maintenance and operation of the Highway Patrol building in Los Angeles in the budget year. The operation of this building will require 2 janitors, 1 laborer, and approximately 40 percent of the time of the engineer. The balance of the time of the stationary engineer will provide for Saturday, holiday and evening operation at the state building. The second laborer will act as helper to craftsmen. This work is presently being performed by temporary help. That part of stationary engineer's salary is chargeable to the state building and the salary of one laborer is offset by a reduction in temporary help and overtime.

General price increase plus the addition of \$4,700 for general maintenance accounts for the increase of \$9,567 in operating expense.

We recommend approval of the budget for Los Angeles buildings.

GENERAL RECOMMENDATION

The movement of certain state agencies into new buildings during the budget year requires that assignments of space vacated be determined on an equitable and need basis. In addition certain leased properties will be vacated in the process. It is of utmost importance therefore that:

1. Space assignments be made to insure complete and economical utilization of all state space available.
2. That all leases be reviewed as to termination dates and every effort be made to liquidate these leases as rapidly as completion of state buildings will permit.
3. That maintenance expenditures for leased space be held to a minimum and limited to maintenance required by the lease agreement.

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

ITEM 132 of the Budget Bill

Budget page 418
Budget line No. 7

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

Amount requested	\$125,000
Estimated to be expended in 1951-52 Fiscal Year	150,000
Decrease (16.7 percent)	\$25,000

RECOMMENDATIONS

Amount budgeted	\$125,000
Legislative Auditor's recommendation	125,000
Reduction	None

ANALYSIS

The amount of \$125,000 is requested for miscellaneous alterations, repairs, and equipment for state buildings and rental offices. The reduction of \$25,000 is offset by an item for general maintenance in the support budget for the Division of Buildings and Grounds. The need for rental space for state offices should decrease as additional state-owned buildings are completed. Furthermore, the need for shifting agencies between locations and resulting alterations should decrease. This item should, therefore, be reviewed and reduced in subsequent years to provide only sufficient money to cover emergency situations. Normal maintenance should be provided for through the support budget of the Division of Buildings and Grounds and minor construction and maintenance except in emergency situations reviewed and approved through the regular budgetary process.

Subject to the recommendation that this contingency fund be used only to cover emergency situations where normal legislative review is not feasible, we recommend approval of the amount requested.

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

ITEM 133 of the Budget Bill

Budget page 418
Budget line No. 13

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

Amount requested	\$1,500
Estimated to be expended in 1951-52 Fiscal Year	1,500
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval as submitted.

Department of Finance
LOCAL ALLOCATIONS DIVISION

ITEM 134 of the Budget Bill

Budget page 397
Budget line No. 51

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

Amount requested	\$53,694
Estimated to be expended in 1951-52 Fiscal Year	69,583
Decrease (22.8 percent)	\$15,889

Summary of Increase

	Total increase	Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	\$500	\$500	---	420	12
Operating expense	1,332	1,332	---	420	30
Equipment	—1,258	—1,258	---	420	38
Plus:					
Decreased expenditures chargeable to Post-war Unemployment and Construction Fund	15,925	15,925	---	397	78
Less:					
Increased expenditures chargeable to Public School Building Loan Fund	—32,388	—32,388	---	398	14
Total increase	—\$15,889	—\$15,889	---		

RECOMMENDATIONS

Amount budgeted	\$53,694
Legislative Auditor's recommendation	53,694
Reduction	None

Analysis under Item 136.

Department of Finance
LOCAL ALLOCATIONS DIVISION

ITEM 135 of the Budget Bill

Budget page 397
Budget line No. 78

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

Amount requested	\$53,694
Estimated to be expended in 1951-52 Fiscal Year	69,619
Decrease (22.9 percent)	\$15,925

RECOMMENDATIONS

Amount budgeted	\$53,694
Legislative Auditor's recommendation	53,694
Reduction	None

Analysis under Item 136.

Department of Finance
LOCAL ALLOCATIONS DIVISION

ITEM 136 of the Budget Bill

Budget page 398
 Budget line No. 14

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

Amount requested	\$250,574
Estimated to be expended in 1951-52 Fiscal Year	218,186
 Increase (14.8 percent)	 \$32,388

RECOMMENDATIONS

Amount budgeted	\$250,574
Legislative Auditor's recommendation	229,095
 Reduction	 \$21,479

ANALYSIS

A total amount of \$357,962 is requested from all funds for the support of the Local Allocations Division for the Fiscal Year 1952-53. This is an increase of \$574, or 0.2 percent, over the amount of \$357,388 estimated for expenditure in the current fiscal year.

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

General Fund

1. Aid to local agencies for emergency veterans' housing: Chapter 29, Statutes of 1946 (First Extraordinary Session); Chapter 1, Statutes of 1946 (Second Extraordinary Session); Chapter 391, Statutes of 1947; and Chapter 1574, Statutes of 1947.
2. Acquisition of housing facilities at colleges: Chapter 46, Statutes of 1946 (First Extraordinary Session).
3. School building aid: Chapter 1575, Statutes of 1947; and Chapter 24, Statutes of 1948.
4. Aid for educational facilities for cerebral palsied children: Chapter 1167, Statutes of 1949.

Postwar Unemployment and Construction Fund

1. Aid to local agencies for postwar plans and sites: Chapter 47, Statutes of 1944 (Fourth Extraordinary Session).
2. Aid to local agencies for postwar construction: Chapter 20, Statutes of 1946 (First Extraordinary Session).

Public School Building Loan Fund

1. School building aid: Chapter 1389, Statutes of 1949.

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

Item	Funds	Estimated expenditure 1951-52		Budget request 1952-53		Percent increase or decrease
134	General Fund -----	\$69,583	(20%)	\$53,694	(15%)	—22.8
135	Postwar Unemployment and Construction Fund -----	69,619	(20%)	53,694	(15%)	—22.9
136	School Building Loan Fund -----	218,186	(60%)	250,574	(70%)	14.8
Totals -----		\$357,388	(100%)	\$357,962	(100%)	0.2

The increase of \$574, or 0.2 percent, in the total expenditure program for the Fiscal Year 1952-53 over the Fiscal Year 1951-52 is the result of minor increases in operating expenses and an increase of \$500 in the amount requested for temporary help. The major change proposed for 1952-53 is the shift of pro rata charges from the General Fund and the Postwar Unemployment Construction Fund to the School Building Loan Fund. The financing of the program during the current year is based on a determination that 20 percent of the division work load is chargeable to the General Fund, 20 percent to the Postwar Unemployment and Construction Fund and 60 percent to the School Building Loan Fund; while in the budget year it is estimated that 15 percent of the division work load is chargeable to the General Fund, 15 percent to the Postwar Unemployment and Construction Fund and 70 percent to the School Building Loan Fund.

The amounts requested for the administration of projects chargeable to the General Fund and Postwar Unemployment and Construction Fund appear in line with requirements. However, the amount of \$250,574 requested for the budget year to administer Chapter 1389, Statutes of 1949, school building aid program, represents an increase of \$32,388, or 14.8 percent, over the \$218,186 estimated for expenditure during the current year.

The administration of the school building aid program involves various phases of activities or responsibilities. The application phase of the operation will be practically completed during the current year because applications so far approved account for nearly all available funds. There will, therefore, be a change in work load to succeeding phases which involve approval of final plans and requests to go to bid, release of funds on a progress basis, review and processing of change orders, field inspection of projects under construction, supplemental financial review of school districts and final approval of completed projects.

There have been no adequate studies to permit the placing of separate price tags on the various phases of the program or to determine changing personnel requirements related to these different activities. However, based on over-all work load data, there seems to be no justification to support an increase in the cost of administering this program during the Fiscal Year 1952-53. It is estimated that by the end of the current year

approximately 570 of an estimated 850 projects financed under this program will have been started and 125 will have been completed. The difference between projects started and completed can be used as a measure of the projects being serviced. Following is an estimate of work load showing cumulative totals of projects that will have been started and completed from January, 1952, to June, 1954, by quarters:

Period	Cumulative totals		Projects under construction at end of period
	Projects started	Projects completed	
1951-52 Fiscal Year			
January-March -----	475	45	430
April-June -----	570	125	445
1952-53 Fiscal Year			
July-September -----	645	225	420
October-December -----	720	325	395
January-March -----	780	430	350
April-June -----	825	540	285
1953-54 Fiscal Year			
July-September -----	845	620	225
October-December -----	850	695	155
January-March -----	850	750	100
April-June -----	850	790	60

It should be noted that according to progress estimates shown in the above table that the total projects being serviced by the division begin showing substantial decreases during the third quarter of the budget year. This fact indicates that a continuation of the amount budgeted during the current year, plus 5 percent for price increases and normal salary adjustments, should provide a liberal amount for the administration of this program during the 1952-53 Fiscal Year.

We recommend, therefore, that the amount of \$229,095 be appropriated from the School Building Loan Fund for the administration of Chapter 1389, Statutes of 1949. This represents a reduction of \$21,479 from the \$250,574 requested for this purpose.

It is recommended that the Department of Finance immediately make management studies of the Allocations Division covering the following points:

1. A review of forms and procedures related to the administration of all programs assigned to the division with the view of minimizing paper work consistent with proper administration as required by law.
2. Post-assignment studies of personnel to be related to a timetable detailing estimates as to completion dates of the various phases of activities required in the administration of each program.
3. The establishment of unit costs that can be applied to the various phases of program administration, and personnel requirements by position class required to efficiently complete each phase of the program.

It is further recommended that the department develop manuals of procedure for each new program assigned by the Legislature to this agency for administration. This procedure should specifically set forth agency responsibilities where other state agencies are involved. Estimates of the total cost and time required to complete each program should be prepared at the outset and amended as required by policy changes or amendments to basic legislation.

These studies are of particular importance because of the various phases of activities required in the proper administration of the various programs. It is, therefore, essential that plans be available for orderly

contraction of staff as the work load in the various programs decreases. If no additional responsibilities are assigned this division by the Legislature, work load should decrease substantially during the 1953-54 Fiscal Year.

Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS

ITEM 137 of the Budget Bill

Budget page 423
Budget line No. 8

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

Amount requested	\$96,755
Estimated to be expended in 1951-52 Fiscal Year	87,853
 Increase (10.1 percent)	 \$8,902

Summary of Increase

	Total increase	INCREASE DUE TO Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	\$3,836	\$3,836	---	423	77
Operating expense	7,704	3,704	\$4,000	424	16
Equipment	-2,638	-2,638	---	424	23
 Total increase	 \$8,902	 \$4,902	 \$4,000		

RECOMMENDATIONS

Amount budgeted	\$96,755
Legislative Auditor's recommendation	92,755
 Reduction	 \$4,000

ANALYSIS

The Division of Fairs and Expositions of the Department of Finance provides an over-all supervision for the district, county, and citrus fairs throughout the State and prepares and approves a master premium list as well as the premium lists and operating budgets of the individual fairs. It also supervises the distribution of funds for operating budgets and for capital outlay. To perform this service in the 1952-53 Fiscal Year, an increase in the cost of \$8,902, or 10.1 percent, is being proposed, which represents the difference between \$87,853 estimated to be expended during the current fiscal year to \$96,755 estimated for the 1952-53 Fiscal Year.

The increase is largely attributable to the fact that two positions were vacant during the first few months of the current fiscal year due to illness, while the full-time employment of these positions is contemplated for the 1952-53 Fiscal Year. In addition, a new item of Judges' Conference is being proposed in operating expenses at \$4,000 annually. This item is, in a sense, a new service. However, it was previously being provided by private resources which have been withdrawn. The purpose of the Judges' Conference is to standardize judging criteria, train additional judges, and to keep judges abreast of changing conditions. It would appear that this service is not justified in view of the fact that many of the fairs are apparently building up excessive reserves indicating an ability for each fair to contribute proportionately to the maintenance of this service. Consequently, we recommend that it be deleted from this budget item.

We recommend approval of the balance of the request.

Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS

ITEM 138 of the Budget Bill

Budget page 424
Budget line No. 35

*For Customer Surveys and Research, State, District, and County Fairs
From the Fair and Exposition Fund*

Amount requested	\$30,000
Estimated to be expended in 1951-52 Fiscal Year.....	30,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$30,000
Legislative Auditor's recommendation.....	30,000
Reduction	None

ANALYSIS

The program of surveys and research in state, district, and county fairs was first set up in the Budget Act of 1951 in Item 130.1 as part of a three-year plan to obtain survey and research service on a contract basis with firms specializing in work of this type.

The primary purpose of the reasearch was to establish basic data and statistics from which it would be possible to determine at which points each fair lacked emphasis or gave over-emphasis, to provide information upon which worthwhile exhibits and exhibitors could be solicited for the sale of space, to indicate inefficient or ineffective management and procedures, and to serve as an over-all indication of the value of the various fairs. We still believe that the establishment of this data and statistics is essential to sound fair management and policy and consequently, we recommend that the service be continued and that this item be approved as requested.

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

ITEM 139 of the Budget Bill

Budget page 425
Budget line No. 27

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

Amount requested	\$1,832,475
Estimated to be expended in 1951-52 Fiscal Year.....	1,707,890
Increase (7.3 percent).....	\$124,585

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages.....	\$24,895	\$895	\$24,000	429	54
Operating expense	105,969	35,969	70,000	429	55
Equipment	—6,279	—9,529	3,250	429	56
Total increase	\$124,585	\$27,335	\$97,250		

RECOMMENDATIONS

Amount budgeted	\$1,832,475
Legislative Auditor's recommendation	1,704,090
Reduction	\$128,385

ANALYSIS

Comparison of Expenditures and Revenues

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenue as percentage of expenditures</i>
1947-48	\$1,134,483	\$927,623	\$206,860	81.8
1948-49	1,507,315	944,681	562,634	62.7
1949-50	1,762,768	1,005,235	757,533	57.1
1950-51	1,563,402	928,210	635,192	59.4
1951-52	1,727,890	1,131,732	596,158	65.5
1952-53	1,852,475	1,215,100	637,375	65.6

The above table indicates that for 1952-53 the operating deficit will be \$637,375. This is a \$41,217, or 6.9 percent, greater loss than the \$596,158 deficit scheduled for 1951-52.

Total expenditures are budgeted at \$1,852,475. This is \$124,585, or 7.2 percent, more than the \$1,727,890 estimated for 1951-52.

Revenues are scheduled at \$1,215,100. This is \$83,368, or 7.4 percent, more than the \$1,131,732 scheduled for 1951-52.

In other words, while we are scheduled to spend \$124,585 more on the fair for 1952-53, at the same time we will lose \$41,217 more in so doing. This trend once again points up the necessity for improving the fiscal position of this operation.

We do note that the percentage of expenditures reflected as revenues is up to 65.6 percent for 1952-53. This is one-tenth of one percent above the 1951-52 level of 65.5 percent. This latter figure is 7.8 points greater than the forecast as reflected by data in the 1951-52 Governor's Budget at the time it was submitted.

We recommend that the state fair budget be held to the level of expenditures of the 1951-52 Fiscal Year, less a specific deletion of \$3,800 for replacement equipment.

We do not believe that sound fiscal policy will permit further increasing the deficit on this operation.

We, therefore, recommend the sum of \$1,704,090 for 1952-53. This will still permit the fair to operate at a level above the dollar amount of the 1951-52 appropriation of \$1,631,210, since this was augmented by \$70,056 from the salary increase fund, plus \$6,624 from the emergency fund.

We point out that in 1951-52 the fair experienced the lowest deficit since 1948-49, and we believe that the management is capable of retaining the advantages thus gained.

Passes

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

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

Comparison of Passes Issued and Honored and Revenue Values

	<i>No. issued</i>	<i>No. honored</i>	<i>Value</i>	<i>Pass value percentage of admission revenue</i>
1947-48-----	269,169	131,230	\$65,615	17.2
1948-49-----	437,880	126,185	63,092	19.3
1949-50-----	447,828	131,899	57,188	16.9
1950-51-----	447,546	136,071	59,049	19.9
1951-52-----	298,500	166,185	77,334	21.5

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

In 1950-51, the dollar value of passes honored was \$59,049. This is \$1,861, or 3.3 percent, more than the \$57,188 figure of 1949-50. The value of passes honored in 1950-51 was the equivalent of 19.9 percent of all revenues received from admissions.

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

<i>Function</i>	<i>1950-51 Passes honored</i>		<i>1951-52 Passes honored</i>	
	<i>Number</i>	<i>Value</i>	<i>Number</i>	<i>Value</i>
Grounds-----	112,347	\$47,186	137,688	\$57,829
Horse show-----	3,891	1,946	3,651	1,826
Races-----	12,509	6,255	15,927	13,219
Night show-----	7,324	3,662	8,919	4,460
	136,071	\$59,049	166,185	\$77,334

The increased value of passes honored at the races is due to an increase of 3,418 in the number of passes honored, plus a raise in the admission price to \$1, effecting a net value of 83 cents after taxes.

Salaries and Wages

The number of presently authorized positions is scheduled to remain constant at 76.1 for 1952-53.

Salaries and wages are scheduled at \$737,574, an increase of \$24,895, or 3.5 percent. The increase is attributable to merit salary adjustments in the amount of \$29,050, plus an increase in salary savings of \$4,155. No new positions are requested.

The bulk of expenditures for salaries and wages are reflected in payments for temporary help and overtime. Temporary help for 1952-53 is scheduled at \$373,958. This is \$23,396, or 6.7 percent, more than the \$350,562 estimated for 1951-52.

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

Distribution of Temporary Help Costs						
Function	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Administration -----	\$13,166	\$15,752	\$14,186	\$11,878	\$15,620	\$17,000
Exhibits and horse show---	2,636	25,985	39,392	32,175	44,900	52,303
Operations						
Operations -----	267,726	244,577	213,899	125,808	120,260	123,840
Interim activities -----	---	---	15,000	15,000	15,000	15,000
Promotions						
Admissions -----	94,356	30,326	44,500	43,367	48,942	49,500
Public information -----	---	14,823	17,041	17,404	19,880	18,000
Concessions and commercial space						
Commercial space -----	487	5,141	---	---	---	---
Concessions -----	---	---	6,700	5,032	5,000	9,365
Concessions -----	---	---	4,574	1,813	1,015	1,050
Attractions and special events						
Special events -----	---	1,943	10,950	8,244	8,873	10,500
Attractions -----	---	10,000	11,002	10,085	11,686	12,500
Racing -----	---	57,881	60,699	54,803	59,386	64,900
Totals -----	\$378,371	\$406,428	\$437,943	\$325,609	\$350,562	\$373,958
Salaries and wages:						
Less overtime and temporary help -----	\$225,318	\$216,406	\$232,745	\$291,461	\$282,817	\$283,516
Percentage of salary and wages to temporary help	59.5	53.2	53.1	89.5	80.7	75.8

The foregoing table indicates that in 1950-51, a substantial reduction was effected in the expenditures for temporary help. This reduction amounted to \$112,334 below the amount required for 1949-50. The bulk of this reduction was effected in the operations function which reduced its requirements for temporary help from \$213,899 in 1949-50 to \$125,808 in 1950-51, a decline of \$88,091. Temporary help expenditures are scheduled at fairly constant figures for 1951-52 and 1952-53, namely \$120,260 and \$123,840 respectively.

It is to be noted, however, that the total expenditures for temporary help are scheduled to increase in 1952-53 by sizable amounts over both 1950-51 and 1951-52. The total increase for 1952-53 is \$48,349 over 1950-51. Thus it is apparent that other functions are using up the savings in overtime effected by the operations function.

We find, for example, the following increases in temporary help costs for 1952-53 over temporary help costs for 1950-51:

Increased Temporary Help Costs				
Function	1950-51	1952-53	Increase	
			Amount	Percent
Administration -----	\$11,878	\$17,000	\$5,122	43.1
Exhibits and horse show -----	32,175	52,303	20,128	62.6
Admissions -----	43,367	49,500	6,133	14.1
Public information -----	17,404	18,000	596	3.4
Commercial space -----	5,032	9,365	4,333	86.1
Special events -----	8,244	10,500	2,256	27.4
Attractions -----	10,085	12,500	2,415	23.9
Racing -----	54,803	64,900	10,097	18.4
Totals -----	\$182,988	\$234,068	\$51,080	27.9

The above table indicates that eight out of a total of 11 functions showed increases totaling \$51,080, or 27.9 percent, over the two-year period. The three functions showing either a decrease or no change were operations, interim activities, and concessions.

We believe that a careful analysis of the details affecting the above indicated increases by the fair management will point out where potential economies can be effected.

It is to be noted that the percentage increase in costs for temporary help far exceed any increases in wage costs.

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

Distribution of Overtime Costs						
Function	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Administration -----	\$4,521	\$4,046	\$3,566	\$4,141	\$3,850	\$4,000
Exhibit and horse show ---	2,636	465	1,793	875	1,000	1,000
Operations -----	113,521	82,504	72,050	62,486	71,500	71,500
Promotions -----	2,873	429	1,361	800	800	900
Concessions and commercial space -----	---	360	141	189	150	200
Attractions and special events -----	---	2,900	4,000	1,074	2,000	2,500
Totals -----	\$123,551	\$90,704	\$82,911	\$69,565	\$79,300	\$80,100
Salaries and wages:						
Less overtime and temporary help -----	\$225,318	\$216,406	\$232,745	\$291,461	\$282,817	\$283,516
Overtime as percentage of salaries and wages ---	54.8	41.9	35.6	23.9	28.0	28.3

Expenditures for overtime in 1952-53 are scheduled at \$80,100, which is \$800, or 1 percent, above the level of \$79,300 scheduled for 1951-52, and \$10,535, or 15.1 percent, above actual expenditures of \$69,565 incurred in 1950-51.

The distribution by function has remained on a comparatively uniform level, the largest share of the total disbursements for overtime being in the operations function where this expense is scheduled at \$71,500.

We note that progress was made in reducing this type of expenditure from the high level of \$123,551 in 1947-48 to a low of \$69,565 for 1950-51. However, the trend is now reversing. Management should exert every effort to curtail this type of expenditure, since it may be considered a nonproductive type of expense in that it merely pays a premium for what would otherwise be accomplished at a normal level of wages.

Operating Expenses

Operating expenses are scheduled at \$1,070,672 for 1952-53. This is an increase of \$105,969, or 11 percent, over the amount of \$964,703 estimated for 1951-52.

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

Function	Operating Expenses			Increase	
	1950-51	1951-52	1952-53	Amount	Percent
Administration	\$55,481	\$61,968	\$63,650	\$1,682	2.7
Exhibits and horse show	273,900	284,544	315,613	31,069	10.9
Operations	253,244	226,629	239,861	13,232	5.8
Promotions	54,763	61,759	79,390	17,631	28.5
Concessions and commercial space	10,971	10,375	15,325	4,950	47.7
Attractions and special events	133,638	135,502	157,600	22,098	16.3
Racing	162,690	183,926	199,233	15,307	8.3
Totals	\$944,687	\$964,703	\$1,070,672	\$105,969	11.0

The total increase in operating expenses in 1952-53 over 1950-51, amounts to \$125,985, or 13.3 percent. The major increases scheduled in 1952-53 over 1951-52 are in the functions of exhibits and horse show, \$31,069; attractions and special events, \$22,098; and promotions, \$17,631.

We note that an additional \$10,000 is budgeted under attractions and special events in order to increase the costs of the night show from \$55,000 to \$65,000, a jump of 18.2 percent. It is stated that this will result in increased revenues to the extent of \$22,748, or 43.5 percent, from increased attendance. We trust that the forecast is accurate, although we doubt that attendance revenues will be increased to the extent indicated, unless an adjustment in admission fees is made.

Items of increase in excess of \$1,000 in operating expenses are shown in the following table:

Function and item	Increase 1952-53 over 1951-52	
	Amount	Percent
Administration		
Director's expense	\$1,000	11.8
Exhibits and Horse Show		
Premiums—general	17,801	11.7
Trophies, medals, ribbons	2,300	17.4
Judges	5,584	26.5
Fashion show	2,000	13.4
Operations		
Watchman and cleanup contract	1,892	3.0
General maintenance and materials	5,749	7.3
Decorations and preparations	1,274	9.3
State police service	1,352	12.7
Livestock feed	1,429	7.7
Promotions		
Public relations, promotions, publicity	3,000	19.7
Paid advertising	15,000	42.9
Concessions and Commercial Space		
Consumers reaction	1,180	368.8
Rent—equipment	2,250	900.0
Attractions and Special Events		
Band and music	2,617	19.6
Rent equipment	1,735	11.4
Contests	2,337	41.3
Free attractions	3,609	19.1
Night show	10,000	18.2

Function and Item	Increase 1952-53 over 1951-52	
	Amount	Percent
Racing		
Race purses -----	\$9,071	6.4
Breeders' fees -----	1,181	24.5
Rent equipment -----	2,998	13.7
Racing expenses -----	2,050	16.5
	<hr/> \$97,409	

We point out that the budget as presented is stated to be on the same level of operations as obtained during 1951-52.

However, a review of the percentage of increase in some of the foregoing items indicates that some improvement in the level of service is also contemplated.

How far this improvement should be permitted to go is purely a question of legislative policy.

Equipment

Equipment expenditures are scheduled at \$24,229 for the 1952-53 Fiscal Year. This is \$6,279, or 20.6 percent less than the \$30,508 scheduled for 1951-52.

Included in equipment for replacement are two 1½-ton trucks. One is a 1928 Kleiber with 140,000 miles, the other a GMC with 68,000 miles. The GMC travels an average of only 12 miles per day. No mileage is indicated in the justification for the Kleiber.

A review of the automotive equipment indicates that the following units are on hand:

3 Flat bed trucks	1 Tank
5 Stake trucks	6 Passenger vehicles
2 Dump trucks	1 Panel truck
1 Truck-tractor (semi)	1 Van truck
6 Pickups	1 Jeep

Total 27

The average mileage of the flat bed and stake trucks indicates that all eight of these units are being driven approximately only 12 miles each per day. This minimum type of usage indicates that, in many instances, they are used primarily for transportation of employees rather than hauling, and as a result accumulate an exceptionally large amount of idle time.

Further, the average limited usage of each unit indicates that, in all probability, too many units are on hand.

We recommend that funds amounting to \$3,800 for the two replacement units be deleted and that these two units be disposed of.

We further recommend that the fair management review its transportation needs as to the possibility of making further reductions in its complement of vehicles.

We suggest that consideration be given to furnishing scooters to such maintenance people as absolutely require transportation about the premises. This latter type of vehicle has been found advantageous and far less costly, both initially and from an operating standpoint at other state facilities. We believe the use of such vehicles would permit an eventual reduction in the present complement of six pickups, for instance.

Revenues

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

	Actual 1950-51	Estimated 1951-52	Estimated 1952-53	Increase—1952-53 over 1951-52	
				Amount	Percent
Admissions:					
Grounds	\$170,525	\$202,388	\$237,000	\$34,612	17.1
Grandstand—Afternoon ..	53,040	80,063	85,000	4,937	6.2
Grandstand—evening ---	49,807	52,252	75,000	22,748	43.5
Horse show	22,784	24,580	25,000	420	1.7
Totals, admission ----	\$296,156	\$359,283	\$422,000	\$62,717	17.5
Entry Fees:					
Exhibits	\$17,262	\$21,529	\$23,000	\$1,471	6.8
Races	9,496	10,135	10,200	65	0.6
Horse show stake	7,150	7,010	7,000	—10	—0.1
Totals, entry fees ----	\$33,908	\$38,674	\$40,200	\$1,526	3.9
Rental of facilities:					
Exhibit space	\$63,099	\$58,279	\$85,000	\$26,721	45.9
Concessions	183,240	217,042	205,000	—12,042	—5.5
Stalls	1,622	2,000	2,000	---	---
Horse show stalls	3,056	2,469	2,400	—69	—2.8
Buildings	48,620	50,000	55,000	5,000	10.0
Equipment	2,858	2,500	2,500	---	---
Totals, rental of facilities	\$302,495	\$332,290	\$351,900	\$19,610	5.9
Pari-mutuel wagering ----	\$252,121	\$350,907	\$350,000	—\$907	—0.3
Parking	22,690	27,675	26,000	—1,675	—6.1
Livestock feed sales	15,349	17,903	20,000	2,097	11.7
Miscellaneous	5,491	5,000	5,000	---	---
Totals	\$928,210	\$1,131,732	\$1,215,100	\$83,368	7.4

We believe that forecasts for increased revenues based upon increased attendance are somewhat optimistic. This follows from an appraisal of weather conditions during the 1951 fair, which we believe influenced to a large degree the increased attendance figures as compared to the 1950 attendance figures.

It is to be expected that the attendance will normally increase in relation to the increase in population in the immediate drawing or trading zone surrounding the fair, provided that the fair publicity program carries the same degree of stimulus to the population in this restricted area.

A reconciliation of population trends and weather factors makes a 17.5 percent increase in revenues from increased admissions seem unlikely. Since this figure of \$62,717 represents 75.2 percent of the total increase of \$83,368 in revenues, any deviation can materially affect total revenue changes.

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

ITEM 140 of the Budget Bill

Budget page 430
Budget line No. 42

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

Amount requested	\$300,000
Estimated to be expended in 1951-52 Fiscal Year	501,176
Decrease (40.1 percent)	<u>\$201,176</u>

RECOMMENDATIONS

Amount budgeted	\$300,000
Legislative Auditor's recommendation	171,615
Reduction	<u>\$128,385</u>

ANALYSIS

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

We recommend approval of the reduced amount to coincide with a reduction of \$128,385 recommended in the support budget for the State Agricultural Society.

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

ITEM 141 of the Budget Bill

Budget page 431
Budget line No. 8

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

Amount requested	\$108,094
Estimated to be expended in 1951-52 Fiscal Year	99,565
Increase (8.6 percent)	<u>\$8,529</u>

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$12,299	\$11,291	\$1,008	433	9
Operating expense	—4,090	—5,490	1,400	433	10
Equipment	320	320	—	433	11
Total increase	<u>\$8,529</u>	<u>\$6,121</u>	<u>\$2,408</u>		

RECOMMENDATIONS

Amount budgeted	\$108,094
Legislative Auditor's recommendation	108,094
Reduction	<u>None</u>

ANALYSIS

The requested support budget for the 1952-53 Fiscal Year contemplates approximately the same level of expenditure as prevailed for 1951-52, subject to price increase factors.

Actually \$1,008 is budgeted as additional salaries and wages to provide the equivalent of two-fifths of a full position for receptionist and information clerk.

Salaries and wages are scheduled to increase \$12,296 for merit salary adjustments, plus \$1,008 for the additional position, less an increase in salary savings of \$1,005, making a net increase of \$12,299.

Operating expenses show a decline of \$4,090, due chiefly to elimination of charges in connection with a janitorial and service contract. Services are provided by new positions added in 1951-52. An additional \$1,400 is budgeted to improve the quality of exhibits.

Equipment is scheduled to increase in the nominal amount of only \$320.

We recommend approval of the items as submitted.

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

ITEM 142 of the Budget Bill

Budget page 433

Budget line No. 28

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

Amount requested	\$1,000
Estimated to be expended in 1951-52 Fiscal Year	1,200
Decrease (16.7 percent)	\$200

RECOMMENDATIONS

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

ANALYSIS

The amount requested is to provide for maintenance on the parking lot facility and represents a reduction of 16.7 percent below 1951-52 expenditures.

We recommend approval of the request.

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

ITEM 143 of the Budget Bill

Budget page 433

Budget line No. 60

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

Amount requested	\$120,000
Estimated to be expended in 1951-52 Fiscal Year	None
Increase	\$120,000

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval of the request.

Department of Finance—Division of Fairs and Expositions GRAND NATIONAL JUNIOR LIVESTOCK EXPOSITION

ITEM 144 of the Budget Bill

Budget page 434
Budget line No. 40

For Support of Grand National Junior Livestock Exposition From the Fair and Exposition Fund

Amount requested	\$63,497
Estimated to be expended in 1951-52 Fiscal Year	64,047
Decrease (0.9 percent)	\$550

RECOMMENDATIONS

Amount budgeted	\$63,497
Legislative Auditor's recommendation	None
Reduction	\$63,497

ANALYSIS

The amount of \$63,497 represents a direct budget act appropriation from the Fair and Exposition Fund for the partial support of the Grand National Junior Livestock Exposition. The total amount required for support in 1952-53 is scheduled at \$114,997. The difference between this latter amount and the \$63,497 in the budget item is \$51,500. The \$51,500 represents revenues for funds under control of the No. 1-A District Agricultural Association and made available to the Grand National Junior Livestock Exposition.

The expenditures for 1952-53 are at almost the identical level as scheduled for 1951-52. Total support of \$114,997 is actually \$3,502, or 3.0 percent, less than the total support figure of \$118,499 for 1951-52.

This type of operation is again a matter of legislative policy as to how far it should be permitted to expand.

Prior to 1951-52 this activity was carried on wholly from funds of the District 1-A Agricultural Association. A special appropriation of \$65,000, pursuant to Chapter 1549, Statutes of 1951, was made for the one fiscal year. Now the matter is being submitted as a regular budget item. It constitutes another source of withdrawal of funds from the Fair and Exposition Fund.

We are in accord with a sound program of fairs, adequately financed and soundly operated. However, we believe that there are already too many fairs in California, each competing with the other, to the general detriment of all. We believe the entire fair program needs overhauling and revamping to provide for a smaller number of quality fairs on a relatively noncompeting basis as far as geographical locations and operating dates are concerned.

On this basis we cannot recommend the further subsidization of additional fairs out of available funds at this time.

We recommend deletion of the item.

**Department of Finance
DIVISION OF STATE LANDS**

ITEM 145 of the Budget Bill

Budget page 437
Budget line No. 6

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

Amount requested	\$218,147
Estimated to be expended in 1951-52 Fiscal Year	223,828
Decrease (2.5 percent)	\$5,681

Summary of Increase

	Total increase	Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	\$9,600	\$7,080	\$2,520	438	79
Operating expense	17,335	5,735	11,600	439	22
Equipment	—296	—296	---	439	32
Less:					
Increased reimbursements	—32,320	—22,320	—10,000	439	36
Total increase	—\$5,681	—\$9,801	\$4,120		

RECOMMENDATIONS

Amount budgeted	\$218,147
Legislative Auditor's recommendation	218,147
Reduction	None

ANALYSIS

The amount of \$218,147 requested from the State Lands Act Fund for expenditure in the 1952-53 Fiscal Year represents a decrease of \$5,681, or 2.5 percent, less than estimated expenditures for the current year. The gross expenditure program for the budget year, however, is scheduled to increase \$26,639, or 7.3 percent, over estimated expenditures during the current year. The scheduled increase in the gross expenditure program is more than offset by an increase in estimated reimbursements totaling \$32,320. A new stipulation entered into between the State of California and the United States relative to operation of leases on controversial tide and submerged lands provides for an increase in the reimbursement from impounded funds for administrative costs from a maximum of \$12,000 per month to \$14,000 per month. This results in an estimated increase of \$22,320 in reimbursements to the Division of State Lands for tidelands administration. An additional \$10,000 in reimbursements is scheduled to offset added operating expenses budgeted in connection with engineering boundary determinations of legislative grants to the County of Sonoma and the City of Sausalito, the cost of which is reimbursable by the grantee (Chapters 1406 and 913, Statutes of 1951).

Salaries and wages are scheduled to increase in the amount of \$9,600, or 3.6 percent, over estimated expenditures for the current year. The entire increase is due to the request for three additional positions as follows:

1 Intermediate file clerk	\$2,520
2 Oil gaugers	7,080
Total—New positions	\$9,600

We recommend approval of the additional positions requested.

The additional position of intermediate file clerk will provide assistance for the reindexing and standardization of the general files in the Sacramento office.

It is proposed to reorganize these files to conform with those in the Los Angeles office. After completion of the reindexing project this position will provide for file clerk assistance for the proper maintenance of files in the Sacramento office. It is apparent that specialized assistance will be required if these files are to be properly maintained after they are put in order.

We recommend approval of two additional oil gaugers on a work load basis. The increased number of producing wells at the Huntington Beach field will require one additional position and one will be required because of increase work load at Rio Vista and the addition of the new River Island field.

The amount of \$106,252 requested for operating expenses in the Fiscal Year 1952-53 represents an increase of \$17,335, or 19.5 percent, over estimated expenditures in the current year. Additional activities required by legislative action at the 1951 Session, revision and general reorganization of the files in Sacramento, plus additional travel to cover new positions and increased field activities of survey crews, account for the major increase in proposed expenditures for operating expenses.

Detail on increases in operating expenses, which constitute new or expanded activities, is as follows:

New Activities Required by Legislation

Determination of boundaries of legislative grants to the County of Sonoma and the City of Sausalito (Chapters 1406 and 913/51) (This item is reimbursable by grantees.)	\$10,000
Verification of proprietary lands index (Chapter 1625/51)	300
Indexing and maintenance of records relative to Federal Government jurisdiction over lands within the State (Gov. Code Section 127, added by Chapter 875/51)	800

Other Expanded Activities

Reindexing and organization of files in Sacramento office	500
---	-----

The reindexing of the files in the Sacramento office will effect a reorganization in line with the file system in Los Angeles. The plan will be developed and indirect supervision of this project will be given by the Management Analysis Section of the Department of Finance.

The amounts requested for operating expenses seem in line with agency requirements and we recommend approval as submitted.

Equipment requests have been reviewed and are in line with requirements. The additional automobile is required for the additional oil gauger to be assigned to Rio Vista. We recommend approval.

Revenues to the State Lands Act Fund are scheduled to increase from an estimated \$1,386,321 in 1951-52 to \$1,442,630, an increase of \$56,309, or 4.1 percent.

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

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

Accumulated total June 30, 1950.....	\$25,307,362
1950-51 (actual)	9,790,854
1951-52 (estimated)	10,280,397
1952-53 (estimated)	11,294,417
Less :	
Total expenditures from Special Deposit Fund (estimated)	—420,000
Estimated total impounded moneys June 30, 1953.....	\$56,253,030

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

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

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

**Department of Finance
DIVISION OF STATE LANDS**

ITEM 146 of the Budget Bill

Budget page 439
Budget line No. 37

For Support of the Department of Finance, Division of State Lands, From the Impounded Tide and Submerged Lands Revenue Act—Special Deposit Fund

Amount requested	\$22,320
Estimated to be expended in 1951-52 Fiscal Year.....	None
Increase	\$22,320

RECOMMENDATIONS

Amount budgeted	\$22,320
Legislative Auditor's recommendation.....	22,320
Reduction	None

ANALYSIS

A new stipulation entered into between the State of California and the United States relative to operation of leases on controversial tide and submerged lands increases the maximum amount that the State may be reimbursed for administrative costs from \$12,000 to \$14,000 per month. Chapter 7, Statutes of 1951, provides that the State Controller shall transfer, from money held in the Special Deposit Fund, amounts

not to exceed \$12,000 per month. The amount requested by this item would appropriate the additional amount authorized by the new stipulation above the maximum limit that can presently be transferred upon order of the State Controller.

We recommend approval as requested.

Department of Finance

DIVISION OF STATE LANDS—TIDELANDS CONTROVERSY

ITEM 147 of the Budget Bill

Budget page 439
Budget line No. 68

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

Amount requested	\$70,000
Estimated to be expended in 1951-52 Fiscal Year	70,000
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval as submitted.

Department of Finance

DIVISION OF STATE LANDS—LITIGATION EXPENSES

ITEM 148 of the Budget Bill

Budget page 439
Budget line No. 81

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

Amount requested	\$5,000
Estimated to be expended in 1951-52 Fiscal Year	5,500
Decrease (9.1 percent)	\$500

RECOMMENDATIONS

Amount budgeted	\$5,000
Legislative Auditor's recommendation	5,000
Reduction	None

ANALYSIS

The amount requested is to cover further litigation in the case against the Bureau of Power and Light, City of Los Angeles, for flooding the state-owned mineral deposits in the bed of the Owens and Mono Lakes. The Attorney General's Office reports that the case will probably continue during 1952-53, with appearances before the Supreme Court. The amount requested will provide for technical assistance to the Attorney General.

We recommend approval.

Department of Finance

DIVISION OF STATE LANDS—DEFENSE OF QUIET TITLE ACTIONS

ITEM 149 of the Budget Bill

Budget page 440
Budget line No. 9*For Defense of Quiet Title Actions From the State Lands Act Fund*

Amount requested	\$15,000
Estimated to be expended in 1951-52 Fiscal Year	15,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$15,000
Legislative Auditor's recommendation	15,000
Reduction	None

ANALYSIS

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

We recommend approval.

Department of Finance

DIVISION OF STATE LANDS—INDEX OF LANDS UNDER FEDERAL JURISDICTION

ITEM 150 of the Budget Bill

Budget page 440
Budget line No. 16*For Establishment of Index of State Lands Under U. S. Jurisdiction
From the State Lands Act Fund*

Amount requested	\$5,000
Estimated to be expended in 1951-52 Fiscal Year	None
Increase	\$5,000

RECOMMENDATIONS

Amount budgeted	\$5,000
Legislative Auditor's recommendation	5,000
Reduction	None

ANALYSIS

This is a new item. The amount requested will provide contract services for the establishment of a comprehensive index of lands over which the United States has acquired jurisdiction pursuant to Section 126 of the Government Code. Section 127 of the Government Code which was added by Chapter 875, Statutes of 1951, requires that the Division of State Lands establish and maintain such an index.

We recommend approval.

**Department of Finance
NAPA STATE FARM**

ITEM 151 of the Budget Bill

Budget page 442
Budget line No. 6

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

Amount requested	\$34,864
Estimated to be expended in 1951-52 Fiscal Year	34,884
Decrease (0.06 percent)	\$20

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	—\$20	—\$20	---	442	35
Operating expense	---	---	---	442	54
Equipment	---	---	---	442	60
Total increase	—\$20	—\$20	---		

RECOMMENDATIONS

Amount budgeted	\$34,864
Legislative Auditor's recommendation	34,864
Reduction	None

ANALYSIS

The amount of \$34,864 requested for the support of Napa State Farm for the 1952-53 Fiscal Year is a decrease of \$20 from estimated expenditures for the current year.

No additional positions are requested. Normal salary adjustments, plus an increase of \$200 in temporary help and overtime, is more than offset by estimated salary savings of \$400 in the budget year. The amount requested for operating expenses and equipment is the same as estimated expenditures in these categories during the current year.

Revenue for the General Fund from farm operations for 1952-53 is estimated at \$39,000, an increase of \$2,190 over estimated revenues for the current year. The excess of estimated revenue over estimated expenditures for support during the current year is \$1,926, and for the 1952-53 Fiscal Year the estimated excess revenues over scheduled expenditures is estimated at \$4,136. No expenditures for capital outlay are proposed for the 1952-53 Fiscal Year.

We recommend approval of the amount requested as necessary to continue the present level of farm operations. However, we wish to repeat our recommendation made in previous analyses that the entire farm operation be reviewed with the objective of increasing the benefits realized by the State.

GENERAL SUMMARY

The Northern California Subcommittee of the Joint Interim Committee on Agriculture and Livestock Problems, after 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.

This office recommended action to put into effect the committee's recommendations. Legislation to accomplish the consolidations recommended failed passage at the 1949 Session of the Legislature.

This office then pointed out that if consolidation could not be effected, consideration should be given to the advisability of discontinuing the farm operation and disposing of the property. Based on the State's investment in Napa State Farm, present revenue makes it difficult to justify the continuance of the farm operation.

We recommend, therefore, a thorough review of the entire farm operation, and if the farm is to be retained, that a formal program be presented for its operation. This program should detail proposed land utilization, proposed livestock feeding and processing, and a schedule of improvements required to put it on a sound operating basis. This should also include a complete statement as to the policies and plans of the benefiting agencies and institutions, indicating availability of inmate labor and food requirements to be secured from the farm operations.

FRANCHISE TAX BOARD

ITEM 152 of the Budget Bill

Budget page 443

Budget line No. 18

For Support of Franchise Tax Board From the General Fund

Amount requested	\$3,038,637
Estimated to be expended in 1951-52 Fiscal Year	3,019,917
Increase (0.6 percent)	\$18,720

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$4,958	\$4,958	---	449	9
Operating expense	44,529	44,529	---	449	10
Equipment	30,767	30,767	---	449	11
Total increase	\$18,720	\$18,720	---		

RECOMMENDATIONS

Amount budgeted	\$3,038,637
Legislative Auditor's recommendation	3,017,094
Reduction	\$21,543

ANALYSIS

Salaries and wages as budgeted for 1952-53 show a gross increase of \$66,918 (Budget page 449, line 5) over the total gross salaries for 1951-52. However, this increase is almost exactly offset by an increase in estimated salary savings of \$67,000, so that the net increase of \$4,958 represents the approximate cost of the two additional clerical positions requested.

The large decrease in equipment is attributable chiefly to the fact that equipment purchases in 1951-52 were inflated by a nonrecurring item of \$20,398, representing rebuilt tabulating equipment purchased during that year.

If adjustment is made for these two items in order to place the estimated expenditures for 1951-52 on a comparable basis with those requested for 1952-53, the increased expenditures requested amount to \$106,118 instead of \$18,720 or 3.6 percent rather than 0.6 percent.

The allocation from the Emergency Fund of \$25,764 for 1951-52 (Budget page 443, line 19) includes \$1,080 for rent of space for temporary help during the filing period of about three months, and \$4,755 for approximately 3,500 square feet of additional space for various headquarters units in the Business and Professions Building in Sacramento. The remainder is for price increases and increases in printing and postage due to work load increases not anticipated at the time the 1951-52 Budget was prepared in the fall of 1950.

We recommend a reduction of \$21,543 in the amount requested for 1952-53, as follows:

Administration	Amount	Budget page	Line No.
2 Intermediate clerical positions—savings due to centralized pay roll plan	\$5,040	---	---
Traveling	2,079	444	81
3 File cabinets—5-drawer, legal	409	445	14
Total administration	\$7,528		
Franchise Tax Division			
75 Legal size transfer file drawers	\$825	446	35
Personal Income Tax Division, Headquarters			
62 File cabinets—5-drawer, legal	8,150	447	48
Personal Income Tax Division, Los Angeles			
1 Assistant cashier-clerk	2,520	447	79
Personal Income Tax Division, San Francisco			
1 Intermediate typist-clerk	2,520	448	52
Total	\$21,543		

Administration

Savings due to centralized pay roll plan\$5,040

Prior to November 1, 1951, the pay roll of the Franchise Tax Board was handled by the agency itself through a departmental revolving fund. As of that date the pay roll was transferred to the centralized pay roll unit in the Division of Disbursements in the Controller's Office. A survey made by representatives of the Department of Finance and the Controller's Office on December 3, 1951, indicated that, as a result of the change, the time of approximately two full-time clerical positions was no longer needed for pay roll work in the Division of Administration in Sacramento. In order that these savings may be reflected in the budget, we recommend the deletion of two positions at the intermediate clerical level in this division, leaving it to the agency to select the positions to be deleted.

Traveling (Budget page 444, line 81)-----\$2,079

This represents the increase in travel expense (meals and lodging while away from home) for the special investigation unit over that authorized for 1951-52 computed at \$11 per day, as shown in the following table:

	1951-52		1952-53		Increase	
	Days	Amount	Days	Amount	Days	Amount
1 Tax counsel -----	75	\$825	114	\$1,254	36	\$429
3 Income tax agents	200	6,600	250	8,250	50	1,650
Total -----		\$7,425		\$9,504		\$2,079

While this staff was created by the Budget Act of 1951 for the Fiscal Year 1951-52, the amounts authorized for travel in 1951-52 were estimated to be the requirements of the full staff for the entire year, and since as of December 31, 1951, only three of the four authorized positions had been filled; the tax counsel on November 15, 1951, one income tax agent on July 19, 1951, and another on December 6, 1951, there appears to be no basis for any increase over the 1951-52 estimates. Actual payments to the income tax agent for the period from July 19 to October 31, 1951, for meals and lodging, were \$53.05 for five days travel.

Furthermore, the request for 250 days travel for each of the three income tax agents for 1952-53 appears excessive, since experience has shown that the average state employee works only about 225 days a year, the 365 days being reduced by 115 days for Saturdays, Sundays and holidays, 15 days for vacation, and 10 days for sick leave. Even if these men used no sick leave, they would still be working only 235 days a year, 15 less than the number for which travel allowance is requested.

While it is our understanding that the income tax agents will report directly to the executive officer in Sacramento, this does not necessarily mean that Sacramento will be the headquarters of each for purposes of claiming travel allowances. Since a large part of the work of these agents will normally be in the Los Angeles and San Francisco metropolitan areas, two of them could very well live and do the greater part of their work in these areas, which might reduce the travel allowances well below the 200 days allowed for 1951-52.

It is our further understanding that the tax counsel will spend most of his time in headquarters, preparing cases for field investigation, reviewing reports of the income tax agents and gathering material for prosecutions. In view of this, a travel allowance of 75 days would appear adequate.

We accordingly believe the allowances for 1951-52 to be more than liberal and recommend a reduction to that level.

3 File cabinets—5-drawer, legal-----\$409

These additional file cabinets are requested, one each for the Collection Section in San Francisco, the Appeals and Review Unit in Sacramento, and the legal staff in Sacramento, the justification being in each case to provide for needed expansion.

The Assembly Committee on Governmental Reorganization, created by HR 203 at the 1951 Session of the Legislature, has made a special study of records management for the state service as a whole, including the problem of filing equipment and including the problems of the Franchise Tax Board. Pending the final recommendations of the committee to

the 1952 Legislature, we recommend disapproval of the purchase of any additional filing equipment by the Franchise Tax Board. This applies also to \$825 requested by the Franchise Tax Division, and \$8,150 requested by the Personal Income Tax Division, headquarters, for purchase of new filing equipment.

Franchise Tax Division

75 Files—1-drawer, legal, transfer-----\$825

These are requested to make available six five-drawer legal files for new corporations and nine five-drawer legal files for exempt corporations by transfer of certain returns from Class A files to transfer cases. We recommend the withholding of approval for this purchase pending the report of the Assembly committee mentioned above.

Personal Income Tax Division, Headquarters

62 Files—5-drawer, legal-----\$8,150

Of these, 49 are requested for the so-called "annual file" and 13 for miscellaneous purposes.

As of January 9, 1952, the Personal Income Tax Division, headquarters office, had on hand 672 first class, legal-size, steel filing cabinets including all the additional purchases authorized by the 1951-52 budget. These are used as follows:

"Alpha files"—larger tax returns-----	376
"Annual files"—smaller tax returns-----	181
Miscellaneous—service cabinets, general files, etc.-----	115
Total -----	672

The 49 additional requested for the "annual file" group are for expansion due to the increased volume of smaller returns resulting from lowered exemptions, while of the 13 miscellaneous, seven are requested for expansion for delinquent returns, four for expansion for service cabinets and two for expansion of confidential files.

Returns in the "annual files" average about \$10 tax per return, and are transferred out of file cabinets, stored first on open shelving and then destroyed on a regular cycle basis as the four-year limitation period runs with respect to each year's returns.

The number of file cabinets required in the over-all to house returns, under these circumstances, is therefore conditioned not only on the volume received each year but also on the destruction program and the activity in the files housing the older returns. Since this is a problem in records management, and since it also appears possible that the number of file cabinets, 115, used for miscellaneous purposes may be high, we recommend against the purchase of any of these additional files pending the report to the Legislature of the Assembly Committee on Governmental Reorganization.

Personal Income Tax Division—Los Angeles and San Francisco

1 Assistant cashier-clerk, Los Angeles-----\$2,520
1 Intermediate typist-clerk, San Francisco-----\$2,520

These positions are requested for processing information at source returns, the only justification submitted being the general statement appearing on Budget page 446, line 47, that there is an increase in the number of information at source returns being investigated in the field,

but no precise work load data have been submitted as to the relationship between the increase and the proposed positions.

At present there are 29 clerical positions in the Los Angeles area and 27 in the San Francisco area, and the last Budget Act authorized an increase of six in Los Angeles and two in San Francisco for the 1951-52 Fiscal Year.

In view of the substantial number of clerical positions now established in these areas, as well as the increases authorized at the last session, we believe that any further increase in clerical staff for these two offices could well be postponed until actual work load is developed by experience.

Special Investigation Section

The 1951 Legislature authorized the establishment of a Special Investigation Section in the Division of General Administration to consist of one Associate Tax Counsel (present pay scale \$530 to \$644) and three special agents (present pay scale \$376 to \$458). The agency's justification reads as follows:

“It is proposed to employ three special agents and one associate tax counsel to investigate fraudulent tax returns, to make criminal investigations, to gather evidence and prepare cases and present same to the Attorney General, district attorneys, grand juries and other law-enforcing bodies; also to direct and make difficult investigations concerning 'residence' of persons under the Income Tax Law.”

On June 16, 1951, two new classes were established by the Personnel Board; Tax Counsel (fraud investigations) with a salary range of \$710 to \$862, and Income Tax Agent with a salary range of \$530 to \$644. In making appointments, the Franchise Tax Board has used the new classes rather than those originally authorized, and has appointed a Tax Counsel at \$710 in lieu of an Associate Tax Counsel at \$530 at an annual increase in cost of \$2,160, and has appointed, or will appoint, three income tax agents at \$530 in lieu of the special agents at \$376 at an annual increase in cost of \$5,544. As a result, the salary cost of the four positions during the first year of service will be \$27,600 instead of the \$19,896 originally budgeted, an increase of \$7,704, or 38.7 percent.

It should be noted that the salary scale for the Tax Counsel (fraud investigation) is higher than that for any position in the agency with the exception of that for the Executive Officer and the Assistant Executive Officer.

In view of the higher levels established for these positions beyond those submitted by the agency in its original plan, and the experimental nature of this program, it is again recommended that careful records of cost, activities and results be maintained by the agency, so that the program can be evaluated at a later date.

Out-of-state Audit Program

The Budget Act of 1950, approved by the Governor on April 1, 1950, appropriated \$65,000 for an increase in staff in the Franchise Tax Division for additional audit of taxpayers with incomes both within and without the State where the allocation of income attributable to California is a factor in determining tax due. The program contemplated the use of four auditors outside the State. Pursuant to this program, two

men started working in New York on August 21, 1950, and one in Chicago on September 25, 1950. These men make their headquarters at the offices of the Board of Equalization which has a permanent staff of nine auditors and one stenographer in both New York and Chicago engaged in sales tax and transportation tax audit work. At the time this special program was submitted, it was approved by the Legislature on a temporary basis subject to later review to be made on the basis of analyses of costs and results and broader studies as to its relationship to other audit and enforcement activities. Although some of the broader studies are yet to be made, the direct costs and results of the "Eastern Audit" program indicate that it produces high yield in relation to cost and is a desirable part of the enforcement program. Consequently, we recommend that the program be continued.

Apparently the agency has had some difficulty in recruiting men from its staff for these eastern assignments. The Board of Equalization has solved this difficulty by recruiting its entire staff in New York and Chicago, except for the supervisor in each place, from men residing in the two localities. The Franchise Tax Board might well adopt the same practice. Failing this, it might consider the possibility of arranging to have audits made by the Board of Equalization staff on a contract basis.

Still another arrangement which should be actively pursued is the development of a program for joint or cooperative audits with other states having similar laws such as that which has been used by the various state insurance commissioners with such outstanding success during the last 41 years.

Relationship of State to Federal Audit Program

Since all California residents, both corporate and individual, who are required to file a federal income tax return are also required to file a state return, although the converse is not true, and since the federal and state tax laws are comparable in most essential respects, it is evident that close cooperation between state and federal tax authorities would be advantageous to both. In the past, California has been receiving from the federal authorities in Los Angeles and San Francisco the names and addresses of taxpayers, both corporate and individual, against whom substantial federal tax deficiencies have been proposed. The state authorities have then written to the taxpayers requesting copies of the federal revenue agent's reports and have made extensive use of the information contained therein in proposing state deficiencies, or as the basis for further state audits.

Several states have gone much further than California, however, with very satisfactory results.

In April, 1950, the Bureau of Internal Revenue arranged for the exchange of audit information with Wisconsin and North Carolina, and in July, 1951, similar arrangements were made with Montana and Kentucky. Under this program, both federal and state examiners prepare abstracts of audit findings and exchange them with one another. This procedure would appear to have advantages over that used by California in that the information received by the State is prompt, direct and complete, and the State is in a position to know not only whom to audit but whom not to audit.

While the federal authorities are aware that states stand to gain more than they from such exchanges, they believe sufficient benefits accrue to themselves to warrant the continuation and expansion of such programs.

Accordingly, we recommend that the California Franchise Tax Board take the necessary steps for developing full cooperation and exchange of information with the Federal Government as to income tax audit findings, both individual and corporate, including information as to audits of California residents filing federal returns in other states.

Extent of Federal Audit Coverage

In view of the reliance placed on the information contained in federal audit reports in the past and in view of the possibility for developing much closer cooperation in the future, as outlined in the foregoing, it is important to know the actual extent of the federal coverage in California in order to plan most efficiently the state program.

The 1951 Legislature authorized an increase in the budget of the Franchise Tax Board for 1951-52 of \$321,836, or 12.9 percent over 1950-51. Most of this increase, or \$252,045, was for salaries and wages, permanent positions being increased from 602 to 667, an increase of 65, distributed as follows:

	Technical	Clerical	Total
Headquarters -----	16	18	34
Field offices -----	22	9	31
Total -----	38	27	65

Most of the technical staff consisted of auditors, and in justification for the increase, particularly in the field offices, the agency indicated that it desired to modify past policy which placed chief reliance on the federal audit program as a means of disclosing possible deficiencies and do more independent field work on selected accounts. As an indication of the inadequacy of the federal audit program for state purposes, and thereby the importance of increased state audit, the following justification was submitted to the Assembly Ways and Means Committee:

“ * * * the Commissioner of Internal Revenue, George J. Schoeneman, stated in June, 1950, at Chattanooga, Tennessee, that they audited for the tax year 1948, 162,000 out of 52,000,000 individual tax returns. Therefore, the coverage was about one-third of one percent.”

As reported in the Proceedings of the Eighteenth Annual Conference, National Association of Tax Administrators, Lookout Mountain, Tennessee, June 4-7, 1950, page 3, Mr. Schoeneman in discussing the desirability for the development of highly selective devices in identifying the returns for investigation stated:

“Our latest effort in this respect is what we term our ‘Audit Control Program * * *’. Simply stated, it means the selection of a small number of returns from a larger number on such a basis that if all other returns in a given universe were selected, the characteristics of the universe would be identical with those in the sample within a predetermined calculable range of error. For our test we used the individual income tax returns for the tax year 1948. From the 52,000,000 individual income tax returns, we selected a sample of 162,000 on a highly complex basis, which need not be described here. The purpose of this

sample was to determine the extent and nature of errors which would be found in all the 52,000,000 returns if each were given a careful audit. This information would then be used to determine how we could best deploy our examining forces and on what types of returns."

It is clear, therefore, that the 162,000 returns represented to be the extent of federal coverage was only the number of returns in a highly selective sample in the audit control program. Information furnished to this office by the Bureau of Internal Revenue indicates that some 66,000 field audits of personal income tax returns were made in California alone during the Fiscal Year 1949-50.

Although a misinterpretation of the federal audit statistics was unintended by the agency, the difference between the picture as presented and as it actually exists is of extreme significance in appraising the implications of a new program of "less reliance upon the federal audits."

For audit purposes, federal personal income tax returns are divided into two groups, "agents" returns and "collectors" returns. The "agents" returns are the larger returns, which are screened and audited by revenue agents, of which there are about 500 in California at present. The revenue agents are entirely independent of the collectors of Internal Revenue and report to a revenue agent in charge, of which there are two in California. These, in turn, report directly to Washington.

According to statistics as to individual income tax returns furnished by the Bureau of Internal Revenue, 289,733 "agents" returns and 3,766,954 "collectors" returns were filed in California during the Fiscal Year 1949-50.

Investigations (field audits) of an estimated 33,406 "agents" returns and field audits of 32,635 "collectors" returns were made during that year. The chief significance of these figures, however, is not the extent of the federal coverage of federal returns but the extent of the federal coverage of taxpayers who are also required to file state returns. Total federal filings greatly exceed state filings but the excess is in the very low income groups because of the much lower federal minimum requirement for filing (\$600 as compared to \$2,000 for a single person and \$3,500 for a married person under the state law). Because the federal audit program is highly selective, it is probable that all, or nearly all, of the 32,635 "collectors" returns audited in the field were the larger returns in this group and accordingly that all these taxpayers, as well as the 33,406 represented by the "agents" returns audited, were also state taxpayers. This means that some 66,000 state taxpayers received a federal field audit during that year, which represented 7.9 percent of the 863,932 who filed 1948 state returns during 1949, or 4.6 percent of the 1,421,847 who filed 1949 state returns during 1950.

One other aspect of the federal audit coverage in California, as it relates to the state audit program, should be noted. California personal income tax returns filed for the tax year 1949 were distributed as follows by net income classes:

Net income classes	Number of returns		Tax	
	Number	Percent	Amount	Percent
Under \$7,000 -----	1,153,729	81.1	\$9,275,941	16.4
\$7,000 and over -----	268,118	18.9	47,277,389	83.6
Total -----	1,421,847	100.0	\$56,553,330	100.0

The state returns in the net income group of \$7,000 and over, which account for over 80 percent of the California tax, correspond roughly to the "agents" returns in the federal grouping. This means that the federal audit, which we know to be highly selective and which covers about 11.5 percent of the number of taxpayers in this group, may well cover as much as 50 percent of the actual self-assessed state tax.

Audit Program of Franchise Tax Board

In our analysis for 1951-52 we pointed out that, with the exception of the smaller personal income tax returns which had not been audited up to that time, the audit program, both as to franchise tax and personal income tax, contemplated an audit of every return filed, and that this audit took place not on a priority basis with the more important returns being audited first, but alphabetically by name of taxpayer three to three and one-half years after the return is filed. We pointed out at that time that we believed this method of audit to be unnecessarily wasteful, costly and inefficient, and that if audits of returns were made on a selective basis, the audit program could be kept as current as need be without any increase in staff.

It has been our recommendation, and that of legislative committees, for the past two years that continuing study be made of the audit program of the Franchise Tax Board. In appraising the total needs of the agency it is particularly important to know the results of audit and other enforcement activities under various programs and policies, relationships between costs (direct and indirect) and deficiencies assessed, and relationships between federal and state programs in the same areas. Improved cost data are now being compiled by the agency and during the year this office has engaged in a program of continuing research, particularly on the federal audit program and its relationship to California personal income and franchise tax enforcement. For this purpose we have received valuable assistance and heretofore unpublished data from federal authorities in San Francisco and Washington. Some of the results of this research are embodied in our comments under the heading "Relationship of State to Federal Audit Program" and "Extent of Federal Audit Coverage."

In general, it is the objective of the federal program to select returns for audit and complete the audit by the start of the second fiscal year after the return is filed, that is approximately 15½ months after the normal due date, although for various reasons this is not always practical. It is also the objective " * * * insofar as possible within each of the cells from which returns are taken for examination *always* to select a return which is in error so that our limited manpower may be spent not only in correcting the error but also in correcting any misunderstanding which the taxpayer may have in respect to his obligations under the law."

As an aid to this selection process, the Bureau of Internal Revenue undertook what it refers to as its "Audit Control Program" which has two objectives:

- (1) An audit of a scientifically selected sample of all returns filed to determine the total tax change which would result if all returns were audited, and

- (2) An analysis of the results of those audits to determine the areas where errors occur with the greatest frequency and in the greatest size.

The results of this study, which involved the 1948 returns, resulted in the following conclusions and actions:

(a) All returns reporting incomes of \$25,000 and over will be audited on a cycle basis of every two years.

(b) Among the returns with income under \$25,000 those reporting business income are in error 5 out of 10 times and, accordingly, will be segregated in future to permit more careful scrutiny at lower cost for audit selection purposes.

(c) "Collectors" returns which list exemptions for dependent relatives—other than children—will be more closely scrutinized and examination for error will be concentrated on these returns.

Other Studies

In our 1951-52 report, pages 244 to 246, we pointed out the need for study of matters other than the audit program, such as the basic organization of the agency, the relationships between headquarters and field staffs, unified administration in area offices, proper number and location of branch offices, etc., and we refer again to those recommendations here. In addition, there are matters of relationships to other departments and other states which should be more thoroughly studied. Some of the more important of these are indicated in the sections which follow.

Appeals Machinery

Under existing law if a taxpayer is dissatisfied with a proposed assessment, he may protest to the Appeals Division of the agency and if still dissatisfied with the resulting decision, may appeal to the Board of Equalization for relief, and after that board makes its determination either the taxpayer or the Franchise Tax Board may petition the Board of Equalization for a rehearing. The inconsistency of this procedure is evident, since two members of the Franchise Tax Board are also members of the Board of Equalization. Furthermore, question is raised as to whether the Board of Equalization, because of its other functions, is the agency best suited to act as an appeals agency on questions as highly technical as those which can arise under the bank and corporation tax law or the personal income tax law.

In the belief that the proper agency to hear appeals from the decisions of the Franchise Tax Board's own administrative appeals division should be an independent board of tax appeals or tax court, we recommend that consideration be given to creating such a body as part of an over-all revision of the entire revenue-collecting machinery of the State.

Audit Cooperation Among State Agencies

To a very considerable extent the Franchise Tax Board, the Board of Equalization in its administration of the sales and use tax law, and the Department of Employment in its administration of the California Unemployment Insurance Act are auditing the same taxpayers, yet no machinery exists for systematic interchange of information among the three. While this may be due, in part, to provisions regarding confidential information which are to be found in all the tax laws administered by these agencies, this condition could easily be remedied by appropriate legislation.

While the taxes involved are all different in their application, the mere fact that a tax deficiency is discovered for income tax purposes with respect to a particular taxpayer who also may be responsible for sales tax, unemployment insurance tax, or both, would be of interest to the other two agencies, particularly if the deficiency is due either to negligence or fraud. A simple routine procedure for interchange of copies of billings among the three agencies could well prove very beneficial from the standpoint of assisting in the process of selection of cases for audit, which is a problem in all three agencies. This might be supplemented by interchange of more detailed information obtained by field auditors at the time of the audit by having the auditor complete a check list or questionnaire covering the essential information desired by the other agencies involved. This information could prove valuable in assisting the other agencies to determine not only which taxpayers to audit but which not to audit and could have the effect of increasing the potential coverage under all the tax laws involved by pooling to a limited extent, at least, the resources of the audit staffs of all three.

The maximum audit coverage at a minimum of cost could be achieved by concentrating all state tax audit activities in a single department of state tax administration, and this has been recommended on numerous occasions. Our studies of the audit program and procedure in various state agencies leads us to the conviction that in most instances with proper training and supervision, the same auditor could simultaneously complete audits for personal income tax, sales tax, and unemployment insurance tax purposes. However, pending the creation of such a central agency for state tax administration, much can be accomplished within the framework of existing organization.

Accordingly, we recommend appropriate legislation making mandatory the interchange of such information among state tax agencies and removing any legal barriers to such exchange which may now exist.

In this connection, it is significant to note that at least two former Senate interim committees have recognized and commented upon this condition.

On page 123 of the Report of the Senate Interim Committee on Unemployment Insurance issued in 1945 (excerpts from the Senate Journal of May 7, 1945), the following statement appears:

“Centralized Auditing System

“In the course of the investigation by your committee of the field operations of the Tax Division of the State Department of Employment a definite need for coordinating the activities of the various taxing agencies in this State has become apparent. Much of the information which is necessary for an effective and efficient audit for unemployment insurance tax purposes is available from the records of other state agencies, yet there is no central office which compiles such information and makes it readily available for all of the tax enforcement units. At the same time, many of the functions performed by the field auditors of the Department of Employment are very similar to, and in many cases a duplication of, the functions performed by the auditors of other tax agencies of this State. Under the present system of independent auditing whereby each taxing agency maintains a separate field staff, there are at least two very serious weaknesses. In the first place, there

is a lack of coordination of the data and information compiled by each agency which has application to the tax enforcement work of all the agencies. Secondly, there is a duplication of the functions performed by the auditors of the various agencies and yet no agency seems to have adequate personnel available to perform the work necessary for proper law enforcement.

"Your committee wishes to call to the attention of the Legislature the importance of a central audit system in the enforcement of the tax laws of this State, although the problem is one which extends far beyond unemployment insurance operations and manifests itself only in part in the Tax Division of the Department of Employment. The existing system of separate enforcement units for each tax law results in the loss of money to the State and at the same time requires large expenditures for auditing purposes. While your committee is not in a position to recommend any particular form of centralized auditing and tax enforcement for the entire State, it is recommended that action be taken to consider a program that would at least coordinate the information available from the various state departments and unify much of the activity and operations now being duplicated by the separate tax enforcement agencies."

On page 85 of the Report of the Senate Interim Committee on Employment Stabilization issued in 1949 (excerpts from the Senate Journal of June 23, 1949), the following statement appears:

"With respect to reducing the inconvenience caused employers by tax audits, it appears to this committee that a better solution than keeping audits at a percentage wholly inadequate to protect revenues to the funds would be to consolidate the collection and audit of all self-assessed taxes in the State within a single revenue agency. In this way, an employer could be checked once in three years for all purposes and not be subjected to visits from a multiplicity of state auditors. This solution would also make possible broader audit coverage for all of these taxes at substantially less total cost to the State."

Page 223 of the same report states:

"A study should be made of the possibility of joint performance of the functions of the field staffs of the various state tax agencies to the end that needless duplication of facilities be eliminated and more effective use of personnel and better coverage be provided at less cost."

STATE TREASURER

ITEM 153 of the Budget Bill

Budget page 450
Budget line No. 7

For Support of the State Treasurer, From the General Fund

Amount requested	\$272,167
Estimated to be expended in 1951-52 Fiscal Year	282,267
Decrease (3.6 percent)	\$10,100

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$500	\$500	---	451	30
Operating expense -----	9,822	9,822	---	451	48
Equipment -----	422	422	---	451	55
Less:					
Increased reimbursement for bond collection services to special funds -----	20,000	20,000	---	451	60
Total increase -----	\$10,100	\$10,100	---		

RECOMMENDATIONS

Amount budgeted -----	\$272,167
Legislative Auditor's recommendation -----	272,167
Reduction -----	None

ANALYSIS

No new positions are requested for the State Treasurer's Office. The work load is not estimated to increase in the 1952-53 Fiscal Year. The small increase in salaries and wages is due to a statutory increase for the deputy state treasurer. In operating expenses, fiscal agency fees are anticipated to increase \$9,822. This is due to increased activity in the bonded debt function resulting from additional issues of veterans' bonds and school bonds.

The \$20,000 reimbursement amount for the 1952-53 Fiscal Year has heretofore been accrued to the General Fund as a nonrevenue item. It is believed that this is better accounting procedure to show it as a reimbursement to the agencies performing the function.

We recommend approval of the amount requested.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

ITEM 154 of the Budget Bill

Budget page 453
Budget line No. 22

For Support of California Highway Patrol From the Motor Vehicle Fund

Amount requested -----	\$12,115,467
Estimated to be expended in 1951-52 Fiscal Year -----	10,246,294
Increase (18.2 percent) -----	\$1,869,173

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$728,302	\$210,052	\$518,250	459	9
Operating expense -----	439,198	233,241	205,957	459	10
Equipment -----	698,648	262,068	436,580	459	11
Plus:					
Decreased reimburse- ment -----	3,025	3,025	---	459	15
Total increase -----	\$1,869,173	\$708,386	\$1,160,787		