

BOARD OF CONTROL

ITEM 107 of the Budget Bill

Budget page 417

Budget line No. 7

FOR SUPPORT OF BOARD OF CONTROL FROM THE GENERAL FUND

Amount requested ----- \$24,345

Estimated to be expended in 1956-57 Fiscal Year ----- 24,335

Increase ----- \$12

RECOMMENDATIONS

Amount budgeted ----- \$24,345

Legislative Auditor's recommendation ----- 24,345

Reduction ----- None

GENERAL SUMMARY

The Board of Control exercises two types of functions: establishing administrative regulations and acting as an administrative tribunal.

The board prescribes rules for:

1. Presenting and auditing claims against the State;
2. Computing travel claims and allowances;
3. Placing a value on state-supplied housing and maintenance;
4. Computing fractional pay for monthly employees;
5. Use of state cars;
6. Administering U. S. savings bond deductions.

The board may make merit awards to state employees for suggestions increasing the efficiency of state operations; it may appoint merit award boards to screen suggestions and make recommendations to the Board of Control.

The board hears financial claims against the State for which appropriations must be made, and makes its recommendations to the Legislature. This constitutes the bulk of its business. Among other functions, hearing protests by the low bidder against awards made to another contractor or supplier falls within its jurisdiction.

Table of Increases 1948-49 * to 1956-57

Work Index	1948-49	1956-57	Percent increase
1. Number of board meetings -----	24	24	0
2. Legislative claims filed -----	479	700	46.1
3. Petitions for discharge from accountability -----	174	425	144.3
4. Claims for refunds -----	1,287	2,225	72.9
Number of employees -----	1.2	2	66.7
Total expenditures -----	\$12,586	\$22,101	75.6

* Comparisons are for 1948-49, the earliest year for which work index figures have been compiled.

ANALYSIS

Printing estimates were increased \$12. Approval of this budget is recommended.

STATE CONTROLLER

ITEM 108 of the Budget Bill

Budget page 419

Budget line No. 23

FOR SUPPORT OF STATE CONTROLLER FROM THE GENERAL FUND

Amount requested ----- \$2,651,866
 Estimated to be expended in 1956-57 Fiscal Year ----- 2,562,576

Increase (3.5 percent) ----- \$89,290

Summary of Increase

	Total increase	Work load or salary adjustments	New services	Budget Line page No.
Salaries and wages -----	\$98,047	\$98,047	---	430 28
Operating expense -----	31,107	31,107	---	430 29
Equipment -----	2,792	2,792	---	430 30
Add decreased reimbursements -----	5,180	5,180	---	430 40
Add decreased appropriations from other funds -----	2,826	2,826	---	430 43
Less increased appropriations from other funds -----	45,078	45,078	---	430 44-48
Total increase -----	\$89,290	\$89,290	---	

RECOMMENDATIONS

Amount budgeted ----- \$2,651,866
 Legislative Auditor's recommendation ----- 2,544,266
 Reduction ----- \$107,600

ANALYSIS

The proposed budget of the State Controller's Office represents a net increase of \$89,290 or 3.5 percent above the 1956-57 estimated General Fund expenditures. This change is composed of both increases and decreases in the various categories and in the appropriations from other funds. The principal request is for 12 positions in the amount of approximately \$73,300 for salaries, wages, equipment and expenses accompanying these positions. A summary of the positions requested, the positions recommended for deletion and the approximate costs follows.

Summary of Positions Requested and Positions Recommended for Deletion

	Number of positions requested	Cost	Number of recommended for deletion	Cost
Accounting division -----	3	\$14,000	2	\$10,000
Audits division -----	3	20,500	2	13,600
Inheritance and gift tax division -----	4	23,800	---	---
Tax collection and refund division -----	2	15,000	---	---
Claims audit section -----	---	---	21	84,000
Total -----	12	\$73,300	25	\$107,600

State Controller—Continued

General Summary of Functions

The State Controller is the accounting and disbursing officer for the State. He maintains the accounts of all funds and appropriations, determines the legality of all payments and receipt of moneys due the State and disburses all moneys withdrawn from the Treasury. In addition, he supervises the administration of state inheritance and gift taxes; receives payment of the motor vehicle fuel license tax, motor vehicle transportation license tax, and petroleum and gas assessments; administers the tax refunds to nonhighway users of motor vehicle fuel; administers laws concerning county budget procedures; reports state, county, city, district, and street and highway financial transactions; supervises general procedures concerning delinquent property taxes and administers property tax-deeded to the State; administers unclaimed property laws; and field audits expenditures by local governments under the state school building aid programs, social welfare and public health subventions, and the local postwar construction programs.

These functions are carried out by eight divisions: Administration, Accounting, Audits, Disbursements, Inheritance and Gift Tax, County Budgets and Reports, Tax Collection and Refund, and Tax-Deeded Lands. The Controller has 509.5 authorized positions for the current year serving the public in all major California cities. The cost of maintaining the Controller's Office is defrayed primarily from the General Fund. Other funds from which the office is supported are: the Motor Vehicle Transportation Tax Fund, Motor Vehicle Fuel Fund, Redemption Tax Fund, Postwar Unemployment and Construction Fund and the State School Building Aid Fund.

Table of Increases

	1947-48	1955-56	Percent increase
Work index			
Number of warrants issued.....	1,021,251	2,459,148	141
Amount disbursed	\$1,430,923,609	\$3,593,151,108	151
	1947-48	1956-57	
Number of employees.....	238.5	509.5	114
Total expenditures—General Fund.....	\$878,799	\$2,562,576	192
Total expenditures—all funds.....	\$1,349,719	\$3,574,511	169

Accounting Division

The accounting division performs the function of maintaining control accounts by accounting for the receipts, disbursements and balances of all state funds, the audit and funding of all deposits into the State Treasury, to prepare the various financial statements covering the State's condition and operations, to make various apportionments of revenues to local government, and to administer the unclaimed and escheated property laws.

State Controller—Continued

This division has requested three additional positions: one accountant auditor I, one accounting technician II, and one general accountant II at a combined annual cost of approximately \$14,000.

The agency supports the request with statistics which show a deficiency of 8,617 man-hours for 1957-58 over the amount budgeted. This is the equivalent of 4.72 man-years. This requirement has been reduced by one man-year through transferring a typing position from the Unclaimed Property Bureau in August of 1956. The .72 man-years is proposed as temporary help. The remaining three man-years are the three positions requested and supported by the agency with the following explanation:

"The estimates of staffing requirements for both the Bureau of Control Accounts and the Bureau of Financial Analysis have taken into account the effectiveness of the mechanized system of fund and appropriation accounting. The actual operation of the system has disclosed several defects that were unanticipated at the time of planning the system.

"One defect was the necessity for complete preparation of posting documents for each transaction. Whereas formerly the bookkeeping machine operators could post from source data which combined several transactions, it is now necessary to break the source data down into its components so the key punch operators can process it efficiently."

We have examined the source documents and their method of preparation under the old system and under the mechanized system for receipts, transfers, journal entries and claims, and find the information processed to be essentially the same. It is true that the information, although the same, is now entered on separate documents but it appears that actually less information is required, that a typing operation step is eliminated in the receipts procedure, and that the combining of several transactions can, and in many cases does, take place under the new system. In some cases more extensive coding is required but the additional time appears to be insignificant and the resultant improvement in control is one of the strongest advantages of the mechanized system.

The agency explanation also states:

"Another time consuming difficulty encountered was the loss of control during the period between the preparation of posting documents and final entry on the ledger cards. To maintain proper control it has been necessary to check the ledger card balance and then review the machine register of transactions not yet posted to the ledger cards, before releasing warrants. The uncertainty that the 'eye checking' of registers will prevent issuance of warrants against accounts in which there are inadequate funds greatly increases the pressures on the accountants."

We find that such cases are rare and that when the latest balances are required, the most recent figures can be obtained from the tab unit. It is necessary to go back to the Division of Audits and to the agency to determine if there are any other transactions in process for still later and more accurate balances.

State Controller—Continued

The agency explanation further states:

"A third difficulty is that the special handling of transactions where circumstances require immediate processing, without delay for the normal machine accounting cycle. Every effort is made to minimize the number of these transactions, but they present a serious problem to the efficiency of the machine accounting system."

We agree that every effort should be made to minimize the number of "walk-throughs" but find that there is only an average of six per day, which should not cause extensive concern nor justification for additional personnel.

We do not see any justification for additional personnel for this function on the basis of defects in the mechanized system but do believe that normal growth in the number of transactions justifies one of the three positions requested. We therefore recommend the granting of the one accounting technician II and the deletion of the one accountant-auditor I and the one general accountant II for a reduction of approximately \$10,000.

Combining the Accounting Division and the Disbursements Division

The Legislative Auditor recommended in the *Analysis of the Budget Bill for 1955-56* and in that for 1956-57, that the Accounting Division and the Disbursements Division be combined. This combination would be similar to the combination of the two functions in the Department of Finance which is called the Division of Accounts and Disbursements.

There are a number of improvements in economy and efficiency which could be effected by such a consolidation. One instance is the case of the Financial Analysis Section which compiles the necessary financial reports for the Controller. This section could function more effectively if all reports could be produced mechanically as a by-product of the tabulating machines. For example, although provisions were made to establish county codes for certain reports, these codes have not been determined. Consequently, manual compilation and preparation of reports involving this information is continuing. Also, information for the annual report still has not been completely coded, such as nonrevenue receipts, nongovernmental cost distributions and special deposit funds.

Consolidation of these two divisions would greatly assist in the coordination of this work and in the establishment of satisfactory codes so that annual report statements No. 4, Nonrevenue Receipts; No. 5, Receipt of Funds, Other Than Governmental Cost Funds; No. 11, Nongovernmental Cost Disbursements; and No. 12, Disbursements of Funds, Other Than Governmental Cost Funds, can be produced mechanically. Only then can the State achieve the full benefits that should result from proper utilization of its electronic equipment.

State Controller—Continued

We believe that in addition to establishing complete codes, further improvement can be effected in this area by performing the actual coding work at the agency level with the Accounting Division acting as a checking function. In most cases the agency has inserted part of the coding on the document before sending it to the Accounting Division. The more complex and special cases could still be handled by Accounting, but the division would be relieved of one of the two coding checks now being made in the Control Accounts Section and little or no additional work would be required of the agencies. There is no reason why all the large volume of claim coding and most of the balance of the coding for the other transactions cannot be handled by the agencies. The comparative numbers of types of transactions for 1955-56 were as follows: receipts 9,137, transfers 4,221, journal entries 12,507, pay roll transfers 956, and claims 126,433. Although the number of claims handled is so very much greater than all the other types combined, the number of transactions per receipt, journal entry and transfer is, of course, proportionately greater. That is, the processing of the above numerically smaller types is somewhat more complex than the processing of claims.

The Control Accounts Section is the unit which handles the receipts, disbursements and balances of the control accounts. This section receives the tabulations from the Disbursements Division and by means of transfer posting duplicates an impression of the exact posting to the proper account on ledger cards by using reproducing tabulation masters. It is claimed that this duplication is necessary to insure up-to-minute balances. However, it appears that in the very few instances in which the latest balances (not *the current*, but *the latest* balances) available are required, it is necessary to go back to the Division of Audits and to the agency to include those items in transit as mentioned in the section above. This phase of fund accounting is a complete duplication of the mechanized accounting system and further study should be made to analyze the possibility of the complete elimination of this particular function. It is plain that more effective coordination between these two related, and in some cases overlapping, functions could be realized if the two divisions were consolidated.

Another activity of the division resides in the Unclaimed Property Section which administers the unclaimed and escheated property laws. This activity is not related to the basic responsibility of the Accounting Division and could be placed elsewhere in the Controller's office. The combination of these divisions plus the necessary procedural changes require no law change, but can be accomplished by simple administrative action by the Controller.

State Controller—Continued

Audits Division

The Audits Division requests three auditor II positions for the Field Audit Section. The request for the positions is based upon an anticipated increase in the number of school construction projects available for audit and upon additional work resulting from the Flood Relief Law of 1956.

The work measurements for these requests substantiate the need for these positions. However, we recommend that only one of these positions be granted at this time and that is the position for the storm and flood damage repair audits. We recommend the elimination of the two auditor II positions in the amount of approximately \$13,600 per year for salaries, wages, equipment and expenses accompanying these positions. Since the positions are exclusively for the purpose of the auditing school construction projects, the reduction appears in the analysis of Item 110 of the Budget Bill for additional support of the State Controller from the State School Building Aid Fund.

As mentioned in the analysis of last year, we believe that the establishment of general governmental auditing policies and the definition of responsibility of all agencies performing audits as broadly recommended by the Price Waterhouse Report should be accomplished as quickly as possible. We recommend that the Auditor General and the departments concerned meet and resolve the auditing deficiencies and overlappings so that basic areas of responsibility are defined *before the start* of another budget preparation period. It will be argued that additional auditors will be necessary to continue this work until such a determination can be made. We believe that it is unsound to add new positions until the goals and responsibilities are set.

The Organization and Cost Control Division of the Department of Finance in Survey 841 recommended that "duplication between the Local Allocation Division's close out examination and the State Controller's post audit be eliminated in the Local Allocation Division unless Sections 7744 and 7745 of the Education Code are amended to permit elimination of the State Controller's post audit."

The report recognizes the duplication of work of the Local Allocation Division and the Controller but does not advocate changing Sections 7744 and 7745 of the Education Code which requires the State Controller to audit the books and records of counties and school districts receiving school building aid apportionments to determine that such apportionments have been expended for the purposes and under the conditions authorized by the code. The report offers this law change as an alternative and states that: "Unless Sections 7744 and 7745 of the Education Code are amended to eliminate the requirement that the

State Controller—Continued

State Controller audit the school districts, we recommend that the duplication be eliminated by a reduction of work done by the Local Allocation Division. We believe that the Local Allocation Division could reduce its work in connection with close-outs by accepting school district certifications of costs without field examination, subject to the State Controller's post audit, if the school districts were required to submit detailed information concerning any items not in accordance with prior approvals." We believe that a revision in the law should be made and we concur with the Price Waterhouse recommendation that audits of subventions and loans should be a function of the Department of Finance, subject to whatever review the Legislature feels should be made by the Auditor General.

The Claim Audit Section

The Legislative Auditor has for many years advocated the reduction of the number of personnel in the Claim Audit Section of the Audits Division. Price Waterhouse & Company in its report to the Legislative Budget Committee on "Accounting and Auditing for the State of California" stated:

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

The Department of Finance has made studies of the claim audit function, the last being completed in January, 1956. We are in agreement with the findings and recommendations contained in that report which correspond to our recommendations of a year ago and at the last session of the Legislature concurred with the recommendations that the Claim Audit Section be reduced by approximately one-half. At that time we recommended that 24 existing positions be eliminated. In the discussions of the recommendation before the 1956 Ways and Means and Senate Finance Committees, the State Controller proposed that a reduction of three positions be made. This reduction was made on July 1, 1956. The Senate Finance Committee approved the following report of the Senate subcommittee:

State Controller—Continued

"Your subcommittee recommends further that the Auditor General report to the Joint Legislative Budget Committee by September 1, 1956, on the recommendations of the Legislative Auditor on the pre-audit function of the Audits Division as stated in the Report of the Legislative Auditor on the Analysis of the Budget Bill for the 1956-57 Fiscal Year and reviewed by the Department of Finance in a management analysis report No. 819. It is further recommended that the Joint Legislative Budget Committee upon receiving the report of the Auditor General be requested to make a finding on the recommendations of the Auditor General and if it so determines to advise the Department of Finance to take administrative action with respect to any position changes or reductions in the pre-audit function of the Controller's office."

The Auditor General's report was not completed at the time this analysis was written, although we understand that his staff is giving consideration to this subject. We recommend that the Auditor General be consulted by the Senate Finance Committee and the Assembly Ways and Means Committee as to his recommendations at this session of the Legislature.

We believe the Controller should limit his audit to a verification that the claim meets the necessary legal requirements and that it is an expenditure for a proper purpose. We believe that the agencies should be responsible for verification of the correctness of the claim subject to necessary internal audits of the Department of Finance and whatever post audit is considered necessary by the Auditor General.

Since we have received no new information from the Controller in support of these positions, we again recommend the elimination of one-half of the 48 positions, less the three deleted at the last session of the Legislature, or a total reduction of 21 positions from this section. The elimination of these 21 existing positions would amount to approximately \$84,000 in salaries and wages. The exact classification of positions and the amount of salaries and wages, operating expense and equipment to be reduced can be adjusted by the Department of Finance and the Controller's office.

Other Requests

The Inheritance and Gift Tax Division requests four positions because of the increase in the number of returns and the Tax Collection and Refund Division requests two positions because of increased audit coverage. These six positions are justified on the basis of the work loads submitted.

STATE CONTROLLER

ITEM 109 of the Budget Bill

Budget page 420
Budget line No. 7

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

Amount requested	\$5,983
Estimated to be expended in 1956-57 Fiscal Year	8,809
Decrease (32.1 percent)	\$2,826

RECOMMENDATIONS

Amount budgeted	\$5,983
Legislative Auditor's recommendation	5,983
Reduction	None

ANALYSIS

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

The final date for filing applications for this terminating program is December 31, 1957, and the final date for submitting claims is December 31, 1958. During the 1956-57 Fiscal Year there was 0.75 of a man-year budgeted to do 152 audits. On the basis of applications filed only 79 projects remain to be audited during the 1957-58 Fiscal Year. This will require approximately 0.50 man-years of audit time, or a reduction of one-fourth of a position.

We recommend approval of this item as budgeted.

STATE CONTROLLER

ITEM 110 of the Budget Bill

Budget page 420
Budget line No. 28

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

Amount requested	\$114,454
Estimated to be expended in 1956-57 Fiscal Year	93,692
Increase (22.2 percent)	\$20,762

RECOMMENDATIONS

Amount budgeted	\$114,454
Legislative Auditor's recommendation	100,854
Reduction	\$13,600

ANALYSIS

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

State Controller—Continued

An appropriation of \$100,000,000 was added in 1954 for a total of \$285,000,000. An additional \$100,000,000 was authorized in the November, 1956 election although the enabling act has not yet been enacted. It is anticipated that this amount will again be used to augment Chapter 19, Division 3 of the Education Code to make this a continuous project. As of January 8, 1957, there was a balance available in this fund of some \$320,000 for new applications. There is also approximately \$5,300,000 unappropriated from Chapter 1.6 of Division 3 of the Education Code which can be made available for apportionment pursuant to the Chapter 19 authorizations.

A total of 336 apportionments were made under the provisions of Chapter 1.6, Division 3, Education Code (Chapter 1389/49). The bureau has audited 239 of these and plans to audit the remaining 97 during the 1956-57 Fiscal Year.

The bureau proposes to audit 435 projects under Chapter 19, Division 3, Education Code (Chapter 27/52). At an average time of 40 hours per project, this will require 17,400 man-hours or 9.50 man-years. This is an increase of 2.50 man-years over the time to be spent on the two school construction programs during 1956-57.

We have recommended the reduction of two of the three auditor II positions requested on the basis of the need for complete review of the audit functions and responsibilities as explained in the Audit Division section of this analysis. The reduction applicable to this fund is therefore \$13,600.

An emergency authorization of \$14,697 is included in the 1956-57 Fiscal Year. This amount is the result of the need for shifting assignments to handle the school construction audit projects and does not reflect an increase in personnel. The \$14,697 is composed of \$5,662 in charges to the Accounting Division, \$4,585 in charges to the Audits Division and \$4,450 in salary increases, and there is a comparable offsetting savings accruing to the General Fund.

STATE CONTROLLER

ITEM 111 of the Budget Bill

Budget page 419
Budget line No. 52**FOR SUPPORT OF TAX COLLECTIONS AND REFUND DIVISION AND
THE BUREAU OF HIGHWAY ACCOUNTS AND REPORTS FROM THE
MOTOR VEHICLE FUEL FUND**

Amount requested	\$492,098
Estimated to be expended in 1956-57 Fiscal Year	475,716
Increase (3.4 percent)	\$16,382

RECOMMENDATIONS

Amount budgeted	\$492,098
Legislative Auditor's recommendation	492,098
Reduction	None

State Controller—Continued

ANALYSIS

The Tax Collections and Refund Division enforces the collection provisions of the Motor Vehicle Transportation License Tax Act and the Motor Vehicle Fuel License Tax Act, the tax on insurance companies, and the petroleum and gas production assessments; and administers the refund of motor vehicle fuel license tax to nonhighway users, collecting in the process sales tax on the purchases subject to such tax.

The division is requesting two new positions: one accountant-auditor I and one field representative. An attempt will be made to increase the audit coverage of the motor vehicle fuel tax refund claims and to emphasize the audit of the larger and more productive claims which will improve enforcement of the motor vehicle fuel tax refund program.

Because of the relatively small audit coverage of 7 percent and the near certainty of maintaining the present rate of recovery of \$30,000 per year per man, we believe that these positions are justified.

We recommend approval of this item as budgeted.

STATE CONTROLLER

ITEM 112 of the Budget Bill

Budget page 419
Budget line No. 38FOR SUPPORT OF TAX COLLECTIONS AND REFUND DIVISION FROM
THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	\$139,402
Estimated to be expended in 1956-57 Fiscal Year	132,144
Increase (5.5 percent)	\$7,258

RECOMMENDATIONS

Amount budgeted	139,402
Legislative Auditor's recommendation	139,402
Reduction	None

ANALYSIS

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

Improved procedures have made the collection efforts of the division more effective during the past year. Although accounts receivable for the transportation tax have increased 24 percent over 1954-55 these procedural improvements and a decrease in personnel turnover should permit the staff to continue the improved performance.

We recommend approval of this item as budgeted.

Items 113-114

Equalization

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 419
Budget line No. 65

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

Amount requested	\$180,542
Estimated to be expended in 1956-57 Fiscal Year	179,866
Increase (0.4 percent)	\$676

RECOMMENDATIONS

Amount budgeted	\$180,542
Legislative Auditor's recommendation	180,542
Reduction	None

ANALYSIS

The Tax-deeded Lands Division administers the general procedures for tax sales, tax deeds, and redemptions of lands sold or deeded to the State for nonpayment of taxes; administers property tax-deeded to the State; advises county officials regarding the levying and collection of taxes on property and renders services to the counties relative to delinquent tax accounting.

There has been no significant change in the budget or program for this division.

We recommend approval of this item as budgeted.

BOARD OF EQUALIZATION

General Activities

ITEM 114 of the Budget Bill

Budget page 432
Budget line No. 55

57-58

FOR SUPPORT OF BOARD OF EQUALIZATION FROM THE GENERAL FUND

Amount requested	\$10,754,727
Estimated to be expended in 1956-57 Fiscal Year	10,008,128
Increase (7.5 percent)	\$746,599

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$1,083,175	\$321,866	\$761,309	444 38
Operating expense	201,879	68,879	133,000	444 39
Equipment	—20,474	—20,474	—	444 40
Reimbursements:				
Mapping services to counties	—11,000	—11,000	—	444 45
Services to counties and cities, local sales and use tax law	—530,000	—530,000	—	444 48
Division of highway taxes	23,019	23,019	—	444 54
Net increase	\$746,599	—\$147,710	\$894,309	444 53

General Activities—Continued

RECOMMENDATIONS

Amount budgeted	\$10,754,727
Legislative Auditor's recommendation	10,149,199
Reduction	\$605,528

Summary of Recommended Reductions

	Amount	Page	Budget Line
Service Division:			
2 Positions	7,266	436	47-48
Rent	420	436	63
Division of Assessment Standards:			
14 Positions	108,308	437	73-78
34 Positions	176,742	438	11-20
Sales Tax Division—headquarters:			
8 Auditor positions	40,401	441	28-30
2 Out-of-state auditor	11,199	441	33
9 Positions	37,896	441	43-48
Sales Tax Division—districts:			
20 Auditor positions	101,220	442	63-64
16 Auditor positions	81,846	442	66-67
11 Positions	40,230	442	68-69
Total	\$605,528		

GENERAL SUMMARY

The principal functions of the Board of Equalization which are financed from the General Fund are as follows:

- (1) To equalize the assessment of local property between counties (Assessment Standards Division).
- (2) To assess public utility properties for purposes of local taxation (Valuation Division).
- (3) To administer the state sales and use tax (Sales Tax Division).
- (4) To administer the local sales and use tax for cities and counties under the Bradley-Burns Law (Sales Tax Division).
- (5) To administer state alcoholic beverage excise taxes (Beverage Tax Bureau).

Table of Increases 1947-48 to 1956-57

	1947-48	1956-57	Percent increase
Number of employees:			
General Administration	69.8	80.5	15.3
Division of Assessment Standards	27.4	132	381.8
Valuation Division	43.7	49	12.1
Sales Tax Division	1,740.6	1,925.7	10.6
Beverage Tax Bureau	80	41	-48.8
Total	1,961.5	2,228.2	13.6
Total expenditures:			
General Administration	\$342,629	\$529,857	54.6
Division of Assessment Standards	132,490	920,123	594.5
Valuation Division	212,957	364,514	71.2
Sales Tax Division	5,300,659	10,692,180	101.7
Beverage Tax Bureau	230,458	312,454	35.6
Total	\$6,219,193	\$12,819,128	100.0

General Activities—Continued

In order to make the foregoing figures as nearly comparable as possible the following adjustments have been made in both the number of employees and the expenditures as they appear in the various printed budgets:

(1) Sales Tax Division employees for 1956-57 include 142 employees of the Service Division, created July 1, 1951, by administrative action, 90 percent of the employees of which were formerly in the Sales Tax Division. The same is true of unallocated Service Division expenditures of \$20,445, for 1956-57.

(2) Both expenditures and personnel in the units devoted directly to alcoholic beverage control in the Board of Equalization in 1947-48 have been eliminated, since that function was divorced from the Board of Equalization on January 1, 1955.

(3) Reimbursements received from counties for mapping services performed by the Division of Assessment Standards have been added back, \$17,944 for 1947-48, and \$411,000 for 1956-57, in order to show gross expenditures by the division.

(4) Reimbursements of \$2,400,000 received from cities and counties in 1956-57 for local sales tax administration under the Bradley-Burns Law have been added back to Sales Tax Division expenditures in order to show them gross.

Since the work index items for each of the divisions are entirely unrelated they are treated separately in the comments under each division which follow.

Two important matters concerning the form of budgetary presentation and general fiscal policy, should be commented upon at this time. Both of these arise in connection with administration of the Bradley-Burns Uniform Local Sales and Use Tax Law by the Board of Equalization. This law was signed by the Governor on July 24, 1955, and became operative April 1, 1956. It is described more fully in a section which follows.

One instance is the particular method of showing amounts of \$2,400,000 and \$2,930,000, estimated to be received during 1956-57 and 1957-58, respectively, from cities and counties for costs of local sales tax administration. These are shown as reimbursements on Budget page 444, line 48, and accordingly have the effect of reducing by like amounts the appropriation of the Board of Equalization for the years involved.

We believe that the better practice would be to treat these amounts as revenues for the General Fund and show the appropriations gross, since this would give better budgetary control. The treatment of these amounts as reimbursements is without meaning in the presentation of the "reconciliation with appropriations" for 1956-57 on Budget page 432. On line 62 of this page a savings of \$1,489,669 is shown for 1956-57, with a footnote to the effect that it represents the following:

Salaries -----	\$1,361,649
Operating expenses -----	79,812
Excess reimbursements -----	48,208
Total -----	\$1,489,669

General Activities—Continued

This appears to us to be very misleading since it implies that a substantial saving has resulted from an appropriation made in 1956, presumably through economies in operation, which is not the case. Actually the agency proposes to spend close to \$1,000,000 in excess of the amount originally budgeted and the apparent "saving" is due entirely to the reimbursements of \$2,400,000 which were not taken into consideration at the time the 1956-57 Budget was adopted.

The true picture is shown in Table 1 which presents a reconciliation between the amounts budgeted for 1956-57, per the Budget Act of 1956 and those shown for that year in the current Budget.

Table 1. 1956-57 Expenditures—Reconciliation of Amounts per Budget Act of 1956, Item 120, and Those Shown in 1957-58 Printed Budget

	<i>Per Budget Act of 1956</i>	<i>Per 1957-58 printed Budget</i>	<i>Increase</i>
Salaries -----	\$10,566,329	\$11,267,204	\$700,875
Expenses -----	1,700,740	1,880,928	180,188
Equipment -----	116,554	166,686	50,132
Total -----	\$12,383,623	\$13,314,818	\$931,195
Estimated reimbursements:			
Mapping services to counties-----	—\$417,048	—\$411,000	\$6,048
Services to Department of Alcoholic Beverage Control-----	—66,288	—41,048	25,240
Services to other state and public agencies -----	—14,622	—14,151	471
Division of Highway Taxes-----	—387,868	—440,491	—52,623
Local sales tax administration-----	—	—2,400,000	—2,400,000
Total -----	—\$885,825	—\$3,306,690	—\$2,420,864
Total -----	\$11,497,797	\$10,008,128	—\$1,489,669

We realize that it is current practice to show reimbursements in the Budget as offsets to appropriations, rather than as revenues. Where they are relatively insignificant in amount or are received from another agency of the State or finance the operations of a readily identifiable separate unit or activity we see no great objection to so showing them. In this case, however, they are substantial in amount, are received from an outside source and do not relate to the operations of an identifiable separate unit, but are intended to finance a share of an integrated operation.

In our opinion the more significant factor for proper management and budgetary control in instances of this kind is the gross expenditure for a given activity regardless of the source of funds involved, and any method of budgetary presentation which tends to obscure this picture is unrealistic.

General Activities—Continued

The other situation which should be called to the attention of the Legislature is the establishment of 128 new positions for 1956-57 which were not authorized by the Budget Act of 1956. The salary costs of these, for 1956-57 is \$243,309, the total cost, including related expenses and equipment is approximately \$350,000, while the salary costs projected into 1957-58 will amount to \$543,400.

These positions were established, most of them only for a part of 1956-57, ostensibly for purposes of local sales and use tax administration out of anticipated reimbursements from cities and counties not taken into consideration in the Budget Act of 1956. These increases, which now appear as authorized positions, must be taken into consideration when analyzing the 1957-58 Budget.

General Administration

This division includes the executive offices, the general legal staff which processes appeals from actions of the Franchise Tax Board and performs other legal services, the departmental accounting office, the personnel section and the research and statistics section.

Table of Increases 1947-48 to 1956-57

	1947-48	1956-57	Percent increase
Number of employees	69.8	80.5	15.3
Total expenditures	\$342,629	\$529,857	54.6

It should be noted in connection with the foregoing that during 1947-48 the administration of alcoholic beverage control was a function of the Board of Equalization and that some of the activity of the Division of General Administration was concerned with this function. In 1955-56 five administrative positions were deleted from the Division of General Administration as the result of the transfer of the alcoholic beverage control function to a new department.

ANALYSIS

In 1956-57 a new position, that of supervising sales tax auditor I, was created in the Division of General Administration out of funds provided by the abolishment of two lower-level positions to serve as the internal auditor of the board's activities, reporting directly to the executive secretary. We recommended in favor of this position in our 1956-57 analysis, page 270, since an internal auditor for this agency seemed desirable in view of the recommendation made by Price Waterhouse & Co. in its report to the Joint Legislative Budget Committee on Accounting and Auditing for the State of California in November, 1954.

It is now proposed to augment the internal audit function by the addition of an additional position in the Division of General Administration, that of sales tax auditor III. We recommend approval.

Service Division

The Service Division was created by administrative action of the Board of Equalization as of July 1, 1951, in order to give centralized control of the various service functions of the agency. Its personnel

General Activities—Continued

was acquired by transfer from other divisions in the agency, 90 percent being from the Sales Tax Division and it performs various service functions for the entire agency including cashiering, mailing, supply, tabulating, duplicating and other general services.

A table of increases for the five-year period of its existence follows:

Table of Increases 1951-52 to 1956-57			
	1951-52	1956-57	Percent increase
Number of employees	126	142	12.7
Total expenditures	\$1,115,721	\$1,396,625	25.2

As presented in the current budget its total expenditures for 1956-57 are almost entirely offset by reimbursements for services rendered as follows:

To other General Fund divisions of the Board of Equalization:	Amount	Budget Page	Line No.
Salaries	\$515,632	436	39
Operating expenses	676,050	436	68
To Department of Alcoholic Beverage control	35,744	437	15
To other State and public agencies	8,200	437	16
To Division of Highway Taxes, Board of Equalization	140,554	437	20
Undistributed residue	20,445	437	19
Total	\$1,396,625		

The fact that there is an undistributed residue of \$20,445 appears to us to indicate an inaccuracy in cost distribution, since the method of budget presentation contemplates a distribution of all charges of the service division to the operating divisions, including the Division of Highway Taxes.

The authorized personnel for 1956-57 is as follows, by units:

General office	3
Services and supply	12
Tabulating	54
Addressing	20
Mailing	22
Cashiering	31
Total	142

The 142 positions shown in the foregoing include 22 which were established during 1956-57 without previous legislative review out of estimated increased reimbursements and are shown on Budget page 436, lines 30 to 36 inclusive under the heading "uniform local sales and use tax." These positions do not constitute a separate operating unit devoted exclusively to the function designated, but are shown separately in the budget because, presumably, they were established as a result of increased work load attributable to administration of the local sales and use tax. Actually 18 of the positions were in the tabulating unit and 4 in the addressing unit, and are included in the totals shown for those units in the foregoing tabulation.

General Activities—Continued

Generally we regard the establishment of additional positions in advance of legislative review to be undesirable, since this procedure bypasses the normal budgetary process, but in this instance it appears to us that the additional positions were probably justified by work load increases of a kind that can be identified and measured.

ANALYSIS

Four additional positions are requested for 1957-58 in the Service Division as follows:

	Amount	Budget	
		Page	Line
1 Assistant division chief -----	\$6,872	436	45
1 Intermediate stenographer-clerk -----	3,456	436	46
1 Key punch operator -----	3,456	436	47
1 Tabulating machine operator -----	3,810	436	48
Total -----	\$17,394		

The assistant chief with the related stenographer position is requested to assist in over-all supervision of the division while the last two positions are requested for anticipated increased work load in the tabulating section resulting from additional counties adopting local sales and use tax ordinances.

We recommend elimination of the last two positions listed for the tabulating section for \$7,266, for the following reasons:

We believe that a sufficient increase has already been granted (18 positions have been added to the existing staff of 36, during 1956-57, for an increase of 50 percent) and that the existing staff should prove adequate to absorb any increased work load resulting from additional counties adopting sales tax ordinances during 1957-58.

In its justification for increases in the Service Division the agency states:

"Administration of local sales and use taxes has increased very considerably the work load in all sections of the Service Division. This increased work load is not reflected in increased units of work processed (number of Addressograph plate impressions, pieces mailed, tax returns processed, etc.) but is attributable, rather, to increased complexity of the work performed and to entirely new process steps which are now required."

We believe that it is reasonable to expect that savings will result from simplification and perfection of the processes mentioned as experience is gained, sufficient to absorb any increased work load which may develop.

As to the assistant chief we believe that a good case can be made for such a position in the Service Division since there are many technical problems involved in this division requiring the division chief's attention and he should be relieved as much as possible of the details of routine administration. Accordingly we recommend approval of this position and the related position of intermediate stenographer-clerk.

At the same time, in thus giving recognition to the importance of the Service Division we would like to point out that the accounting section,

General Activities—Continued

consisting of 28.5 people in the Division of General Administration, performs many functions which are closely related to those of the Service Division. We believe that economies would result from transfer of this unit to the Service Division, and accordingly we recommend that a study be made by the Division of Organization and Cost Control in the Department of Finance to determine the feasibility of such a change and the economies which might result.

We recommend deletion of \$420, Budget page 436, item 63, for rent for space for the Upland office.

In 1956 we recommended that the Upland office be eliminated and the Legislature included provision for continuance of the office for one year only to June 30, 1957, in order that the necessity for its continuance might again be reviewed at the 1957 Session.

The Upland office is in the San Bernardino district, 22 miles from San Bernardino with a direct connection by a major highway. It is a part time office with a staff of one field representative.

We again recommend its elimination as unnecessary. If an office is justified in this location then we believe that additional offices would be justified at 15 or 20 similar locations throughout the State.

As we pointed out on page 273 of our 1956 analysis, no set of criteria appears to exist to justify the existence of branch offices at the various locations used by the Board of Equalization and we recommended that a study be made, with a report to the next general session of the Legislature looking toward the development and application of such a set of criteria and containing a recommendation as to the number and location of field offices appropriate for the most efficient and economical operation of the Board of Equalization.

Since then we have reviewed the situation in the Division of Accounts and Tax Collections in the Department of Employment which administers the unemployment insurance tax and the operations of which are quite comparable to the tax administrative functions of the Board of Equalization.

With only slightly fewer taxpayers, about 275,000 as compared to approximately 295,000 for the Sales Tax Division of the Board of Equalization at June 30, 1956, the department operates 36 field offices as compared to the Board of Equalization's 62. The Department of Employment does not establish an office unless a minimum staff of two units of technical personnel plus at least a half-time clerk is justified by the work load, and does not believe that one-man offices, or auditors stationed at locations other than field offices are justified. The Board of Equalization has a number of the latter in addition to the Upland office.

Assessment Standards

The Division of Assessment Standards performs the constitutional function for which the Board of Equalization was originally created, which is " * * * to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation * * * " (Art. XIII, Sec. 9, Constitution of California). This provision has been in the Constitution since 1879.

General Activities—Continued

The activities of the division are segregated in the budget into County Contract Mapping and Assessment Equalization.

The first includes preparation of maps on a wholly reimbursable basis for counties which are not equipped to prepare their own maps.

The second may be further subdivided into assistance to counties which consists of advice, instruction and training of county assessors and their staffs, and sample appraisals of properties on the county tax rolls for purposes of intercounty equalization.

Table of Increases 1947-48 to 1956-57

Work index :	1947-48	1956-57	Percent increase
Assessed value, locally assessed property -----	\$9,760,284,185	\$18,964,196,353	94.3
Number of employees:			
Assessment equalization -----	22.7	55	142.2
County contract mapping -----	4.7	77	1,538.3
Total -----	27.4	132	381.8
Total expenditures:			
Assessment equalization -----	\$114,546	\$509,123	344.5
Contract mapping -----	17,944	411,000	2,190.5
Total -----	\$132,490	\$920,123	594.5

Staff was added for the assessment equalization function starting in 1953-54 to provide for an expanded program of sample appraisals as a consequence of the passage of Chapter 1466, in 1949, which was intended to provide a specific procedure for achieving intercounty equalization, while staff has been added, administratively as needed, for the county contract mapping activity.

ANALYSIS

A total of 48 additional positions are requested for the assessment equalization function for 1957-58, consisting of 44 appraisers and four clerical, as shown on Budget page 437, lines 73 to 78 and Budget page 438, lines 11 to 20. It is proposed to use 21 of these positions on the "assistance" program and 27 on the sample appraisal program which will increase the authorized personnel for these two phases of the assessment equalization program approximately as follows for 1957-58:

	Currently authorized	Increase	Total
Assistance -----	18	21	39
Sample appraisals -----	37	27	64
Total -----	55	48	103

We recommend elimination of all 48 positions shown on Budget page 437, lines 73 to 78, and Budget page 438, lines 11 to 21, for \$285,050.

We do not believe the agency has presented adequate justification for any increase in either the "assistance" program or the sample appraisal program, or any compelling reasons why the present program in each of these respects is not adequate.

General Activities—Continued

“Assistance” Program

The “assistance” program stems in part from Section 15608 of the Government Code which provides that “The board shall instruct, advise, and direct assessors and tax collectors as to their duties under the laws * * *.” Also involved are the activities provided for in Sections 15640 to 15645 of the Government Code requiring the board to make surveys in each county to determine the adequacy of the procedures and practices employed by the county assessor in performance of his duties and those provided in Section 15606 of the Government Code requiring the board to prescribe rules governing local boards of equalization when equalizing and assessors when assessing, to prescribe forms for use in assessment of property for taxation, and prepare and issue instructions to assessors designed to promote uniformity throughout the State in the assessment of property for the purposes of taxation.

The Board of Equalization has not, in our opinion, supplied satisfactory comprehensive statements of what it regards as the extent of its duties and obligations under these various code sections, what it has accomplished in the past and what it regards as a minimum program for the future, particularly the nature and extent of the instruction to which the assessors are entitled and the State is obligated to furnish under Section 15608 of the Government Code.

The authorized staff and the staff actually employed during the last 10 years by the Division of Assessment Standards for all activities except county contract mapping as shown by the various printed budgets, was as follows:

	Authorized staff	Staff employed
1947-48	22.7	15.3
1948-49	21	19.6
1949-50	21	20.9
1950-51	21	23.8
1951-52	25	24.1
1952-53	20	19.6
1953-54	91	37.4
1954-55	89	74.6
1955-56	70	57.1
1956-57	55	N.A.

The sharp increase in staff authorized for 1953-54 resulted from the addition of 70 positions by the Legislature for sample appraisals under Chapter 1466, Statutes of 1949, which was subsequently reduced by 19 by the Legislature in 1955-56, and by a further 15 in 1956-57. No staff was authorized for sample appraisals prior to 1953-54.

The reduction of five in the authorized staff for 1952-53 represents the elimination of five positions originally added in 1948-49 for the county surveys, under Sections 15640-5 of the Government Code, which were first added to the law by Chapter 1523, Statutes of 1947, as Section 3693 of the old Political Code. Chapter 1523 also carried a special appropriation of \$30,000 to initiate this work.

General Activities—Continued

We think it can safely be said, therefore, that since 1952-53 the Legislature has never authorized a staff of more than 20 for the activities which are now referred to as the "assistance" program, and we believe that the staff of 18, currently available for these activities is therefore approximately in line with what appears to be the intent of the Legislature.

Sample Appraisal Program

The Board of Equalization has had the constitutional responsibility " * * to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation * * *" ever since 1879.

In 1935 it issued equalization orders to 34 counties requiring them to raise or lower their assessment levels, while in 1936 it issued three such orders and a like number in 1937. The next year it reported that "no adjustments were necessary to maintain the uniform level upon which all counties are equalized" and this fiction was maintained until 1955, a period of 18 years.

Chapter 1466, Statutes of 1949, wrote into the law a definite procedure intended to bring about equalization, including a requirement (Section 1831 of the Revenue and Taxation Code) that the board make annual surveys in each county of the State to determine the relationship between assessed value and market value of all property on the tax rolls of the county. It provided further that the law should take effect on September 2, 1950, and apply for the first time to assessments made as of the first Monday in March, 1951, and that when funds were available for that purpose surveys should be completed as directed by Section 1831, Revenue and Taxation Code, in each county by the second Monday in July, 1951. The effective date of the law has been postponed three times as follows:

Statutes	In effect	Effective date as to	
		Assessment	Surveys
Chapter 1554/51...	7/16/51	1st Monday, March, 1953	2d Monday, July, 1953
Chapter 362/53...	4/24/53	1st Monday, March, 1955	2d Monday, July, 1955
Chapter 256/55...	4/26/55	1st Monday, March, 1957	2d Monday, July, 1957

All of these measures contained an urgency clause.

Chapter 1554, Statutes of 1951, was effective July 16, 1951. Prior to that time, the board had completed surveys and published a list of assessment ratios in the various counties, as well as a state-wide average. These surveys indicated a wide variation in assessment ratios in the various counties, but as a result of the enactment of Chapter 1554 the Board of Equalization declared that the county rolls were officially equalized.

In 1951-52 the board conducted additional surveys under the general instruction of Section 9 of Article XIII of the Constitution and found that six counties were below the state-wide average, but once again formally declared that the county rolls were officially equalized, as was the case in 1953 and 1954.

General Activities—Continued

Funds were first made available by the Legislature for a sample appraisal program in 1953-54, by an authorized increase of 70 positions in the staff of the Division of Assessment Standards, and during that year the equivalent of about 18 men were available for this purpose, and during 1954-55 the equivalent of about 55.

In July, 1955, the board indicated, on the basis of a report of its staff based upon sample appraisals of 13,000 parcels of property, that it proposed to raise the assessment levels in 19 counties by percentages ranging from 30 percent to 50 percent, and in August, 1955, ordered the levels raised in 14 counties by percentages ranging from 19 percent to 39 percent. The changes between the original proposals and the actual orders were due in large part to errors in the original calculations discovered subsequent to their publication. One county, Tulare, successfully contested the board's order in the courts, while the other 13 counties complied.

A subsequent survey was made in Tulare County by the board's staff and no further order was found to be justified by the findings.

In 1956 the board issued one equalization order, increasing the level in Mariposa County by 25 percent, which order was complied with.

Currently the division is devoting a total staff of approximately 37 to the sample appraisal program which contemplates sampling all counties in the State once every four years with a sampling in Los Angeles County every year. There are an estimated 5,000,000 parcels of property subject to local assessment in California at present and this program contemplates sampling 17,000 every four years, which is at the rate of one-third of 1 percent each four years or one-twelfth of 1 percent each year.

The current Budget requests 27 additional positions for the sample appraisal activity which would raise the staff available for this work to 64. This increase is requested in order to enable the agency to double the sampling rate, i.e., to complete 17,000 sample appraisals in two years instead of four, with each county being sampled on a two-year cycle basis, and Los Angeles County to continue to be sampled each year.

It is interesting to note the action taken by the Legislature in connection with proposed staff for the Division of Assessment Standards for the sample appraisal program since the enactment of Chapter 1466, Statutes of 1949, which was approved by the Governor on July 29, 1949.

<i>Year</i>	<i>Budget action</i>
1950-51	Increase of 32 positions requested; denied by Legislature.
1951-52	Increase of 32 positions requested; denied by Legislature.
1952-53	No additional positions included in proposed Budget.
1953-54	No additional positions included in proposed Budget, 70 positions added by Legislature.
1954-55	No additional positions included in proposed Budget.
1955-56	No additional positions included in proposed Budget; 19 positions deleted by Legislature.
1956-57	Increase of 19 positions requested, denied by Legislature which also eliminated 15 existing positions.

Legislative intent with respect to the Board of Equalization's proposed program of intercounty equalization based upon its sample appraisal program has never been too clearly expressed, as is indicated by

General Activities—Continued

action on the Budget and action on implementing and postponing Chapter 1466. Furthermore, it appears that the Legislature has no control over action of the board, either in issuing equalization orders or in certifying that county assessments are equalized.

It is clearly difficult to reconcile the official position of the board as expressed in its equalization orders, or annual certification of equalization, with the findings of its staff as to assessment ratios and the conditions upon which this increased program is based. For these reasons, pending legislative clarification, we recommend maintaining the existing level of programs for appraisal studies and for assistance to counties, but cannot recommend approval of the requested increase. We believe answers should be supplied to the following questions before any further increase in staff is granted for this purpose:

1. What steps does the Board of Equalization propose in order to discharge its responsibility for intercounty equalization under the Constitution regardless of whether or not Chapter 1466 becomes operative?
2. How does it propose to compute assessment ratios under (1) above?
3. How were assessment ratios computed and applied with respect to actions taken in each of the years 1951, 1952, 1953, 1954, 1955 and 1956?
4. What action does the Board of Equalization propose to take and what expenditures incur with respect to intercounty equalization if Chapter 1466 should be repealed or its effective date postponed for another two years?
5. What action does the Board of Equalization propose to take if Chapter 1466 should become operative particularly with respect to the alternative procedures provided under Section 1837 of the Revenue and Taxation Code where the assessment ratio in a county differs from the state-wide average by more than 10 percent?

Valuation Division

This division places valuations on all public utility properties in the State which are the basis for all local property taxes paid by the public utilities. It also assesses and collects the private car tax which is a property tax on cars owned by other than railroads, and hauled by railroads in this State.

Table of Increases 1947-48 to 1956-57

Work index :	1947-48	1956-57	Percent increase
1. Assessed value, public utilities properties -----	\$1,285,265,910	\$2,957,472,190	130.1
2. Number of utilities assessed-----	217	175	-19.4
3. Assessed value, private cars-----	\$16,804,000	\$27,454,416	63.3
4. Number of private car companies	99	102	3.0
Number of employees-----	43.7	49	12.1
Total expenditures -----	\$212,957	\$364,514	71.2

General Activities—Continued

A significant index of the work load of this division is the assessed value of the public utility properties, which represents about 11 percent of the total assessed value of all property in the State subject to local taxation. While there is no direct relationship between the dollar value of all property assessed and the size of the staff required to do the job, it is interesting to note that the former has increased 130.1 percent during the 10-year period with a corresponding increase of 12.1 percent in the size of the staff.

ANALYSIS

One of the necessary activities in the valuation of utility properties is a periodic field inspection of the property in order to determine actual values. This is particularly true of land where the value is very sensitive to changing economic conditions and where it is not uncommon, under conditions prevailing in certain sections of California for land values to double in the course of two or three years.

Under present conditions with the staff available, it is possible to inspect given pieces of property on an average of about once in seven years. The agency believes that this period should be reduced to an average of about once in four years and estimates that 10 additional engineers would be required to achieve such a goal. However, in view of the difficulty of recruiting and training suitable personnel the agency estimates five additional engineering positions to be the maximum number which could be absorbed during 1956-57 and accordingly request is made for five additional junior engineers, Budget page 439, line 63, \$26,160, and two additional related clerical personnel, Budget page 439, line 62, \$6,432.

We recommend approval of these additional positions.

Bradley-Burns Uniform Local Sales and Use Tax Law

The Bradley-Burns Uniform Local Sales and Use Tax Law, enacted as Chapter 1311, Statutes of 1955, added Sections 7200 to 7207 to the Revenue and Taxation Code, and became effective April 1, 1956. It provides generally that under certain conditions counties and cities may enact sales and use tax ordinances to be administered by the State at the expense of the local jurisdictions.

In order to qualify under its provisions the county rate must be 1 percent, the city rate not to exceed 1 percent, the provisions of both county and city ordinances must conform to those of the State Sales and Use Tax Law in every respect except as to rates, and both counties and cities must enter into contracts with the Board of Equalization for administration of the local tax, with provision for reimbursement to the State for costs.

Extent of Adoption by Counties

Seven counties, including Los Angeles, adopted ordinances effective April 1, 1956; nine, effective July 1, 1956; eight, effective October 1, 1956; and four, effective January 1, 1957, or a total of 28.

General Activities—Continued

Accordingly, as of January 1, 1957, there were 28 counties, representing close to 80 percent of the total potential tax involved from local sales and use taxes and 57.4 percent of the State's total land area, which had enacted appropriate ordinances and entered into contracts with the State for administration. A list of these counties, with the percentage of 1955-56 state sales and use tax collections in each, which is a close approximation of the percentage of the local tax base in each county is shown in Table 2.

TABLE 2. Counties With Local Sales and Use Tax Ordinances at Jan. 1, 1957, and Percent of 1955-56 State Sales and Use Tax Collections in Each

County	Percent of 1955-56 state sales and use tax collections	County	Percent of 1955-56 state sales and use tax collections
Alameda	6.88	Napa	.29
Butte	.45	Orange	2.56
Contra Costa	1.70	Sacramento	2.80
Del Norte	.12	San Benito	.07
El Dorado	.11	San Bernardino	2.32
Humboldt	.79	San Diego	4.59
Inyo	.10	San Joaquin	1.45
Kern	1.75	Santa Clara	3.04
Lassen	.08	Santa Cruz	.45
Los Angeles	44.38	Sonoma	.82
Mariposa	.03	Trinity	.02
Mendocino	.30	Tuolumne	.11
Merced	.41	Ventura	.87
Mono	.01		
Monterey	.90	Total (28 counties)	77.40

Current estimates are that \$150,000,000 in local sales and use taxes will be collected by the State under the Bradley-Burns Law during 1956-57, and \$195,300,000 during 1957-58. The estimate for 1957-58 is based on the assumption that 90 percent of the total potential local sales and use tax base will be included in 1957-58, which the Board of Equalization assumes will be the case. This assumption appears to us to be high since it cannot be achieved unless San Francisco (with 8.94 percent of the 1955-56 state collections), or substantially all of the remaining 29 counties except San Francisco adopt ordinances, and either possibility appears to us at this time to be remote.

Reimbursements to State for Costs of Administration

The current Budget includes estimates of amounts to be received from cities and counties as reimbursements of \$2,400,000, in 1956-57 and \$2,930,000, in 1957-58 (Budget page 444, line 48) which are approximately one-fourth the cost of total state and local administration in the counties under Bradley-Burns. In computing total costs for purposes of arriving at reimbursements costs other than direct expenditures by the Sales Tax Division of the Board of Equalization have been

General Activities—Continued

included. For example the percentage distribution of the various elements in total costs for 1956-57 is as follows:

	Percent
Expenditures by Board of Equalization	
Sales tax division-----	87.0
Departmental overhead -----	4.1
Total -----	91.1
Retirement contributions -----	6.9
General state administrative overhead -----	2.0
Total -----	100.0

Sales Tax Division

This division administers the State Sales and Use Tax Law, and since April 1, 1956, has administered the Bradley-Burns Uniform Local Sales and Use Tax Law for conforming counties, and cities within these counties, which is commented upon elsewhere in this analysis.

Table of Increases 1947-48 to 1956-57

	1947-48	1956-57	Percent increase
Work index:			
State sales tax revenues-----	\$275,566,235 ¹	\$605,000,000 ²	119.5
Number of taxpayers (accounts), at middle of year-----	246,745	300,567	21.8
New permits issued during year-----	128,967 ³	102,555 ³	—20.5
Number of employees-----	1,740.6	1,783.7 ⁴	2.5
Total expenditures, gross-----	\$5,300,659	\$10,671,735 ⁵	101.3

¹ Per 1949-50 printed budget.

² Per 1957-58 printed budget.

³ Dollar value of permit fees received. Amount in 1956-57 column is actual for 1955-56.

⁴ Includes 142 employees in the service division during 1956-57 since approximately 90 percent of the corresponding number of employees was in the Sales Tax Division in 1947-48. Also includes 128 positions added during 1956-57 without legislative review for "uniform local sales and use tax."

⁵ Is gross, before giving effect to what is shown in the Budget in the amount of \$2,400,000 as reimbursement from counties and cities for local sales and use tax administration. Also includes about \$350,000, added during 1956-57 without legislative review for local sales and use tax administration, which consists of the following positions and related expenses:

	No. of positions	Salaries
Service Division, Budget page 436, lines 30 to 36-----	22	\$50,537
Sales Tax Division:		
Headquarters, Budget page 441, lines 28 to 33-----	46	93,532
Districts, Budget page 442, lines 53 to 56-----	60	99,190
Total -----	128	\$243,309

ANALYSIS

This analysis of the Budget of the Sales Tax Division is made on the basis of the total expenditure program without regard to the source of funds, since we do not consider that the mere fact that reimbursements are being received from counties and cities in substantial amounts is any reason for doing otherwise. It should be kept in mind that for every increase of \$1 in the total expenditure program a reduction of 25 cents is made in amounts available for distribution to cities and counties under the Bradley-Burns Law since under the formula by which reimbursements are computed the participating cities and counties stand one-fourth the total costs of administration which are deducted from the amounts of the tax collections remitted to them.

General Activities—Continued

Headquarters

We recommend deletion of \$51,600, which represents the following positions established for 1956-57 without previous legislative review.

	Amount	Budget	
		Page	Line
1 Sales tax auditor III-----	\$6,840	441	28
5 Sales tax auditor II-----	23,841	441	29
2 Accountant-auditor I-----	9,720	441	30
2 Out-of-state auditor-----	11,199	441	33
10	\$51,600		

These positions are all listed under the heading "Uniform Local Sales and Use Tax" on Budget page 441, line 26, and presumably were added because of increased activity requiring the services of auditors resulting from administration of the local sales and use tax. Also included under this heading are 36 clerical positions established during the current year without previous legislative authorization and two junior counsel positions. It is our understanding that the latter were established prior to July 1, 1956, out of funds provided by the abolishment of other existing positions.

We do not consider that adequate justification has been submitted for any of these positions but statements submitted by the agency appear to indicate that the additional work load is largely clerical in nature and consists of such items as additional checking of calculations on tax returns in order to distinguish between the state and the local tax and additional calculations on billings and field audit reports for a like reason. For this reason we are not recommending deletion of the clerical positions.

We recommend deletion of the auditor positions because the headquarters office has an existing staff of 102 auditors, Budget page 440, lines 43 to 49, which should be adequate to supervise the work of the augmented clerical staff, by rearrangement of duties, if necessary, and improvement of procedures.

Likewise, as to the two out-of-state auditors, the agency already has an existing staff of 33, which should be able to absorb any additional work load.

We recommend elimination of the following additional positions requested for 1957-58 for \$37,896.

	Amount	Budget	
		Page	Line
1 Junior counsel-----	\$5,106	441	43
1 Sales tax auditor II-----	5,496	441	44
1 Accountant-auditor I-----	4,626	441	45
1 Senior clerk-----	3,996	441	46
4 Intermediate clerk-----	13,176	441	47
1 Out-of-state auditor II-----	5,496	441	48
9 Total-----	\$37,896		

We recommend against these positions for the same reason that we are recommending the deletion of the first group, namely:

- (a) The justification submitted is inadequate.

General Activities—Continued

(b) There are sufficient auditors in headquarters and on the out-of-state staff at present to absorb any increase in technical auditing activity which may result from the Bradley-Burns Law.

(c) Such work load increases as have been brought to our attention are largely of a clerical nature and can be handled by the 36 additional clerks already provided.

It should be kept in mind that the Bradley-Burns program is a new program and that many of the problems arising in connection with its administration are of a one-time nature which will level off as time goes on once the provisions of the law are well understood by all parties involved. Since the local sales tax is completely integrated with the state sales tax, i.e., the same taxpayers are involved, both taxes are reported on the same tax return, and with very minor exceptions the tax base is identical, we believe that when the transition period is over the resulting additional work load, other than clerical will be practically negligible.

Districts

A total of 60 positions were added to the staff of the district offices during 1956-57 in excess of those authorized by the Budget Act of 1956, ostensibly because of increased work load resulting from administration of the Bradley-Burns Law. These positions are detailed on Budget page 442, lines 53 to 56 inclusive, the salaries of which will total \$99,190, during the current year and \$276,330, during 1957-58. These positions included 34 auditors, 6 field representatives and 20 clerks. One-half of the number in each class was established effective January 1, 1957, and the other half effective April 1, 1957, and the proportionate increase in staff resulting from their establishment is as follows:

<i>Class</i>	<i>Previously authorized</i>	<i>Additional Number</i>	<i>Percent increase</i>
Auditors -----	643	34	5.3
Investigators and field representatives -----	265	6	2.3
Clerical -----	352.2	20	5.7
Total -----	1,260.2	60	4.8

In addition to these 34 auditors, 6 field representatives and 20 clerks, 47 additional positions are requested for 1957-58, consisting of 20 auditors for an expansion of the over-all audit program, Budget page 442, lines 63 and 64, and 16 auditors, 3 field representatives and 8 clerks for the Uniform Sales and Use Tax Law, Budget page 442, lines 66, 67, 68 and 69.

In view of the effective dates on which these positions were authorized we believe it would have been better budgetary practice to have included them as proposed additional positions for 1957-58 in the regular manner, since this would have postponed their effective dates only three months in the one case and six months in the other. However, since we recognize that some increase in work load has resulted from the Bradley-Burns Law we are not recommending their elimination although we believe a better case can be made for the addition of the

General Activities—Continued

field representatives and the clerical positions than for the auditors, for reasons indicated in subsequent sections of this analysis.

We recommend elimination of three field representatives and eight clerical positions, Budget page 442, lines 68 and 69 for \$40,230.

We believe that the six additional field representatives and 20 additional clerical positions already established during the current year should be sufficient to take care of the increased work load resulting from the Bradley-Burns Law during 1957-58 without any further increases, since, as previously pointed out, much of the additional work load is of a nonrecurring nature and will tend to level off as taxpayers become familiar with the operations of the Bradley-Burns Law.

We recommend elimination of 36 auditor positions at a saving of \$183,066 as follows:

	No.	Amount	Budget Page Line	
For local sales and use tax:				
Sales tax auditor II -----	9	\$49,464	442	66
Accountant-auditor I -----	7	32,382	442	67
Subtotal -----	16	\$81,846		
For audit program expansion:				
Accountant-auditor I -----	10	\$46,260	442	63
Sales tax auditor II -----	10	54,960	442	64
Total -----	36	183,066		

We believe that certain general considerations apply to all of the foregoing positions.

1. The present staff of 677 field auditors (Budget page 442, lines 39 to 45 inclusive and lines 53 and 54) is large enough and should not be increased in view of the comparatively low return per dollar of cost on the audit program, \$1.64 over the last six years as shown in Table 3. This indicates to us that the program is not far above the point of diminishing returns and accordingly should not be expanded.

2. Over half the audit effort appears to be devoted to audits which individually produce less revenue than they cost to make, 54.0 percent in 1954-55, as shown in Table 6, which indicates to us that there is room for improvement in the direction of the audit effort as between classes of accounts.

3. There is considerable variation in the productivity of audits as between geographical sections of the State in terms of revenue per dollar of cost, both during 1955-56 and during the last six years, as shown in Tables 4 and 5 which indicates to us that there is room for improvement in the direction of the effort among geographical areas of the State.

The foregoing facts indicate to us that the existing audit staff of 677 is adequate for all purposes and should not be increased until significant improvements are made in the areas indicated.

No justification has been submitted in support of the 16 additional audit positions for local sales and use tax administration other than the general statement that it is estimated that the audit work load will increase approximately 10 percent, largely as a result of added computations needed to segregate the state and local tax on the audit reports,

General Activities—Continued

and that, therefore, an increase of 16, or approximately 2.4 percent in the size of the staff is required.

We think that this is the wrong approach to the problem since an audit work load differs from that of a clerical operation such as a filing unit for example, where work load can be measured rather precisely in terms of unit times per pieces of paper handled. An audit program such as the field audit program of the Sales Tax Divisions is essentially a selective sampling process, the need for, and the extent of which should be measured in terms of results, such as those we have previously indicated. Only if the program were designed to provide 100 percent coverage would the type of work load approach normally used for a filing unit be appropriate, and neither the present program or the proposed expanded program contemplates such a coverage. The agency estimates the extent of current coverage to be about 39 percent of the total number of taxpayers and 68 percent of the total tax base during a three-year period within which a deficiency may be assessed.

The 20 additional auditors proposed to be added for audit program expansion presumably are added as a result of the agency's so-called "Sample Audit Program" study which we have commented upon extensively in prior reports. We are familiar with the methods used and the objectives of the study but do not regard the results as a sufficiently precise tool to warrant any increase in staff as a result of the findings, particularly since the results are based on a "tax change" concept which adds refunds to deficiencies in arriving at one of the factors which has a significant bearing on the estimate of the size of the required staff. We believe that the findings of these studies can be applied and should be applied to improving the productivity of the existing staff before consideration is warranted to staff increases based thereon.

Another factor which we think should be considered in connection with the request for additional auditors is the historical development of the staff during the last 11 years.

In 1946-47 the authorized audit staff was as follows:

Field auditors:	
California	551
Out-of-state	8
Total	559
Headquarters	78
Total	637

Increases were authorized by the Legislature for both 1947-48 and 1948-49, as follows:

	1947-48	1948-49	Total
Field auditors:			
California	228	1	229
Out-of-state	3	8	11
Total	231	9	240
Headquarters	30	1	31
Total	261	10	271

General Activities—Continued

Of the 271 additional positions authorized only 248 were ever actually established, so that for 1948-49 the authorized staff was as follows:

Field auditors:		
California	-----	754
Out-of-state	-----	18
Total	-----	772
Headquarters	-----	113
Total	-----	885

The changes in the authorized staff during subsequent years is shown below:

Fiscal year	Field auditors including out-of-state		Headquarters	
	Authorized	Change from prior year	Authorized	Change from prior year
1948-49	772	--	113	--
1949-50	765	-7	113	0
1950-51	764	-1	120	7
1951-52	766	2	123	3
1952-53	764	-2	120	-3
1953-54	734	-30	115	-5
1954-55	703	-31	106	-9
1955-56	694	-9	108	2
1956-57	676	-18	104	-4
Net change		-96		-9

The positions shown for 1956-57 are the authorized positions before the increase of 34 was set up for uniform sales and use tax.

During the period from 1948-49 to 1955-56 inclusive, the Legislature authorized 11 additional auditor positions in headquarters, 6 for 1950-51, and 5 for 1951-52, while it reduced the field audit staff by 21 for 1954-55.

Of the total reduction of 96 in field positions, therefore, 75 were due either to voluntary action on the part of the agency or reductions by the Department of Finance because of failure to fill existing vacancies, while the same applies to the reduction of nine in the headquarters staff.

Table 3 which follows summarizes the audit program results over a period of the last six years in terms of net revenue per dollar of cost. The net revenue shown represents the actual collections as nearly as these can be approximated, by adjusting for cancellations resulting from both office review and board action as well as estimated uncollectibles, while the costs include all costs including audit collection costs.

General Activities—Continued

Table 6. Sales Tax Audits, 1954-55, Classified as to Individual Audits Producing More Than or Less Than Cost

Class of audit (1)	Hours		Cost (4)	Revenue		Excess of revenue over cost (7)
	Number (2)	Percent (3)		Amount (5)	Percent (6)	
California audits:						
Refunds -----	43,446	5.3	\$270,386	—\$682,081	—8.3	—\$952,467
Deficiencies under cost -----	403,031	49.1	2,508,262	819,554	9.9	—1,688,708
Subtotal -----	446,477	54.4	\$2,778,648	\$137,473	1.7	—\$2,641,175
Deficiencies over cost -----	373,944	45.6	2,327,239	8,177,532	98.3	5,850,293
Total -----	820,421	100.0	\$5,105,887	\$8,315,005	100.0	\$3,209,118
Out-of-state audits:						
Refunds -----	1,358	5.7	\$11,559	—\$59,031	—12.6	—\$70,590
Deficiencies under cost -----	8,420	35.1	71,670	26,699	5.7	—44,971
Subtotal -----	9,778	40.8	\$83,229	—\$32,332	—6.9	—\$115,561
Deficiencies over cost -----	14,201	59.2	120,876	498,506	106.9	377,630
Total -----	23,979	100.0	\$204,105	\$466,174	100.0	\$262,069
Total audits:						
Refunds -----	44,804	5.3	\$281,945	—\$741,112	—8.4	—\$1,023,057
Deficiencies under cost -----	411,451	48.7	2,579,932	846,253	9.6	—1,733,679
Subtotal -----	456,255	54.0	\$2,861,877	\$105,141	1.2	—\$2,756,736
Deficiencies over cost -----	388,145	46.0	2,448,115	8,676,038	98.8	6,227,923
Total -----	844,400	100.0	\$5,309,992	\$8,781,179	100.0	\$3,471,178

The costs and revenues shown in Table 6 are not the same as those shown in Table 3 for the comparable year, since audit collection costs are not included in costs on the one hand and loss on uncollectibles has not been deducted from revenues on the other, and we believe that they should be. Nevertheless, in spite of these shortcomings, which somewhat bias the results, we think these data are highly significant, both from the standpoint of budgetary control, and should be useful as a management tool in evaluating the results of the audit program.

The data in column 3 indicates that for California audits, 54.4 percent of the total time was spent on audits which cost the State \$2,778,648, to make and produced net revenue of \$137,473, the cost being over 20 times as great as the revenue. On the other hand, the remaining 45.6 percent of the total effort produced 98.3 percent of the total revenue or \$8,177,532, at a cost of \$2,327,239, the revenue being three and one-half times that of the cost.

It is fairly obvious from this that the State's total revenue picture as far as the California audits are concerned would have been sub-

General Activities—Continued

stantially the same had the first group of audits been eliminated entirely, and that the State would have saved about \$2,500,000 in so doing.

We are not saying that this could be done in its entirety, nor that the State should not make refunds where an audit discloses an overpayment, nor that it is possible to select in advance with 100 percent accuracy only those audits which will produce revenue in excess of cost.

What we are saying is that an approach to the problem which emphasized the importance of profitable audits and de-emphasized the value of the nonprofitable audits would result in a more economical administration of the entire program.

An obvious starting point to such an approach is an analysis of audit results of the type indicated in Table 6, coupled with a study of the individual nonprofitable audits themselves to determine what steps can be taken to eliminate as many as possible in future.

Beverage Tax Bureau

The unit is described in the Budget as "Bureau of Tax Assessment" but we are using the term "Beverage Tax Bureau" as more descriptive since its activities have to do only with the assessment and collection of the excise taxes on beer, wine and distilled spirits.

Table of Increases 1947-48 to 1956-57

Work index:	1947-48	1956-57	Percent increase
Excise tax on beer and wine	\$3,474,477	\$4,490,000	29.2
Excise tax on distilled spirits	12,398,505	33,450,000	169.8
Number of employees	80	41	-48.8
Total expenditures	\$230,458	\$312,454	35.6

The reduction in personnel between 1947-48 and 1956-57 is due principally to a reduction in the audit staff from 57 to 26, or a reduction of 31. This was due in part to a reduction of 12 by the Legislature in 1956, and in part to transfer of certain audit activity to the new Department of Alcoholic Beverage Control created in 1955, as well as to a curtailment in audit activity in connection with distilled spirits license fees due to changes in the law. The other reductions in personnel are due to transfer of activities from this unit to other units of the Board of Equalization.

ANALYSIS

The Budget as requested contains no new positions and provides for continuation of the same level of service as provided for 1956-57. The increase is nominal, \$4,816 or 1.5 percent and is attributable largely to merit salary increases.

The taxes involved are paid by wholesalers of which there were the following numbers as of the last day of each of the years indicated:

	1953-54	Actual 1954-55	1955-56	Estimated 1956-57	1957-58
Beer and wine:					
Breweries	15	16	15	14	14
Wineries	348	328	312	305	305
Importers	534	470	469	470	470
Subtotal	897	814	796	789	789
Distilled spirits, all classes	337	311	301	303	299
Total	1,234	1,125	1,097	1,092	1,088

General Activities—Continued**Efficiency and Economy**

In answer to a request by this office for a report on steps taken to achieve greater efficiency and economy of operations during the past year the agency has submitted a rather extensive report, some of the most significant items in which appear to be the following:

1. A reduction in the number of sales tax returns filed monthly instead of quarterly.
2. Simplification of machine processing of combined state and local sales and use tax returns.
3. Extension of functional time reporting for purposes of management control.
4. Adoption of a training program for auditors.
5. Improved methods for interchange of information with Department of Motor Vehicles for transportation tax enforcement.
6. Integration of certain field office activities of the Sales Tax and Highway Tax Divisions.
7. Development of a selective audit program for beverage taxes.
8. Development of a procedure for exchange of information with the Department of Alcoholic Beverage Control regarding licensees who are taxpayers for beverage tax purposes.
9. Exchange of information with public utilities in punched card form.
10. Mechanization of transportation tax accounting.
11. A limited redeployment of sales tax auditors among geographical areas.
12. Further development of procedures for internal cost analysis.
13. Elimination of two administrative districts by consolidation with existing districts, with resulting elimination of two positions of district tax administrator I (\$710-862).

The Sacramento district, which included Sacramento, Amador and Alpine Counties was consolidated with the Stockton district as of April 1, 1956, with headquarters at Stockton, while the former Woodland district was abolished as of July 1, 1956, with Lake and Napa Counties assigned to the Santa Rosa district and Glenn, Colusa, Yolo, and Solano Counties assigned to the Marysville district. From the standpoint of good administrative control the assignment of Solano County, the principal center of population of which is Vallejo, to Marysville (91 miles distant) rather than Santa Rosa (45 miles distant) appears to us to be open to question. A much more logical arrangement, were it not for the artificial limitations which the Board of Equalization apparently believes are imposed by the geographical boundaries of the present equalization districts would be to include the entire San Francisco bay metropolitan area, which the U. S. Bureau of the Budget considers to include Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Solano Counties in a single administrative district instead of in parts of four districts, as at present.

Item 115

Equalization

General Activities—Continued

Centralized Revenue Administration

In considering major reorganizations of the State Government, this office has for a number of years recommended the creation of a centralized Department of Revenue and Taxation, and we refer again to our analysis of the Budget for 1956-57 at page 285, and previous analyses.

BOARD OF EQUALIZATION

ITEM 115 of the Budget Bill

Budget page 433
Budget line No. 7

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

Amounted requested	\$909,977
Estimated to be expended in 1956-57 Fiscal Year	880,520
Increase (3.3 percent)	\$29,457

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$54,833	\$17,825	\$37,008	446 70
Operating expense	—20,833	—20,833	—	446 71
Equipment	23,537	23,537	—	446 72
Totals	\$57,537	\$20,529	\$37,008	446 74
Less increased reimbursements:				
Motor Vehicle Fuel Fund	—26,680	—26,680	—	446 77
Itinerant Merchants Fund	—1,400	—1,400	—	446 76
Total increase	\$29,457	—\$7,551	\$37,008	446 75

RECOMMENDATIONS

Amount budgeted	\$909,977
Legislative Auditor's recommendation	882,221
Reduction	\$27,756

SUMMARY OF RECOMMENDED REDUCTIONS

Districts	Amount	Budget Page	Line
5 Accountant-auditor I	\$23,130	446	29
1 Field representative	4,626	446	30
Total	\$27,756		

GENERAL SUMMARY

The Division of Highway Taxes assesses and collects the use fuel tax (diesel tax), assesses the motor vehicle transportation tax (truck tax), assesses the motor vehicle fuel tax (gasoline tax) and administers the Itinerant Merchants Act (Sections 16300 to 16451 of the Business and Professions Code).

Its activities are supported by appropriations from the following three funds:

Fund	Budget Bill Item No.	Total expenditures by funds		
		1956-57	1957-58	Increase
Motor vehicle transportation tax	115	\$880,520	\$909,977	\$29,457
Itinerant merchants	116	23,600	25,000	1,400
Motor vehicle fuel	117	788,299	814,979	26,680
Totals		\$1,692,419	\$1,749,956	\$57,537

The total expenditure program for the Division of Highway Taxes of \$1,749,956 is shown with supporting detail in one section of the

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Budget, pages 445 and 446, whereas the increases for each fund are budgeted separately. The increase of \$57,537, for the total program represents an increase of 3.4 percent.

Table of Increases 1947-48 to 1956-57

Work index:	1947-48	1956-57	Percent increase
Gasoline tax:			
Revenues -----	\$116,823,467	\$273,600,000	134.2
Number of taxpayers -----	104	383	268.3
Use fuel tax:			
Revenues -----	\$3,282,844	\$17,200,000	423.9
Number of active permits -----	2,610	8,877	240.1
Motor vehicle transportation license tax:			
Revenues -----	\$7,847,535	\$17,800,000	126.8
Number of licensed operators -----	23,936	24,627	2.9
Number of employees -----	200.5	219	9.2
Total expenditures -----	\$859,967	\$1,692,419	96.8

The gasoline tax rate was increased from 4½ cents to 6 cents per gallon, effective July 1, 1953, the use fuel tax rate from 4½ cents to 7 cents per gallon effective July 1, 1953, while the transportation tax rate remained constant throughout the period.

The gasoline tax revenues shown above are net after refunds made by the State Controller for nonhighway use.

The number of taxpayers shown under gasoline tax for 1956-57 includes the following:

Fully licensed distributors (refineries, etc.) -----	100
Limited licensed distributors (liquefied petroleum gas dealers) -----	283
Total -----	383

There were no limited licensed distributors prior to 1949-50. The tax currently paid by such distributors amounts to less than 1.5 percent of the total gasoline tax revenue.

While the Division of Highway Taxes performs the major administrative functions relating to the gasoline tax and the transportation tax, the State Controller collects these two taxes and also makes refunds of gasoline tax for nonhighway use. This separation of functions we believe to be an anachronism which serves no useful purpose, and makes for unnecessary duplication of facilities, increased costs, and less effective administration, both from the standpoint of the taxpayer and the State. No such separation between agencies of administrative functions relating to a single tax characterizes the administration of other major state taxes such as the sales tax, personal income tax, bank and corporation tax and unemployment and disability insurance taxes. In this connection it is interesting to note the years in which these various taxes first became effective, as indicated in the following tabulation:

Tax	Year effective
Gasoline tax -----	1923
Motor vehicle transportation tax -----	1923
Bank and corporation franchise tax -----	1929
Sales tax -----	1933
Personal income tax -----	1935
Unemployment insurance tax -----	1936
Use fuel tax (diesel tax) -----	1937
Corporation income tax -----	1937
Disability insurance tax -----	1946

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

It is significant to note that all taxes in the foregoing list adopted since 1923 provide for administration by a single state agency, although these agencies differ, there being no single revenue department or agency.

ANALYSIS

The total increase requested for 1957-58 from all funds over the estimated expenditures for 1956-57, is \$57,537, the chief elements of which are indicated in the following:

Salaries and wages:		
Merit salary increases	\$17,825	
Eight additional positions	37,008	\$54,833
Operating expenses:		
Decrease in services rendered by sales tax division	—\$23,019	
Increases, chiefly travel	2,186	—20,833
Equipment:		
Replacement of automobiles	\$18,100	
Office equipment, additions and replacements	5,437	23,537
Total		\$57,537

We recommend elimination of one field representative, Budget page 446, line 30, for \$4,626.

Three additional field representatives are requested for district offices, which represents an increase of 7 percent over the existing staff of 43. The general basis on which the request is justified is that there was a measurable backlog of use fuel tax and transportation tax compliance assignments (collections, revocations and delinquent returns) pending in district offices at June 30, 1956, which it would take an estimated 3.78 man-years to clear. However, there is no showing that the backlog is increasing, since data were not presented as to its extent at the beginning of the period, July 1, 1955, or its extent during the current and budget years. Accordingly, we believe it is probable that the backlog is what would normally be expected with a field staff of this size.

The general work index items for transportation tax and use fuel tax field compliance activities would appear to be licenses and permits in effect which are as follows, according to justification submitted by the agency:

	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
Transportation tax licenses in effect at June 30	23,619	24,464	24,190	25,152	25,650	26,150
Use fuel tax licenses in effect at June 30	6,730	8,776	9,620	10,083	10,550	11,000
Total	30,349	33,240	33,810	35,235	36,200	37,150

The increase in total licenses in 1957-58 over those in 1956-57 is 950, or 2.6 percent. An increase in the existing staff of this percentage would add 1.1 positions. The increase of two positions which we are recommending gives recognition to this work load increase to the extent

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

of one and a fraction of the new positions with the remaining fractional position being available to improve backlog.

We recommend elimination of five accountant-auditor I positions, Budget page 446, line 29, for \$23,130.

Five additional auditors are requested for use fuel tax and transportation tax audits, which would increase the existing staff of 74 to 79, an increase of 6.8 percent. It is stated that the increase is justified by work load, the basis on which work load is computed being the number of assignments made to the field during the year in excess of the audits completed. An audit control unit in headquarters reviews accounts where:

- (a) A tax clearance is requested,
- (b) The taxpayer is going out of business, and
- (c) The taxpayer is continuing in business but has not been audited within the last three years.

The total number of such accounts reviewed during the year is termed by the agency the "audit potential," and on the basis of this review accounts where an audit would appear warranted are assigned to the field for audit. In 1955-56, audits were requested on 50 percent of the transportation tax accounts reviewed and on 69 percent of the use fuel tax accounts reviewed.

At the end of 1955-56 it is stated that there was a backlog of uncompleted audit assignments in the district offices of 1,725.

We are recommending against this increase for several reasons.

1. The data on the so-called "backlog" is inadequate since there is no indication given of the size of the backlog at the beginning of the year, and assuming for the moment that this is the proper way to measure the work load of an audit program, this approach would be valid only if it could be shown that the backlog were increasing or that the backlog is unreasonable in relation to the pipeline of work which would exist under normal processing.

2. If an increasing backlog actually exists it could be reduced by progressively reducing the number of audit assignments just as easily as by increasing the size of the audit staff since the audits are assigned on a selective basis.

3. We do not believe that this is the proper approach to the problem of measuring an audit work load since in our view the field audit program of the Division of Highway Taxes, like that of the Sales Tax Division, is essentially a selective sampling process, the need for and the extent of which should be measured in terms of results rather than in terms of audits not completed out of a predetermined number of cases selected for audit. There are several indications from the data in the tables which follow that audit manpower is not being used as efficiently as it could be at the present time, and until there is substantial improvement we recommend no increase in the field audit staff.

One indication is the high percentage of total time and likewise total cost spent on audits which individually do not pay their way, 62.7

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued
percent for all audits as shown in Table 10, and a much higher percentage on certain individual classes of audits; 85.0 percent for all gasoline tax audits (Table 7) and 92.2 percent on use fuel tax audits of vendors (Table 8).

Table 7. Motor Vehicle Fuel Tax Audits, 1955-56, Classified as to Individual Audits Producing More Than or Less Than Cost

	Audits	Hours		Net revenue	Cost	Revenue per dollar of cost
		Num-ber	Per-cent			
Gasoline distributors, all:						
Refunds -----	3	360	2.7	—\$101,219	\$2,534	—\$39.94
Deficiencies under cost---	215	11,049	83.7	6,548	77,785	.08
Subtotal -----	218	11,409	86.4	—\$94,671	\$80,319	—\$1.17
Deficiencies over cost----	11	1,796	13.6	473,766	12,644	37.47
Total -----	229	13,205	100.0	\$379,095	\$92,963	\$4.08
Liquified petroleum gas distributors:						
Refunds -----	1	16	0.8	—\$16	\$113	—\$0.14
Deficiencies under cost---	37	1,258	64.2	1,316	8,856	.15
Subtotal -----	38	1,274	65.0	\$1,300	\$8,969	\$1.14
Deficiencies over cost----	19	685	35.0	12,372	4,822	2.57
Total -----	57	1,959	100.0	\$13,672	\$13,791	\$1.00
Producers and brokers:						
All under cost-----	54	1,416			\$9,969	
Combined total:						
Refunds -----	4	376	2.2	—\$101,235	\$2,647	—\$38.24
Deficiencies under cost---	306	13,723	82.8	7,864	96,610	.08
Subtotal -----	310	14,099	85.0	—\$93,371	\$99,257	—\$0.94
Deficiencies over cost----	30	2,481	15.0	486,138	17,466	27.83
Total -----	340	16,580	100.0	\$392,767	\$116,723	\$3.36

Table 8. Use Fuel Tax Audits, 1955-56, Classified as to Individual Audits Producing More Than or Less Than Cost

	Audits	Hours		Net revenue	Cost	Revenue per dollar of cost
		Num-ber	Per-cent			
Users:						
Refunds -----	102	1,184	4.6	—\$18,050	\$11,473	—\$1.57
Deficiencies under cost---	1,194	12,109	53.6	40,927	117,336	.35
Subtotal -----	1,296	13,293	58.2	\$22,877	\$128,809	\$1.17
Deficiencies over cost----	931	10,080	41.8	364,294	97,675	3.73
Total -----	2,227	23,373	100.0	\$387,171	\$226,484	\$1.71

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Table 8. Use Fuel Tax Audits, 1955-56, Classified as to Individual Audits Producing More Than or Less Than Cost—Continued

	Hours			Net revenue	Cost	Revenue per dollar of cost
Vendors:	Audits	Num- ber	Per- cent			
Refunds	2	16	0.8	—\$362	\$155	—\$2.34
Deficiencies under cost...	159	1,977	91.4	1,370	19,157	.07
Subtotal	161	1,993	92.2	\$1,008	\$19,312	\$.05
Deficiencies over cost.....	23	168	7.8	4,473	1,628	2.75
Total	184	2,161	100.0	\$5,481	\$20,940	\$.26
Combined total:						
Refunds	104	1,200	4.7	—\$18,412	\$11,628	—\$1.58
Deficiencies under cost....	1,353	14,086	55.2	42,297	136,493	.31
Subtotal	1,457	15,286	59.9	\$23,885	\$148,121	\$1.61
Deficiencies over cost.....	954	10,248	40.1	368,767	99,303	3.71
Total	2,411	25,534	100.0	\$392,652	\$247,424	\$1.50

Table 9. Transportation Tax Audits, 1955-56, Classified as to Individual Audits Producing More Than or Less Than Cost

	Hours			Net revenue	Cost	Revenue per dollar of cost
Transportation tax	Audits	Num- ber	Per- cent			
Refund	197	2,376	6.1	—\$37,499	\$20,243	—\$1.85
Deficiencies under cost...	2,165	19,052	48.9	38,713	162,323	.23
Subtotal	2,362	21,428	55.0	\$1,214	\$182,566	\$.01
Deficiencies over cost.....	1,232	17,521	45.0	720,361	149,279	4.83
Total	3,594	38,949	100.0	\$721,575	\$331,845	\$2.17

Table 10. Combined Total All Audits, 1955-56, Classified as to Individual Audits Producing More Than or Less Than Cost

	Hours			Net revenue	Cost	Revenue per dollar of cost
Combined total, all audits	Audits	Num- ber	Per- cent			
Refunds	305	3,952	4.9	—\$157,146	\$34,518	—\$4.55
Deficiencies under cost....	3,824	46,861	57.8	88,874	395,426	.22
Subtotal	4,129	50,813	62.7	—\$68,272	\$429,944	—\$0.16
Deficiencies over cost.....	2,216	30,250	37.3	1,575,266	266,048	5.92
Total	6,345	81,063	100.0	\$1,506,994	\$695,992	\$2.17

Table 10 indicates that for the combined audit program of the Division of Highway Taxes for 1955-56, 3,824 audits, which required 46,861 hours to complete (the equivalent of 26 men full time or 57.8 percent of the total audit manpower expended during the year), cost \$395,426 to make and produce revenue of only \$88,874, or 22 cents on each dollar of cost. If we add to this the time spent on audits which produced refunds, it represents 62.7 percent of the total audit effort, costing \$429,944 which produced net refunds of \$68,272, or minus 16 cents on each dollar of cost.

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Our view is that such a high percentage of time spent on nonprofitable audits is evidence that a large part of the audit effort is being wasted, which could and should be directed into more profitable channels before any increase in staff is warranted. We believe that 25 percent of the total time devoted to nonprofitable audits would be a maximum figure consistent with economical administration of a program of this sort.

With such a condition as exists, we think it is fallacious to argue that by increasing the staff the net revenue would be increased. We think it is much more likely that costs would be increased in excess of revenue.

Another indication that existing manpower is not being used as efficiently as possible is the comparatively low over-all return (actual net loss) on certain classes of audits; 99 cents for each dollar of cost on liquefied petroleum gas audits, Table 7, and 26 cents per dollar of cost on use fuel tax audits of vendors, Table 8.

The over-all results for the last three years for the various programs and their component parts are summarized in Tables 11 to 14 which follow.

Table 11. Motor Vehicle Fuel Tax Audits, by Type of Licensee and by Years, Three Years Ended June 30, 1956

Fully licensed distributors	Number of audits	Audit hours	Net revenue	Cost	Revenue per dollar of cost
1953-54-----	263	12,666	\$29,088	\$78,022	\$0.37
1954-55-----	237	13,760	17,919	80,908	0.22
1955-56-----	222	11,381	145,573	80,122	1.81
Totals-----	722	37,807	\$192,580	\$239,052	\$0.81
Unlicensed distributors					
1954-55-----	1	262	\$181,885	\$1,541	\$118.03
1955-56-----	7	1,824	233,522	12,841	18.18
Totals-----	8	2,086	\$415,407	\$14,382	\$28.88
Liquefied petroleum gas distributors					
1953-54-----	53	2,115	\$7,336	\$13,028	\$0.56
1954-55-----	87	2,679	11,260	15,753	0.71
1955-56-----	57	1,959	13,672	13,791	0.99
Totals-----	197	6,753	\$32,268	\$42,572	\$0.76
Producers and brokers					
1953-54-----	338	3,449	--	\$21,246	--
1954-55-----	73	1,348	--	7,926	--
1955-56-----	54	1,416	--	9,969	--
Totals-----	465	6,213	--	\$39,141	--
Combined total					
1953-54-----	654	18,230	\$36,424	\$112,296	\$0.32
1954-55-----	398	18,049	211,064	106,128	1.99
1955-56-----	340	16,580	392,767	116,723	3.36
Totals-----	1,392	52,859	\$640,255	\$335,147	\$1.91

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Table 12. Use Fuel Tax Audits, by Type of Licensee and Fiscal Years, Three Years Ended June 30, 1956

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
Users					
1953-54-----	2,397	22,073	\$301,453	\$209,473	\$1.44
1954-55-----	2,718	27,647	395,078	256,288	1.54
1955-56-----	2,227	23,373	387,171	226,484	1.71
Totals -----	<u>7,342</u>	<u>73,093</u>	<u>\$1,083,702</u>	<u>\$692,245</u>	<u>\$1.57</u>
Vendors					
1954-55-----	110	1,603	\$4,408	\$14,860	\$0.30
1955-56-----	184	2,161	5,481	20,940	0.26
Totals -----	<u>294</u>	<u>3,764</u>	<u>\$9,889</u>	<u>\$35,800</u>	<u>\$0.28</u>
Combined total					
1953-54-----	2,397	22,073	\$301,453	\$209,473	\$1.44
1954-55-----	2,828	29,250	399,486	271,148	1.47
1955-56-----	2,411	25,534	392,652	247,424	1.59
Totals -----	<u>7,636</u>	<u>76,857</u>	<u>\$1,093,591</u>	<u>\$728,045</u>	<u>\$1.50</u>

Table 13. Transportation Tax Audits, by Fiscal Years, Three Years Ended June 30, 1956

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
1953-54-----	5,383	45,873	\$817,284	\$365,608	\$2.24
1954-55-----	4,053	39,295	719,120	282,138	2.55
1955-56-----	3,594	38,949	721,575	331,845	2.17
Totals -----	<u>13,030</u>	<u>124,117</u>	<u>\$2,257,979</u>	<u>\$979,591</u>	<u>\$2.31</u>

Table 14. Combined Total, All Audits, by Fiscal Years, Three Years Ended June 30, 1956

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
1953-54-----	8,434	86,176	\$1,155,161	\$687,377	\$1.68
1954-55-----	7,279	86,594	1,329,670	659,414	2.02
1955-56-----	6,345	81,063	1,506,994	695,992	2.17
Totals -----	<u>22,058</u>	<u>253,833</u>	<u>\$3,991,825</u>	<u>\$2,042,783</u>	<u>\$1.95</u>

It is true, as shown in Table 14, that the over-all productivity of the entire program has increased from \$1.68 per dollar of cost in 1953-54, to \$2.02 in 1954-55 to \$2.17 in 1955-56, but this is due entirely to increased productivity of the Motor Vehicle Fuel Tax Audits (Table 11), a large part of the increase for which is due in turn to a very few audits in the unlicensed distributor group, shown in Table 11. These represent audits of service stations handling untaxed gasoline stolen from licensed distributors.

The additional audit personnel is being requested for use fuel tax audits and transportation tax audits, the revenue per dollar of cost from those two classes of audits combined being as follows:

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

<i>Fiscal year</i>	<i>Revenue per dollars of cost</i>
1953-54	\$1.95
1954-55	2.02
1955-56	1.92

The transportation tax audits (Table 13) show a progressive decrease over the three-year period in revenue per dollar of cost, while the use fuel tax audits (Table 12) show a considerably lower return per dollar of cost than either of the other two programs.

We believe the effectiveness of the program as a whole can be increased by a shift in emphasis from use fuel tax audits to transportation tax audits and by taking steps to reduce the nonprofitable audit time in all three programs without any increase in staff.

The distribution of the audit time among the three programs during the three-year period is shown in Table 15.

Table 15. Audit Time, by Programs and Fiscal Years,
Three Years Ended June 30, 1956

<i>Audit program</i>	<i>Audit hours</i>	<i>Percent</i>
1953-54		
Motor vehicle fuel tax	18,230	21.2
Use fuel tax	22,073	25.6
Transportation tax	45,873	53.2
Totals	86,176	100.0
1954-55		
Motor vehicle fuel tax	18,049	20.8
Use fuel tax	29,250	33.8
Transportation tax	39,295	45.4
Totals	86,594	100.0
1955-56		
Motor vehicle fuel tax	16,580	20.5
Use fuel tax	25,534	31.5
Transportation tax	38,949	48.0
Totals	81,063	100.0
Combined total		
Motor vehicle fuel tax	52,859	20.8
Use fuel tax	76,857	30.3
Transportation tax	124,117	48.9
Totals	253,833	100.0

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 116 of the Budget Bill

Budget page 433
Budget line No. 21

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

Amount requested -----	\$25,000
Estimated to be expended in 1956-57 Fiscal Year -----	23,600
Increase (5.9 percent) -----	\$1,400

RECOMMENDATIONS

Amount budgeted -----	\$25,000
Legislative Auditor's recommendation -----	25,000
Reduction -----	None

GENERAL SUMMARY

Chapter 876, Statutes of 1939, the "Itinerant Merchants Act" set up the original procedure for licensing and regulation of itinerant merchants.

An itinerant merchant is defined in the law as a person who buys "farm products" for sale and transports them upon a public highway in a motor vehicle across county lines for purpose of sale. Such a person is presently required to pay an annual license fee of \$20 for each motor vehicle to be used by him in the conduct of his business, which is placed in the Itinerant Merchants Fund from which all appropriations for administration are made.

The original act provided for administration by the Public Utilities Commission, but responsibility for administration was transferred to what is now the Division of Highway Taxes in the Board of Equalization in 1951 (Chapter 507, Statutes of 1951).

The provisions of the original law as amended by Chapter 37, Statutes of 1940 were included in the Business and Professions Code, Sections 16300 to 16451 by Chapter 62, Statutes of 1941.

The law as presently drawn appears to us to be discriminatory since it provides for state regulation and licensing only of those itinerant merchants who operate intracounty and not to those operating solely on an intercounty basis. We believe it is probable that the latter are at least as numerous as the former.

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the law regulating the activities of "itinerant merchants," the expenditures for which are paid out of that fund in the first instance and included in the detailed budget data supporting item 115 of the Budget Bill.

Item 117

Equalization

Division of Highway Taxes—Itinerant Merchants Fund—Continued

Data as to administration of the law are as follows:

<i>Fiscal year</i>	<i>Personnel required</i>	<i>No. of license</i>	<i>Total cost of administration</i>	<i>Revenues</i>	<i>Fund balance at end of year</i>
1952-53 (actual) -----	2.9	741	\$22,634	\$27,380	—\$7,363
1953-54 (actual) -----	2.9	656	18,143	27,720	2,214
1954-55 (actual) -----	3.4	716	20,383	27,140	8,971
1955-56 (actual) -----	2.7	600	19,219	23,280	13,035
1956-57 (estimated) -----	2.7	600	25,063	25,000	12,972
1957-58 (estimated) -----	2.7	600	26,550	25,000	11,422

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

Board of Equalization

DIVISION OF HIGHWAY TAXES

ITEM 117 of the Budget Bill

Budget page 433

Budget line No. 34

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

Amount requested -----	\$814,979
Estimated to be expended in 1956-57 Fiscal Year -----	788,299
Increase (3.4 percent) -----	\$26,680

RECOMMENDATIONS

Amount budgeted -----	\$814,979
Legislative Auditor's recommendation -----	814,979
Reduction -----	None

GENERAL SUMMARY

Of the three taxes administered by the Division of Highway Taxes of the Board of Equalization, one, the transportation tax, is supported from the Motor Vehicle Transportation Tax Fund, and the other two, the gasoline tax and the diesel tax are supported from the Motor Vehicle Fuel Fund. Prior to February, 1953, the latter two taxes were administered by a separate division, the Motor Vehicle Fuel Tax Division, while the former was administered by the Motor Vehicle Transportation Tax Division.

In February, 1953, the two divisions were consolidated into the Division of Highway Taxes under a single administrator, an action which we had previously recommended in our analysis for 1953-54.

In our 1955-56 analysis on page 404, we pointed out that since revenues from all three taxes are eventually transferred to the Highway Users Tax Fund after deducting refunds and costs of administration, the need for two "feeder funds," the Motor Vehicle Transportation Tax Fund and the Motor Vehicle Fuel Fund, for original deposit of these two taxes appeared to be unnecessary, and we recommended that the former fund be abolished. We repeat this recommendation at this time.

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the gasoline tax and the diesel

Division of Highway Taxes—Motor Vehicle Fuel Fund—Continued

tax by the Division of Highway Taxes of the Board of Equalization, the expenditures for which are included with those of the first named fund as detailed on Budget pages 445 and 446.

The increase of \$26,680, represents this funds share of the increase in expenditures for the Division of Highway Taxes, the operations of which are described in our analysis of Item 115 of the Budget Bill.

If the adjustments recommended by us under Item 115 are approved it will be necessary to adjust this item for this funds share, which we believe can be done by the Department of Finance in administration of the budget as finally approved.

Subject to the foregoing we recommend approval of the item as submitted.

DEPARTMENT OF FINANCE

ITEM 118 of the Budget Bill

Budget page 450
Budget line No. 6**FOR SUPPORT OF DEPARTMENT OF FINANCE FROM THE
GENERAL FUND**

Amount requested	\$6,542,370
Estimated to be expended in 1956-57 Fiscal Year	6,355,120
Increase (2.9 percent)	\$187,250

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$289,560	\$282,552	\$7,008	468 47
Operating expense	207,988	207,988	---	468 48
Equipment	—8,235	—8,467	232	468 49
Less increased reimbursements	—240,704	—240,704	---	468 64
Less increased support from other funds	—61,359	—61,359	---	468 68
Total increase	\$187,250	\$180,010	\$7,240	468 67

RECOMMENDATIONS

Amount budgeted	\$6,542,370
Legislative Auditor's recommendation	6,517,370
Reduction	\$25,000

Recommended Reductions

Building and Grounds Division		Budget	
Sacramento Buildings		Page	Line
Operating expenses	Amount		
Special repairs and alterations	\$15,000	458	75
Equipment			
Special maintenance of buildings—additional	10,000	459	21
Total	\$25,000		

GENERAL SUMMARY

The Department of Finance is that agency within the executive branch of California State Government which supervises the fiscal and business operations of most executive agencies. The Department of

General Summary—Continued

Finance derives these general powers and duties over financial and business policies from Section 13070 of the Government Code which states: "The department has general powers of supervision over all matters concerning the financial and business policies of the State and whenever it deems it necessary, or at the instance of the Governor, shall institute or cause the institution of such investigations and proceedings as it deems proper to conserve the rights and interests of the State." In addition the department operates a varied group of so-called general service type activities.

The functions of the Department of Finance were divided into the following 12 segments by the organization plan made effective on July 1, 1956:

- Administration Division;
- Audits Division;
- Budget Division;
- Buildings and Grounds Division;
- Communications Division;
- Fairs and Expositions Division;
- Local Allocation Division;
- Organization and Cost Control Division;
- Property Acquisition Division;
- Purchasing Division;
- State Lands Division;
- Printing Division.

The major changes in departmental organization which have occurred during the year are as follows:

The establishment of the unit called the Executive Office which consists of a Director, a Deputy Director, the Legal Section, the Insurance Section, the Investment Section and the Local Planning Section.

The re-establishment of the position of Deputy Director and the discontinuance of the positions of Assistant Director—Administration and Assistant Director—Budgets and Fiscal.

The establishment of the Division of Administration which includes the former Accounts and Disbursements Division, the departmental personnel program, the Automotive Management Section, the Traffic Management Section, the Space Utilization Section, the Central Files and Mail Service.

The establishment of the Division of Organization and Cost Control which includes the staff of the State Merit Award Board that was transferred to the new division.

The establishment of the Local Planning Section, referred to above, as created by Chapter 33, Statutes of 1956, First Extraordinary Session. Six positions were authorized for this function and one has been filled.

The Department of Finance is undergoing an extensive management review by analysts from the Organization and Cost Control Division which may initiate further changes in the organizational and func-

General Summary—Continued

tional structure of the department. This study will be dealt with in the section of this analysis entitled Organization and Cost Control Division.

Table of Increases 1947-48 to 1956-57

Work index:	1947-48	1956-57	Percent increase
Square footage of state owned and leased buildings maintained by Buildings and Grounds ¹	2,094,276	4,691,482	124
Dollar volume of state purchases ²	\$51,500,171	\$74,518,524 ³	15
Number of state-owned vehicles	7,474	17,812	138
Department of Finance pool cars ⁴	8	1,222	--
Number of employees	346.3	1,504.2	334
Total expenditures—General Fund	\$1,265,794	\$6,355,120	402

¹ Representative dates are January 1, 1947, and July 1, 1957.

² Does not include gas and oil purchases.

³ 1955-56 figures.

⁴ Representative dates are January 1, 1947, and September 30, 1956.

ANALYSIS

The total increase in expenditures from all funds of \$318,977 including other current expense and employees' retirement for the Fiscal Year 1957-58 is largely the result of increased work load in the various divisions requiring additional staffing, an increase in the estimated portion of the General Fund's share of the cost of insuring the State's liability in connection with automobile accidents and the increased cost of existing positions. The increase in the amount requested from the General Fund for the fiscal year was \$187,250 or 2.9 percent above 1956-57.

The department has requested 41 positions as outlined in the following table.

Summary of Positions Requested

Executive Office	
Investment Section:	
Junior research technician	1
	<hr/>
	1
Administration Division	
Administration:	
Personnel Officer I	1
Space Utilization Section:	
Junior architectural draftsman	1
	<hr/>
	2
Buildings and Grounds Division	
Sacramento Buildings	
Maintenance and Operation:	
Carpenter	1
Building maintenance man	1
Miscellaneous Services:	
Laborer	1
Telephone operator	1
	<hr/>
	4
Los Angeles Buildings	
Maintenance and Operation:	
Stationary engineer	1
Painter	1
	<hr/>
	2

General Summary—Continued

Summary of Positions Requested—Continued

Buildings and Grounds Division—Continued

Los Angeles Buildings—Continued

Employment Building:

Electrician (effective October 1, 1957)	1
Chief Engineer II (effective October 1, 1957)	1
Window cleaner (effective February 1, 1958)	1
Stationary engineer (effective February 1, 1958)	1
Janitors (effective February 1, 1958)	14
Janitor Foreman II (effective February 1, 1958)	1
Building maintenance man (effective February 1, 1958)	1
	<hr/>

20

Fairs and Expositions Division

Intermediate stenographer-clerk	1
	<hr/>

1

Local Allocations Division

Field Representative I	4
Governmental Auditor II	1
Junior accountant-auditor	1
Intermediate typist-clerk	2
	<hr/>

8

Purchasing Division

San Francisco:

Intermediate stenographer-clerk	1
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Los Angeles:

Intermediate stenographer-clerk	2
	<hr/>

3

Total positions requested	<hr/> <hr/> 41
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Prior to this final budget proposal of 41 new positions, all the various division requests totaled 60 positions. Through administrative hearings within the Department of Finance, 19 positions were eliminated for the total of 41 now requested. Of this number 20 positions are for staffing the new Department of Employment Building in Los Angeles with maintenance men and janitors to be effective at various times in late 1957 and early 1958.

We believe that the entire 41 positions are justified on the basis of work load increases. The only new service position is the Personnel Officer I, and related equipment, in the Administration Division in the amounts of \$7,008 and \$232 respectively. We believe this position is justified on the basis of a definite need in a department of this size and complexity. The position originally was requested in the 1953-54 Fiscal Year Budget and authorized by the Legislature during that year. However, for various reasons, the position was not filled and remained vacant until it was eliminated from the 1954-55 Budget request.

Summary of Recommendations

We recommend approval of the 41 positions requested. We recommend elimination of the two emergency funds in the Building and Grounds Division as summarized below. Further comments as to areas requiring clarification and further study are made in the sections which follow.

General Summary—Continued**Administrative Division**

We believe that the three positions requested by the Administrative Division (including the Executive Office) are justified on the basis of work load. These positions are listed in the preceding table entitled Summary of Positions Requested.

Automotive Management Section

The inspection service whereby inspectors from the Automotive Management Section check the repair and maintenance requirements for automobiles of the various agencies has proven that it can save the State money on its capital outlay expenditures for equipment, personnel requirements, repair bills and maintenance costs. The program was initiated as a pilot study in July, 1950, and assumed the status of a full program in October, 1953. At the present time new service agreements must be negotiated between the Department of Finance and the agencies each year which appears unnecessary. The service agreements have been used as an instrument to reimburse the Purchasing Revolving Fund for salaries and wages of the 13 inspectors of automotive equipment. We recommend that the costs be determined on a pro rata basis and that the appropriate charges be made against the agencies' budgets for this service rather than by means of the present more involved procedure. We also recommend that the remaining departments be brought into this program, including the Department of Motor Vehicles and the Division of Forestry but excluding the Division of Highways. These administrative changes will enable the State to obtain maximum benefits from a more uniform application of the fleet management program.

Audits Division

The staff of the Audits Division has been decreased in personnel by 16 positions, five because of the anticipated reduction in audit activities due to the establishment of the Office of the Auditor General and 11 because of the reduction in the audit cycle from one year to two years as approved by the Legislature in 1955. There are 100 positions authorized for 1956-57 and the 1957-58 Budget proposes a continuation of this level of service.

At the same time this reduction in personnel was being effected, the Audits Division was able to expand its contract services to the agencies by \$14,200.

We wish to emphasize again that the staff should be reduced further in accordance with the recommendations of the Price Waterhouse Report, and that greater emphasis be placed on internal audit by the agencies. In this division, as in other divisions of the Department of Finance, and in other agencies, we believe that an over-all evaluation of all the auditing functions should be made by the Auditor General to clarify responsibilities and eliminate areas of overlap and duplication.

Buildings and Grounds Division

The budget has carried an item for alterations, repairs and equipment for state buildings and rental offices. This special item was largely justified in prior years as necessary due to the frequent shifting of

General Summary—Continued

agencies when the State rented considerable office space. The Legislature has on several occasions reduced the size of this appropriation. In the 1954 session the Legislature approved another reduction in the size of this item, lowering it to \$50,000 and shifting it to the budget of the Buildings and Grounds Division.

These items were divided to appear as "Special Repairs and Alterations" under Operating Expenses and "Special Maintenance of Buildings—Additional" under Equipment. In the 1956-57 Budget these items were reduced respectively to \$15,000 and \$10,000. Actual expenditures for 1955-56 were \$8,854 (page 458, line 75) and \$15,306 (page 459, line 21) for a total of \$24,160.

The reason for shifting this money to the Buildings and Grounds budget was to achieve review and approval through the regular budgetary process and to permit an accounting to the Legislature. Since there are other funds in the budget for regular maintenance, alterations and equipment, it has been our understanding that this special amount of \$25,000 is for unforeseen contingencies. The 1955-56 Fiscal Year expenditures from these items permit a full year review of the use made of these funds. We have secured from the Department of Finance an itemized listing of each expenditure and the amount. A review of these expenditures indicates that these expenditures are not of an emergency nature and that they should be accounted for through regular budget channels.

A major portion of the expenditures from these accounts was for the Governor's residence and his Los Angeles and San Francisco offices, and a minor portion was for legislative offices and other state officers' offices. One major miscellaneous expenditure listed was \$7,832.85 for a public address system for the assembly hall of the Los Angeles State Building. A percentage breakdown of these expenditures is as follows:

	<i>Expenditures</i>	<i>Percent</i>
Governor's residence and offices.....	\$9,156.17	38
Public address system—Los Angeles State Building—	7,832.85	32
Legislative offices	5,469.44	23
Other state offices and miscellaneous	1,673.17	7
	<u>\$24,158.63</u>	<u>100</u>

Examples of the type of expenditures made against this account and the extreme range of the articles and amounts for the Governor's residence and offices are shown from the following:

Copper hood and stainless steel cover for electric range.....	\$1,115.00
Installation of drapes and recovering furniture.....	848.28
1 Desk	808.08
12 Fluorescent fixtures	755.42
1 Refrigerator	414.54
2 Card tables	22.88
1 Coffee pot	20.87
6 Rubber bath tub mats	18.54
1 Step stool	8.19
2 Ironing board pads and covers.....	5.11
48 Window shade pulls	2.47

General Summary—Continued

We feel these examples are adequate proof that the fund is not an emergency fund and that it should be abolished. Other appropriations are made for such purposes as these and expenditures of this nature should be properly budgeted for and charged.

Organization and Cost Control Division

The Organization and Cost Control Division was created by Chapter 1857, Statutes of 1955. The provisions appear as Chapter 11, Sections 13875-13881, of the Government Code. The functions and duties are outlined as follows:

The director, subject to the State Civil Service Act, shall appoint a chief of the divisions and such other personnel as is necessary to perform the functions of the division. The chief of the division shall report directly to the Director of Finance.

It shall be the function of the division to provide consultation and coordination to the departments and agencies of the State Government with respect to organization planning and the development and application of controls over manpower and costs, as directed or requested to conduct studies in such field, and in the field of application of classifications to jobs and positions; and to conduct research and exchange of information in the field of management.

In the field of organization planning the division shall:

- (a) Counsel with, assist, and provide coordination to the heads of state departments:
 - (1) In the development and application of principles of sound management;
 - (2) In the development and implementation of plans of organization;
 - (3) In the preparation of organization charts to reflect current approved organization structures.
- (b) Initiate recommendations for special studies to improve the pattern or organization of the State Government in all its parts.

In the field of manpower and costs control, the division shall:

- (a) Counsel with and provide coordination to the heads of departments in the development and application of effective controls over manpower and administrative and operating costs.
- (b) Develop and foster the adoption of improved methods, procedures, and performance standards to achieve more efficient accomplishment of necessary work and more effective utilization of manpower.
- (c) Counsel with and provide coordination to the heads of departments in the design of job and position content to ensure that they are consistent with productivity and relative importance to the State Government.

General Summary—Continued

- (d) Maintain authoritative current records of actual employment of approved manpower allowables or manning tables for each state agency and in such form that they may be compared and reconciled with manpower allowables.
- (e) At appropriate intervals, report on the effectiveness of manpower and cost control measures by each state agency.
- (f) As directed or requested, conducts studies of the manpower of departments and agencies of the State Government, or of any of their components, as a basis for recommending improved manpower utilization, methods, procedures, and performance standards, the elimination of unnecessary or duplicative work and wasteful practices, and the adjustment of the work force to the established work load.

In the field of organization research, the division shall:

- (a) Counsel with and provide coordination to the heads of departments on the internal exchange of information and experience regarding management, organization, manpower, and cost control problems and their solution.
- (b) Initiate or, as requested, conduct studies and exchanges of information with other governmental agencies, with industry, and with professional and educational institutions regarding management subjects, publishing or circulating the results, as appropriate, for the benefit of all or selected segments of the State Government.

The staff of this division was taken from the Management Analysis Section of the Budget Division and from the Merit Award Board Section in the Administration Division. There are currently 38 positions authorized of which 33 are professional and five are clerical. Three of the professional positions are now vacant due to difficulty in finding qualified personnel. There are no additional positions requested in the 1957-58 Budget. At present the deputy director is chief of the division and the title of his first assistant is chief administrative analyst.

In our analysis of last year we asked a number of questions concerning the program, the scope and ultimate size of the new division, and questions concerning the relationship between the old management analysis section in the Budget Division and the new Organization and Cost Control Division. These questions have been partially answered in the following statement of the Department of Finance:

“The trend in the program of the division is toward the over-all management review of an agency’s total operation as opposed to surveys or specified functional areas or organization subdivisions. This is not to imply that attention will not be given to particular problems as requested by the various agencies. A large proportion of staff time will continue to be devoted to this type of work. It is our opinion, however, that complete management audits, although expensive in terms of staff time, will be productive on a long term basis.”

General Summary—Continued

A large project of the division now in process is the over-all survey of the management and operations of the Department of Finance. This survey will review the position of the department in the State Government, its relationship with the Governor and other state agencies, its internal organization, functional responsibilities, major policies, and any major procedural or management deficiencies. To supplement this approach, an effort is being made to contact high-level officials of major state agencies to secure opinions and suggestions for improving the department's relationships with, and services to, the agencies.

This report is scheduled for completion by February 28, 1957, and it is believed that some of the findings will be beneficial in resolving some of the unanswered questions covering the future of the Division of Organization and Cost Control and its relationship with the agencies' analytical sections, as well as in evaluating the performance of the department as a whole. We plan to evaluate this study when it is completed.

Purchasing Division

The Purchasing Division is requesting three additional positions as a result of additional work load in the branch offices. This is partially offset by the elimination of one position in the Sacramento office. This request is justified on the basis that a more complete and comprehensive job is being done at the branch level, close to the requisitioning agencies. The major recommendations of the Legislative Auditor in his report of December 1, 1955, entitled *Survey of Branch Office Operations in the Purchasing Division of the Department of Finance* have been put into effect.

Also the major recommendations in another report of this office entitled *Analysis of Operations of Stores Section of the Division of Purchases* dated October 7, 1955 either have been put into effect or currently are under consideration. The servicing areas of each of the three branch warehouses have been defined as recommended and plans for square footage requirements of new facilities are under consideration. Receipts as well as disbursements have been placed on punched cards although the existing visible inventory control system had not yet been eliminated entirely from the stores section at this writing. The function of determining what items are to be stocked by stores is now actually, rather than just nominally, determined by the purchasing agent. However, it is felt that the items and quantities to be stocked, and the balance to be maintained between agencies' stores and purchasings' stores, cannot be properly evaluated nor the poor inventory turnover figures improved until a detailed tabulation is made of the items received and disbursed by the two functions. We recommend that such a study be made so that these important questions are answered before new facilities are constructed.

One area in which the Purchasing Division has received close examination by the public concerns the effects of the changes in the purchasing law as outlined in Chapter 1736, Statutes of 1955. This law includes provisions which defined the State's policy with respect to the vendor, the Purchasing Division and the operating departments of the State.

General Summary—Continued

For instance, it requires bidder qualifications, sealed bids, acceptance of the lowest responsible bidder, uniform notification of bidders, certain rights of appeal by bidders of Purchasing Division decisions and provision that a state agency may specify the quality of purchases subject to review by the board of control when challenged.

Most phases of this law have been placed in effect without unusual problems arising. However, some concern has been expressed as to difficulties faced by the State Purchases Standards Committee and the significance of increased prices paid by the State. It should be pointed out that such higher prices involve consideration of the quality of merchandise sought, its serviceability and need. Specifications of office equipment could not be written which were acceptable to all concerned, so that many orders were not placed, pending agreement on specifications. For example, the Department of Employment as of December 28, 1956, had purchase estimates outstanding in the amount of \$154,000 for office equipment where purchase orders had not been issued. These purchase estimates dated as far back as April 4, 1956. As of this writing the vast majority of the withheld requisitions had been placed on order but the problems surrounding the writing of specifications had not been resolved. We recommend that the policy regarding the use to be made of specifications and the scope of the State Purchases Standards Committee be more clearly defined by law so that the Purchasing Division may be guided, the agencies may not be handicapped by long delays, and the agencies' actual needs met at least cost to the State, giving due consideration to both quality and serviceability.

Improvements in Operation

Following are some of the principal improvements, in addition to those already mentioned, made during 1956 in the operation of the Department of Finance.

Pooled Money Investments

Policies adopted by the Pooled Money Investment Board relating to the investment of revenues which are temporarily surplus to the State's needs have resulted in increased interest earnings on these funds. This has been accomplished by careful daily analysis of the State's cash requirements and the investment, on a short-term basis, of revenues which are in excess of these needs. A daily average of \$42,000,000 has been established as a base and this amount is held on demand deposit. By comparison, demand deposits were below 70 million dollars on only 40 days, and below 65 million dollars on only 19 days during the years 1954 and 1955. Thus 20 to 30 million dollars are available for interest-bearing investments during most of the year.

Leasing Policy

The policy of requiring two or more state agencies to occupy space in the same location whenever feasible has been strengthened and is being more rigidly enforced than heretofore. This policy reduced the number of leases which must be negotiated and results in better service to the public by grouping state agencies in fewer locations.

General Summary—Continued

New Building Financing

In accordance with 1955 legislation, negotiations have been completed between the Public Works Board and the State Employees' Retirement System, whereby the latter agency will advance 27 million dollars for the construction of six new state office buildings. The advance will be repaid over a period of years in the form of rent by the agencies which will occupy the new buildings.

Freight Bill Auditing

Approval has been given for discontinuing the audit of freight bills of \$5 or less by the Traffic Management Section. This will eliminate the audit of approximately 77,000 freight bills annually or about 70 percent of the bills heretofore audited. The amount of recoveries and savings resulting from auditing these small bills is believed less than the administrative expense involved in making the rate audit.

Training

A departmental training committee has been appointed and progress made toward the installation of a departmental training program. Although most of the divisions have had some training program in the past there has been a lack of coordination between the divisions and a need for supervisory training.

Interagency Coordination

A coordinating committee representing the Organization and Cost Control and the Audits Divisions of the Department of Finance and the staff of the State Personnel Board, has been organized to improve coordination and exchange of information among the agencies involved.

Department of Finance
GENERAL ACTIVITIES

ITEM 119 of the Budget Bill

Budget page 450
Budget line No. 67

**FOR ADDITIONAL SUPPORT OF THE DEPARTMENT OF FINANCE
FROM THE FAIR AND EXPOSITION FUND**

Amount requested	\$185,344
Estimated to be expended in 1956-57 Fiscal Year	186,993
Decrease (0.9 percent)	\$1,649

RECOMMENDATIONS

Amount budgeted	\$185,344
Legislative Auditor's recommendation	185,344
Reduction	None

ANALYSIS

This item now includes \$120,344 for support of the Fairs and Expositions Division and \$65,000 for support of the Audits Division for a total of \$185,344, or approximately 1 percent less than the 1956-57 request. The \$65,000 represents the estimated amount necessary to provide adequate audit of fair activities. The \$120,344 includes one proposed intermediate stenographer-clerk largely offset by a reduction in temporary help.

We recommend approval of this item as budgeted.

Department of Finance
GENERAL ACTIVITIES

ITEM 120 of the Budget Bill

Budget page 450
 Budget line No. 54

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

Amount requested	\$15,368
Estimated to be expended in 1956-57 Fiscal Year	20,420
Decrease (24.7 percent)	—\$5,052

RECOMMENDATIONS

Amount budgeted	\$15,368
Legislative Auditor's recommendation	15,368
Reduction	None

ANALYSIS

The amount of \$15,368 requested by this item supplements the General Fund and State School Building Aid Fund support provided to the Department of Finance, Local Allocations Division, by Item 118 and 121 respectively of the Budget Bill.

The Local Allocations Division is under the direction of the Department of Finance but is financed from three funds: The General Fund, the Postwar Unemployment and Construction Fund and the School Building Aid Fund. The Postwar Unemployment and Construction Fund authorized by Chapter 47, Statutes of 1946, and Chapter 20, Statutes of 1946, is for assistance to local governments for plans and sites and construction of public works.

The activity in this fund is decreasing steadily. The estimated work load time of the staff of the division which is devoted to this program has decreased from the original estimate for 1955-56 of 6.3 percent, to 3.5 percent for 1956-57, and to 2.4 percent for 1957-58.

We recommend approval of this item as budgeted.

Department of Finance
GENERAL ACTIVITIES

ITEM 121 of the Budget Bill

Budget page 451
 Budget line No. 28

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

Amount requested	\$608,329
Estimated to be expended in 1956-57 Fiscal Year	540,269
Increase (12.6 percent)	\$68,060

RECOMMENDATIONS

Amount budgeted	\$608,329
Legislative Auditor's recommendation	608,329
Reduction	None

Local Allocations Division—Continued

ANALYSIS

This item provides the chief source of support for the Local Allocations Division in the Department of Finance. This function receives its support on a pro rata basis from the General Fund (Item 118), the Postwar Unemployment and Construction Fund (Item 120) and the appropriation made by this item from the School Building Aid Fund.

The Local Allocations Division is responsible for the administration of programs involving the allocation of funds to local agencies. These include allocations from the General Fund, the Postwar Unemployment and Construction Fund, and the State School Building Aid Fund. The division also is responsible for the supervision of the veterans' housing program.

The program provides state assistance in financing school construction where school districts have insufficient bonding capacity to provide needed facilities. A state bond issue and a legislative appropriation totaling \$185,000,000 were authorized in 1952. An appropriation of \$100,000,000 was added in 1954 for a total of \$285,000,000. An additional \$100,000,000 was authorized in the November, 1956, election. It is anticipated that this amount will be used to augment Chapter 19, Division 3 of the Education Code to make this a continuous project. As of January 8, 1957, there was a balance available in this fund of some \$320,000 for new applications. There is also approximately \$5,300,000 unappropriated from Chapter 1.6 of Division 3 of the Education Code which can be made available for apportionment pursuant to the Chapter 19 authorizations.

The division requests eight additional positions based on increased work load in school building aid operations. Application receipts in the 1955-56 Fiscal Year rose to nearly double the volume anticipated and give every indication of continuing at the increased level through the 1956-57 and the 1957-58 Fiscal Years. The effect on the work load of the division from a sustained higher level of application inflow will not be completely realized for about three years, the normal period for an application processing cycle from initial receipt to final financial adjustments on the completed project. Work load requirements will, therefore, be on a rising trend through 1957-58.

Because of the increased work load, it was necessary to augment the staff by five positions in 1956-57. These five positions and related operating expenses and equipment in the amount of \$22,302 and \$11,701 for temporary help and overtime, for a total of \$34,003, are shown on page 451, line 29, as an emergency authorization. It was further necessary to postpone part of the work load to later in the program and to reduce the time requirements for certain processing operations. The time spent on an application review prior to last year was approximately 60 hours. It fell to 30 hours and the additional personnel should bring the review up to 40 hours per application review.

The Organization and Cost Control Division of the Department of Finance in Survey 841 recommended that "duplication between the Local Allocation Division's close-out examination and the State Controller's post audit be eliminated in the Local Allocation Division unless

Local Allocations Division—Continued

Sections 7744 and 7745 of the Education Code are amended to permit elimination of the State Controller's post audit."

The report recognizes the duplication of work of the Local Allocation Division and the Controller but does not advocate changing Sections 7744 and 7755 of the Education Code which require the State Controller to audit the books and records of counties and school districts receiving school building aid apportionments to determine that such apportionments have been expended for the purposes and under the conditions authorized by the code. The report offers this law change as an alternative and states that: "Unless Sections 7744 and 7755 of the Education Code are amended to eliminate the requirement that the State Controller audit the school districts, we recommend that the duplication be eliminated by a reduction of work done by the Local Allocation Division. We believe that the Local Allocation Division could reduce its work in connection with close-outs by accepting school district certifications of costs without field examination, subject to the State Controller's post audit, if the school districts were required to submit detailed information concerning any items not in accordance with prior approvals." We believe that a revision in the law should be made and we concur with the Price Waterhouse recommendations that audits of subventions and loans should be a function of the Department of Finance, subject to whatever review the Legislature feels should be made by the Auditor General.

We believe also that there is opportunity for clarification and standardization of the plan checking functions carried on by the Department of Architecture, the Department of Education and the Local Allocations Division. Although the checks made for architectural requirements, educational requirements and state-aid requirements seem to be for different basic purposes, there are many duplicate phases of this work. Also, review should be made of the benefits of centralized plan checking within the Local Allocations Division to more closely standardize the interpretation of eligible and ineligible items, reduce errors in the field and benefit from plan checking specialists. Such a centralization of plan checking could be conducted on a basis similar to the centralized special service group which consists of a structural engineer, construction supervisor and property man.

We recommend approval of this item as budgeted.

Department of Finance
AUTOMOBILE LIABILITY INSURANCE

ITEM 122 of the Budget Bill

Budget page 450
Budget line No. 26

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

Amount requested	\$250,555
Estimated to be expended in 1956-57 Fiscal Year	210,932
Increase (18.8 percent)	<u>\$39,623</u>

RECOMMENDATIONS

Amount budgeted	\$250,555
Legislative Auditors' recommendation	250,555
Reduction	None

Automobile Liability Insurance—Continued

ANALYSIS

The amount requested represents the estimated portion of the total cost of automobile liability insurance which is chargeable to the General Fund. The rate per unit for the budget year is \$30 as compared with \$28 for the preceding year.

As a result of this increased rate and an additional 890 state-owned vehicles, there is a net increase of \$39,623 for the payment of premiums from the General Fund.

We recommend approval of this item as budgeted.

Department of Finance
PUBLIC LIABILITY INSURANCE

ITEM 123 of the Budget Bill

Budget page 450
Budget line No. 34

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

Amount requested	\$2,500
Estimated to be expended in 1956-57 Fiscal Year	2,500
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Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval of this item as budgeted, however, we point out the need to review carefully the State's policy and specific coverage of employees in relation to risk exposure. This has not been adequately done to date.

Department of Finance
UNION CEMETERY IN SAN MATEO

ITEM 124 of the Budget Bill

Budget page 450
 Budget line No. 42

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

Amount requested	\$2,000
Estimated to be expended in 1956-57 Fiscal Year	2,000
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Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval of this item as budgeted.

Department of Finance
STATE FAIR AND EXPOSITION

ITEM 125 of the Budget Bill

Budget page 471
 Budget line No. 9

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

Amount requested	\$2,157,580
Estimated to be expended in 1956-57 Fiscal Year	2,108,890
<hr/>	
Increase (2.3 percent)	\$48,690

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$14,773	\$14,773	--	476 60
Operating expense	30,318	818	\$29,500	476 61
Equipment	3,599	3,599	--	476 62
<hr/>				
Total increase	\$48,690	\$19,190	\$29,500	476 74

State Fair & Exposition—Continued

vailed in 1956-57, reducing the item in the amount of \$50,040 which is the increase in total expenditures for 1957-58 over 1956-57.

In addition to the above reduction we direct attention to other specific items incorporated in the present budget proposal which we recommend for deletion.

Sew-it-yourself Contest

The first item is a proposal to expend \$12,500 for a "sew-it-yourself contest." One of the agency justifications for this contest is that it would create prestige for the fair in the minds of individuals. Out of the \$12,500 set up for this item, about \$7,000 would be expended for premiums. However, it is proposed to charge an entry fee of \$1 which is supposed to produce revenue estimated to range from \$1,200 to \$4,000 according to agency statements. Thus we are faced with a potential fiscal loss of \$11,300 before we start.

The fiscal aspects of projects such as this are obviously a substantial contributing factor to the ever mounting deficits of the total operations.

We believe that a contest involving personal handiwork such as this should be predicated upon entries which have first been declared award winners on the basis of local contests, preferably conducted at local fairs. This screening process would produce fewer entries with greater individual merit. A State Fair award to winners at this level would have a far greater prestige factor since these successful contestants would be winners among winners, and not merely winners among entrants. The extension of this principle relating district and county fair winners to the State Fair would, we believe, be mutually beneficial to the State and local fairs.

We must also direct attention to our 1956-57 analysis wherein we pointed out that a total of \$11,500 was set up in the 1955-56 Budget for the Fair as an emergency authorization for a "sew-it-yourself" contest.

We recommend deletion of \$12,500 from operating expenses in connection with the sew-it-yourself contest, for the fiscal and operational reasons outlined above.

Special Attraction—Horseshow

In the 1956-57 Governor's Budget, an item of \$25,000 is shown on budget page 466, line 16 for special attractions under the horse show function.

The corresponding line item in the 1957-58 Governor's Budget on page 472, line 74, does not reflect any expenditures at all for the purpose specified, in the 1956-57 column.

The item, according to the Budget, has apparently not been spent. Nevertheless a balancing of the differences by functional totals for operating expenses between what was set up in the 1956-57 Governor's Budget, and the revised 1956-57 figures for the corresponding functions as shown in the 1957-58 Governor's Budget indicates that the total saving in operating expenses should have been \$45,148.

However, the over-all difference for total operating expenses between the two budgets for the 1956-57 Fiscal Year is only \$20,639. The difference then between the actual saving realized and the savings when

State Fair & Exposition—Continued

totalled by function is \$24,509. This may be deemed to be the sum of the excess of expenditures by function for 1956-57 over and above that originally contemplated.

In one sense then it may be stated that approximately the \$25,000 was dissipated into other channels of expenditure. This fiscal result is another contributing factor to the deficits developed by this operation.

The current Budget provides on page 472 line 74 an item of \$1,500 for special attractions under the horse show function. The fair management states that this item is necessary to keep horse show revenues at the current level.

From an examination of the revenue structure in the 1957-58 Governor's Budget, we find on page 477, lines 7, 12, 13 and 19 that the combined revenues from the Horse Show are scheduled to increase only \$412. This is made up of increases of \$467 in admissions, plus \$46 increased horse show entry fees and \$30 increased horse show stakes coupled with a decrease of \$131 in rentals for horse show stables.

In order to secure this \$412 increase in revenue, management proposes to spend \$1,500 for "special attractions." We suggest that management not spend the \$1,500, forego the \$412 "added profit," and thus be \$1,088 better off.

Accordingly we recommend deletion of the \$1,500 for "special attractions" at the horse show.

Fireworks

For 1957-58, the Budget on page 475 line 80 provides \$16,000 for fireworks. This is an increase of \$2,500 or 15.6 percent above the prior year cost of \$13,500. The increased cost is stated to be attributable to higher costs on the part of the contractor who supplies the fireworks and stages the display.

The fireworks have been staged nightly as an adjunct to the night show. There is no evidence that they have any particular drawing power with reference to paid attendance either to the fairgrounds in general or the night show in particular.

In view of this fact, we suggest that an effort be made to enhance the value of the fireworks and permit it to demonstrate whatever effectiveness it may have. This can be done by staging the fireworks display on only the last two nights of the fair, which are generally the lowest in attendance. An examination of the cost factors involved indicates that this could be done for approximately \$5,000 instead of the \$16,000 now budgeted.

We recommend deletion of \$10,000 for fireworks, leaving \$6,000 for the purpose to be expended on a trial basis as a special feature to demonstrate the merit of this attraction as a continuing program.

Night Show

The night show itself would appear to need some careful management attention from the standpoint of the quality of the show and particularly from a financial viewpoint.

With respect to quality, the management should consider securing some of the outstanding amateur acts that have been national winners

State Fair & Exposition—Continued

on some of the leading contest shows. These fine acts can be secured at less cost than some of the so-called "big name" talent that has appeared in the fair night shows with mediocre results.

The financial aspect of the night show certainly carries its share of the total operating deficit of the fair. The table below reflects the trend for this attraction.

	Expenditures	Revenues	Profit
1950-51-----	\$57,161	\$49,807	—\$7,354
1951-52-----	62,550	71,137	8,587
1952-53-----	72,499	69,812	—2,687
1953-54-----	62,538	70,455	7,917
1954-55-----	65,000	64,288	—712
1955-56-----	85,220	59,987	—25,233
1956-57-----	90,000	62,361	—27,639
1957-58-----	90,000	65,000	—25,000
Totals-----	\$584,968	\$512,847	—\$72,121

The above table reflects losses totaling \$72,121. In only two instances out of eight did the night show reflect any gross profit. For the last three fiscal years indicated, the management appears content to lose \$25,000 or more on the night show. *This is over seven times the average loss experienced on three prior occasions.*

Passes

The table shown below reflects the potential revenue loss encouraged by a continuation of the issuance of passes.

Comparison of Passes Honored to Attendance

Year	Total attendance	Number paid adult admissions	Percent paid admissions to total attendance	Passes honored	Percent of passes to paid admissions
1951-----	762,029	481,862	63.2	137,688	28.6
1952-----	778,256	481,575	61.9	131,401	27.3
1953-----	767,251	473,099	61.7	134,375	28.4
1954-----	812,204	503,567	62.0	135,684	26.9
1955-----	752,303	442,139	58.8	139,495	31.6
1956-----	823,887	463,779	56.2	158,959	34.2

In 1956 total revenue from admissions was \$393,465. At the same time the number of passes honored was 34.2 percent of paid admissions. On a pro-rata basis, the elimination of the "pass-system" could have produced \$133,565 added revenues. If related only to grounds admissions these could have been increased by approximately \$80,000.

Management over the years has continued to foster the inconveniences and loss of revenue induced by the pass system despite recommendations to the contrary and other outstanding fair operations elsewhere which utilize no passes.

Incidentally we note that our prior recommendations on this point are sustained by the findings in the report prepared for the fair by the Stanford Research Institute.

We again recommend that all passes be eliminated in connection with the California Fair and Exposition and that an all-pay gate policy be instituted.

State Fair & Exposition—Continued

Paid Advertising

The State Fair is again budgeting money for extensive advertising in Southern California—\$20,000 for newspapers and \$10,000 for radio and television. Twenty thousand dollars was authorized in the 1956-57 Budget although our analysis recommended against the expenditure.

The fair further paid \$1,000 for a survey to determine the effectiveness of the program in producing attendance from the southern part of the State. The report showed the advertising was ineffective in that only 2.5 percent of the total attendance came from that area.

The present advertising request of \$90,000 proposes that \$30,000 now be expended for the same purpose which has already been proven ineffective. This sum is 33.3 percent of the total advertising budget.

We cannot reconcile such an outlay with the previous years' experience and recommend that the \$30,000 be deleted from operating expenses for advertising.

This will still leave the sum of \$60,000 for general paid advertising.

Survey Reports

The Stanford Research Institute in 1956 conducted a survey entitled "The Present California State Fair and Exposition and a Plan for Its Modernization." The 1955-56 fair budget contained an item in the amount of \$15,000 for a "maintenance and use survey of the present fair grounds." The sum of \$14,915 was expended out of this \$15,000 budget item to pay for the Stanford Research Institute Report.

At the same time, the institute prepared a report for the Division of Architecture called "An Exposition Appropriate to the State of California." This survey was furnished at a cost of \$45,000. Presumably this money came from the appropriation made by the 1955 Legislature for preliminary plans and program.

The conclusions reached by the Stanford Research Institute resulted from a study and comparison of 10 leading fairs and expositions.

In both the above reports, the data was evidently developed simultaneously inasmuch as many identical findings and itemizations are portrayed. Many of the same comparative tables and figures are used.

An additional expenditure of \$10,000 was made by the Division of Architecture to a traffic engineering consultant for a third report called "Traffic, Transit, and Parking Plan."

The conclusions and summary prepared by the Stanford Research Institute indicates that there is only one basis upon which a California State Fair can be made financially sound and, in the opinion of the institute, it *can* be made financially sound on the basis of the assumptions outlined in its report. The institute report states as follows:

"There are three general alternative courses of action for the future of the California State Fair and Exposition: (1) to retain the present fair without change; (2) to modernize the present fair on its present site; or (3) to build a new fair on the new site.

State Fair & Exposition—Continued

"The major conclusions of this report regarding the first alternative are that the *present fair* cannot fully meet its objective of representing even those segments of the life of the State that are specifically mentioned in the law, nor can it operate on a sound financial basis. The primary reason is that the present site is too small to include all those functions necessary to meet objectives. Also, present parking is less than one-third what it should be, and without adequate parking little growth in attendance can be obtained.

"These limitations are true to a lesser degree for the second alternative. Even if the popular and profitable racetrack is removed for additional parking and new buildings, the *modernized fair* can probably not obtain much higher attendance levels nor a sound financial operation because parking would still be inadequate. The net result is that the most soundly conceived plans for modernization will still fall short of meeting over-all fair objectives and providing sufficient parking space. The *modernized fair* will continue to operate at a substantial deficit.

"The third alternative course of action appears best. The *new fair* conceived in this report can not only meet present objectives, but also the broader ones set forth later in the report. The *new fair* would be built around a strong theme portraying California's economic, governmental, and social life: *Designs for progress and better living*. Its emphasis is on people, their deeds and achievements—not on merchandise, machinery, and livestock.

"There is ample space at the new site to accommodate easily the 1,000,000 to 1,250,000 estimated attendance, and to provide adequate parking. This *new fair* can be financially sound under certain assumptions outlined in this report. These assumptions are realistic, and have been proved effective at leading fairs in the United States and Canada.

"It is expected that the present fair will continue to operate at an annual deficit of approximately 1 million dollars. It is expected that a *modernized fair* on the present site can reduce the operating deficit somewhat, but that the cost of the modernization program will be 8 million dollars to 9.5 million dollars. Therefore, no matter what course is pursued on the present site, substantial operating deficits will be incurred and, if the *present fair* is modernized, large capital outlays will be required. The sum total of these costs would be equal to a substantial down payment on the *new fair*, which is estimated to cost 20 million dollars to 24 million dollars for the initial phase and will operate at a profit."

Other points and conclusions extracted from the institute report are indicated below.

The Present State Fair

1. There should be an all-pay gate with the admission fee increased to \$.75-\$1, with \$.25 admission for children.
2. The race track should be removed to provide additional space for new buildings and parking.

State Fair & Exposition—Continued

3. The law defining the nature of the State Fair should be changed in order to broaden the purpose of the fair in order that it could better reflect all the features of the State of California.
4. There is too much emphasis on agriculture which occupies 27 percent of the building space, has premiums out of proportion to other exhibits and attracts the fewest visitors.
5. Changes in present space utilization are advised to afford more area to industry.
6. The fair management should encourage exhibitors by de-emphasizing agriculture which the survey states would advance attendance, the greatest single source of any fair's revenue,
7. The survey finds that the source of the fair's continuing and increasing deficit is not based upon lack of revenue but from the nature of expenditures. Minnesota State Fair's total revenue was 91 percent of the California State Fair, but its expenditures were only 50 percent. Minnesota derives a profit of 10 percent of its revenues.
8. Only 70 percent of the present space available for commercial and industrial exhibits is sold. The immediate problem is selling more space, not creating more space.
9. Space sales should be made not by a salaried employee as at present but by a representative compensated on a commission basis.
10. Complimentary parking on the fairgrounds should be eliminated.
11. A longer fair of up to three weeks and at a later date to offer cooler weather to visitors is believed to have advantages outweighing any apparent drawbacks.
12. Every effort should be made to bring interim usage of the fair up to maximum.

The New Fair Site

Recommendations by the survey on the construction and operation of a new State Fair at an estimated cost of 20 to 24 million dollars include the same items 1 through 12 above. The 24-million-dollar cost apparently does not embrace a major item found in the traffic survey which would involve extensive existing highway alterations along with the construction of access ramps to the new fair site. The cost of this road and highway work alone would unquestionably involve the expenditure of a substantial sum of money. This must be assessed to the price of developing a fair at the new site.

The following are some of the important comments made by the institute regarding the operation of the new fair.

1. The type of organization operating the fair should be changed to be consistent with that of the leading fairs in the United States and Canada. "The board of the fair would operate the fair as a corporation—either profit or nonprofit—and would be elected by such diverse groups as county agencies, fair stockholders, industrial, agricultural and governmental groups."

2. The fair should have: "A first-rate special attraction similar to the cavalcade, which was so successful at the Golden Gate Exposition * * *."

State Fair & Exposition—Continued

3. Similarly, there should be a successful grandstand show along with a strong special events schedule and a liberal number of free shows.

4. Provision should be made for: "Participation by trade associations which organize their own strong trade shows at the fair * * *."

5. Provision should be made for: "Participation by youth on a state-wide basis in many events."

6. Promotional and advertising costs should be passed to commercial and industrial exhibitors and concessionaires as is successfully done at other fairs since no fair can afford adequate promotion and advertising.

The foregoing 18 recommendations are only a few of the total recommendations the institute has included in its survey reports. Many of these in essence have been recommended to fair management previously. We feel that such examples along with many others set forth in the survey merit close attention by fair management.

It should be emphasized that at least the 18 recommendations set forth above are applicable at the present facility and a new fair site is not needed to invoke sound management policies.

Certainly, their revenue producing effectiveness can be tested at the present location before the State undertakes the costly enterprise of new construction which may not be fully completed to prove itself for approximately five years after appropriations for initial construction are made.

The institute recommends the new site on the basis that the old location will never operate without a deficit. This would appear to be a conclusion without substantial foundation, if at the same time so many policy and management revisions are necessary to make a fair successful financially and these have never even been tried at the present location.

Fair management has now expended over \$125,000 in survey reports of one kind or another to produce recommendations and conclusions ostensibly in favor of developing a new fair site.

The Loewy and Associates report of a few years ago contained a master schematic layout for a new fair. Based on space requirements envisioned at that time, it would not appear to be possible to construct the necessary permanent buildings and appurtenances for a complete operation at twice the cost quoted in the Stanford Institute Report.

The institute report states that even if a fair were to be operated at the present site, the annual deficit could only be reduced by \$150,000 *provided no change in policy occurs*. This is not an equitable comparison since the assumption of a change in management policy is apparently made in developing the \$200,000 "profit" figured for operations on a new site.

If we take just one of the institute's own recommendations which support prior recommendations on the same points, namely to make an all pay gate, the additional annual revenue from admissions based on attendance at the 1956 fair would be increased by \$285,000 based on a 75-cent gate for adults and 25 cents for children.

State Fair & Exposition—Continued

The added revenue represents 40.5 percent of the contemplated deficit for 1957-58.

We recommend that fair management revise admission charges in line with the recommendations contained in the institute report.

It should be noted that even if a decision is ultimately made to finance the construction at the new fair site the intervening period of construction would necessitate operations at the present site. It seems appropriate therefore, to revise present policies to effectuate most of the desirable applicable recommendations *now* in order to have some predetermination of their efficacy.

From a financing standpoint, the \$200,000 so-called "profit" would represent a return of only 0.83 percent on the investment. This does not include any provision for further annual capital outlays necessary to keep the new plant in an up-to-date condition.

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

ITEM 126 of the Budget Bill

Budget page 477

Budget line No. 43

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

Amount requested	\$507,000
Estimated to be expended in 1956-57 Fiscal Year	562,000
Decrease (9.8 percent)	\$55,000

RECOMMENDATIONS

Amount budgeted	\$507,000
Legislative Auditor's recommendation	402,960
Reduction	\$104,040

ANALYSIS

We recommend that \$104,040 be deducted from the \$507,000 requested resulting in a total amount of \$402,960 to augment the State Fair and Exposition Fund. This is in balance with the recommended reduction of \$104,040 in the over-all fair budget.

Department of Finance**SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 127 of the Budget Bill

Budget page 480

Budget line No. 29

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

Amount requested	\$192,561
Estimated to be expended in 1956-57 Fiscal Year	182,780
Increase (5.4 percent)	\$9,781

Sixth District Agricultural Association—Continued

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages -----	\$7,730	\$7,730	--	479 59
Operating expense -----	1,885	3,885	\$2,000	479 60
Equipment -----	3,936	3,936	--	479 61
Total -----	\$9,781	\$7,781	\$2,000	479 67

RECOMMENDATIONS

Amount budgeted -----	\$192,561
Legislative Auditor's recommendation -----	190,561

Reduction -----	\$2,000
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ANALYSIS

Total expenditures for 1957-58 are scheduled at \$203,737. This is an increase of \$10,665 or 5.5 percent over the expenditure program of \$193,072 for 1956-57.

Total revenues are estimated at \$154,200 which is \$1,000 less than is estimated to prevail in 1956-57. The net result of these two trends is to further widen the gap between a balanced fiscal operation and the creation of a deficit.

The following table shows the relationship between total revenues and support costs for four budget years:

	1954-55	1955-56	1956-57	1957-58
* Total expenditures -----	\$137,502	\$155,645	\$193,072	\$203,737
Total revenues -----	118,642	147,686	155,200	154,200
Excess of expenditures over revenue -----	\$18,860	\$7,959	\$37,872	\$49,537
Revenues as percent of total expenditures -----	86	94.8	80	75.7

* Includes contributions to State Employees' Retirement Fund.

The above table continues to reflect an adverse trend in the fiscal soundness of this operation. Revenues for 1957-58 are estimated to be only 75.7 percent of expenditures, the lowest figure for the four years covered in the table.

One item of new services in the 1957-58 budget proposal is an expenditure of \$2,000 for temporary help to provide guides for tours through the museum.

In view of the adverse relationship between revenues and expenditures it does not appear appropriate to incur further expenses for new services, unless they are coupled with a revenue producing function to offset the increased costs.

We therefore recommend deletion of the \$2,000 for temporary help for guide services.

Department of Finance

SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 128 of the Budget Bill

Budget page 480

Budget line No. 25

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

Amount requested	\$135,000
Estimated to be expended in 1956-57 Fiscal Year	111,000
Increase (21.6 percent)	\$24,000

RECOMMENDATIONS

Amount budgeted	\$135,000
Legislative Auditor's recommendation	133,000
Reduction	\$2,000

ANALYSIS

The amount of \$150,000 is budgeted to be transferred from the Fair and Exposition Fund. This consists of \$15,000 allocation provided by paragraph (iii) of Section 19622 of the Business and Professions Code and \$135,000 proposed by the Budget Act of 1957 from the remainder in the Fair and Exposition Fund allocated by Section 19626c of the Business and Professions Code.

We recommend that the amount of \$135,000 be reduced by \$2,000 covering guide services as discussed in the analysis of the prior item.

Department of Finance

FAIRS CLASSIFICATION COMMITTEE

ITEM 129 of the Budget Bill

Budget page 482

Budget line No. 15

FOR SUPPORT OF FAIRS CLASSIFICATION COMMITTEE FROM THE
FAIR AND EXPOSITION FUND

Amount requested	\$1,500
Estimated to be expended in 1956-57 Fiscal Year	3,000
Decrease (50 percent)	\$1,500

RECOMMENDATIONS

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

ANALYSIS

The committee was created by Chapter 1717, Statutes of 1955, and consists of the Director of Finance, the Chief of the Fairs and Exposition Division and seven appointed members from areas designated in the statutes.

This is a study committee to classify the 73 district agricultural association and county fairs which receive annual allocations under the provisions of Section 92 of the Agricultural Code.

Fairs Classification Committee—Continued

During the past year, the committee classified 10 fairs as special feature fairs based on their predominant exhibits.

Sixty fairs were classified as sectional fairs and the committee recommends that the present classifications be regarded as tentative since further study is aimed at a more detailed breakdown.

Since the amount requested is to defray the expenses of the committee members and further study is needed, we recommend approval of the budget as submitted.

Department of Finance
STATE LANDS DIVISION

ITEM 130 of the Budget Bill

Budget page 483
Budget line No. 7

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

Amount requested	\$741,656
Estimated to be expended in 1956-57 Fiscal Year	704,838
Increase (5.2 percent)	\$36,818

Summary of Increase

	INCREASE DUE TO			Budget Line page No.
	Total increase	Work load or salary adjustments	New services	
Salaries and wages	—\$9,704	—\$9,704	--	484 71
Operating expense	1,297	1,297	--	485 24
Equipment	188	188	--	485 32
Plus decreased reimbursements	45,037	45,037	--	485 41
Total increase	\$36,818	\$36,818	--	485 43

RECOMMENDATIONS

Amount budgeted	\$741,656
Legislative Auditor's recommendation	741,656
Reduction	None

ANALYSIS

The State Lands Division budget proposes to continue the same level of service as last year. There was a reduction of three positions resulting from completion of special surveys of granted lands under the provisions of Chapters 1939, 647 and 413, Statutes of 1955. It was necessary to augment the staff with eight positions during the current year to administer the operations of the City of Long Beach tideland oil fields as authorized by Chapter 29, Statutes of 1956. The salaries and wages for these positions in the amount of \$31,020, and related operating expenses (\$10,482) and equipment (\$1,912), are shown as an emergency authorization total of \$43,414 on page 483, line 8, of the Budget. These positions consist of one each:

State Lands Division—Continued

Senior civil engineer;
Associate oil and gas engineer;
Assistant oil and gas engineer;
Assistant civil engineer;
Junior oil and gas engineer;
General auditor III;
General auditor II;
Intermediate stenographer-clerk.

It is proposed that these eight positions be continued in the 1957-58 Budget.

One new position of civil engineer in the Mineral Leasing Section is requested to handle the increased work load resulting from subsidence remedial work projects undertaken by the City of Long Beach.

There was a reduction of \$45,037 in reimbursements which represents a decrease in land appraisals, surveying services, engineering reports and geophysical inspection service performed by the three deleted positions, temporary help, work performed by the regular staff and related travel and expense.

Research and investigation of tide and submerged land leasing made necessary by the Shell-Cunningham Tidelands Act, Chapter 1724, Statutes of 1955, were originally set at \$75,000. Since the minimum royalty under the act depends upon whether or not the area offered for lease is located on known geologic structures or a producing oil and gas field, the Division of State Lands will have to have tests made. The estimated funds for 1956-57 for this purpose have been reduced to \$70,000 and the 1957-58 Budget reduces the amount to \$50,000.

We point out that additional study should be made by the State Lands Commission of the use of the granted state tide and submerged lands by the grantees. Grants generally have been made with certain reservations or restrictions and in the past little or no inquiry has been made by the State Lands Commission into the extent to which these reservations have been observed. The increasing importance and value of these lands necessitates the State taking steps to protect its rights. We would recommend that a budget be prepared which would guarantee that positive steps be taken to make adequate surveys and that appropriate reports be made thereon to the Legislature.

There is a request in the amount of \$27,000 for the indexing of state lands. This function stems from Section 127 of the Government Code, added by Chapter 875, Statutes of 1951, which states:

"In addition to other records maintained by the State Lands Commission, the commission shall prepare and maintain an adequate index of record of documents with description of the lands over which the United States acquired jurisdiction pursuant to Section 126 of this code or pursuant to any prior state law. Said index shall record the degree of jurisdiction obtained by the United States for each acquisition."

Some work has been completed on this project and a partial index has been compiled. It has become more complex than was anticipated

State Lands Division—Continued

and involves researching the local records of various federal agencies, such as the Army, Navy and Air Force which have jurisdiction, and those of the various county recorders in which federal enclaves are located. Because of this complexity and the necessary travel involved, the decision was made to handle this work on a contract basis.

We recommend approval of this item as budgeted subject to the above comments.

FRANCHISE TAX BOARD

ITEM 131 of the Budget Bill

Budget page 488

Budget line No. 7

FOR SUPPORT OF FRANCHISE TAX BOARD FROM THE GENERAL FUND

Amount requested	\$5,752,373
Estimated to be expended in 1956-57 Fiscal Year	5,387,789
Increase (6.8 percent)	\$364,584

Summary of Increase

	Total Increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$290,115	\$232,299	\$57,816	493	67
Operating expense	73,327	73,327	---	493	68
Equipment	1,142	1,142	---	493	69
Total increase	\$364,584	\$306,768	\$57,816	493	71

RECOMMENDATIONS

Amount budgeted	\$5,387,789
Legislative Auditor's recommendation	5,336,033
Reduction	\$51,756

Summary of Recommended Reductions

	Number	Amount	Budget	
			Page	Line
Administration:				
Assistant income tax agent	2	\$12,120	490	24
Operations:				
Junior accountant-auditor	9	39,636	491	42
Total	11	\$51,756		

GENERAL SUMMARY

The Franchise Tax Board administers all provisions of the State Personal Income Tax Law and the Bank and Corporation Tax Law. Administrative appeal from its decisions on tax matters are made to the Board of Equalization.

Franchise Tax Board—Continued

Table of Increases 1947-48 to 1956-57

Work index:	1947-48	1956-57	Percent increase
Bank and corporation tax:			
Revenue -----	\$69,181,638	\$167,300,000	141.8
Number of returns -----	15,156 ¹	35,020 ²	131.1
Personal income tax:			
Revenue -----	\$50,184,698	\$146,700,000	192.3
Number of returns -----	735,457 ¹	2,932,992 ²	298.8
Number of employees -----	552.3	884	60.0
Total expenditures -----	\$1,758,969	\$5,387,789	206.3

¹ 1946 income year, filed in 1947.² 1955 income year, filed in 1956 (preliminary figures).

The number of returns shown for Bank and Corporation Tax are taxable returns only, while that for personal income tax represents all returns.

A substantial part of the increase in the number of personal income tax returns filed is due to the lowering of the personal exemptions of from \$3,000 to \$2,000, for a single person and from \$4,000 to \$3,500, for a married person effective with returns for the income year 1949, filed in 1950.

The Franchise Tax Board, which was created by Chapter 1188, Statutes of 1949 (the provisions of which are now incorporated in Government Code Sections 15700-15702) consists of the State Controller, the Director of Finance and the chairman of the State Board of Equalization. Administration of the agency is delegated by the board to the executive officer, a statutory official exempt from civil service, who is appointed by the board with the consent and approval of two-thirds of the Senate.

In its report to the 1955 Session of the Legislature on "The Need for a Department of Revenue in California" the subcommittee of the Assembly Interim Committee on Government Organization pointed out "The Franchise Tax Board serves no discernible useful purpose. It appears to have been established as a device to abolish the ineffective position of Franchise Tax Commissioner." The report further pointed out that the board held only two meetings in 1954 and that appeals from its decisions are to the Board of Equalization, with two of the three members of the Franchise Tax Board also being members of that board.

ANALYSIS

An increase of \$364,584 is requested for 1957-58, which may be summarized as follows:

Salaries and wages:	
12 additional positions, new services -----	\$57,816
20 positions for continuation of federal comparison program to replace a like number terminated at June 30, 1957 -----	67,986
14 additional positions, work load -----	47,508
Temporary help -----	89,391
Merit salary increases, net -----	27,414
Total -----	\$290,115

Franchise Tax Board—Continued

Operating expense:		
Photographing federal returns -----	\$52,500	
Miscellaneous increases -----	20,827	73,327
Equipment -----		1,142
Total -----		\$364,584

There are no major program changes included in the budget request which proposes generally a continuation or expansion of programs previously authorized.

The total increase as requested for each organizational unit set up in the budget is as follows:

General administration -----	\$91,240
Operations, headquarters -----	236,190
Los Angeles regional office -----	16,404
San Francisco regional office -----	20,750
Total -----	\$364,584

General Administration

This unit is shown in the Budget as responsible for general administrative activities and includes the executive, accounting, statistical, collection (headquarters), legal, appeals and review, and special investigation functions.

Six additional clerks are requested for the accounting function and four for headquarters collections on a work load basis, and we recommend that the positions be approved.

An assistant counsel is requested for one year only to edit and place in form suitable for publication the material in various legal memoranda which have been issued from time to time for the guidance of the audit staff and the general public.

We recommend elimination of funds for two assistant income tax agents, Budget page 490, line 24, \$12,120.

These positions are requested in order to provide a training class to permit existing employees of the Franchise Tax Board to qualify themselves for the class income tax agent (\$644-782) of which there are three at present, in the special investigations unit engaged in fraud investigations. It is stated further that income and franchise tax auditors have been used to assist the income tax agents in this capacity, in the past.

We have no objection to the establishment of these positions, provided they are established by the conversion of the positions which have been used for this purpose in the past, since it does not appear to us that they have been sufficiently justified on a work load basis to warrant increased funds for this purpose.

Operations, Headquarters

This unit combines under a single chief the functions formerly performed by the personal income tax division, headquarters and the cor-

Franchise Tax Board—Continued

poration tax division, headquarters, and its functions are essentially the same, i.e., to audit tax returns, to maintain files, to select cases to be referred to the field for field audits, to review reports of field audits, to process data received regarding deficiencies disclosed by federal income tax audits made by the Bureau of Internal Revenue to determine whether a state tax deficiency is also involved and to compare income at source data with income reported.

Additional positions requested total 25, as indicated on Budget page 491, lines 42 to 49, but 11 of these are in effect the restoration of 11 clerical positions dropped at the end of June 30, 1957, so that in effect only 13 new positions are requested.

The 11 positions which are requested to be restored are those on Budget page 491, lines 46 and 47, and are for a continuation of the headquarters phases of the federal comparison program for another three years.

This program, started in 1954-55, involved abstracting information from 1,246,000 federal income tax returns and a comparison of the abstracts with state files to determine nonfilers for state purposes. About 10 percent of the cases require follow-up to obtain delinquent returns or correct income discrepancies.

Total revenue derived from this operation for 1954-55 and 1955-56 amounted to \$1,933,047, at a cost of \$582,415, or revenue of \$3.32 per dollar of cost according to the agencies "cost of operations and revenue statement" reports. It is estimated that additional revenue of \$1,500,000 will be realized from the project during 1956-57, when the project will be completed.

It is now proposed to repeat the program on another three-year cycle using later federal filings as a basis of comparison, and we recommend that the positions requested for this purpose be approved. Also involved in continuation of this program are the five additional positions requested for the Los Angeles regional office and the four for the San Francisco regional office, which are commented on later, as well as two existing junior accountant-auditor positions in each region, or a total of 24 positions, all told. We recommend that all 24 positions be approved, subject to review when the 1958-59 Budget request is submitted. Our reason for this is that \$52,500 is included in the increase requested for operating expenses, Budget page 491, line 55, for photographing federal returns in connection with this project. This is a new operation, and while we recommend its approval, we believe it might result in some savings in manpower, and accordingly that all the 24 positions involved should be reviewed again next year.

Five new clerical positions are requested, three for Sacramento for increased work load and two for the out-of-state offices in New York and Chicago to provide clerical staff for the four auditors stationed at each of these locations. We recommend approval of these five positions.

We recommend elimination of nine junior accountant-auditor positions, Budget page 491, line 42, \$39,636.

Franchise Tax Board—Continued

These positions are requested to increase the audit staff of the "drawer audit" section, which now includes 33 auditors, and with the increase of nine requested would total 42, an increase of 27.3 percent.

The drawer audit activity consists in examining tax returns, in the alphabetical order in which they are filed in file drawers, hence its name, and takes place as to any given return, several years after the return is filed. While it is true that the activity as a whole produced revenue per dollar of cost for 1955-56 of \$2.01, the operation includes some wasteful components, such as the examination of 30 or so returns which are in order before one is found with a deficiency. In a sense this is a repetition of a previous review given the returns at the time they are filed. Because of this we recommend that a review be made of this aspect of the audit processes of the Franchise Tax Board with the submission of a report to the Legislature on the subject before any increase is made in the audit staff.

Los Angeles Regional Office

Five clerical positions are requested to replace those to be terminated at June 30, 1957, for continuance of the federal comparison program and we recommend approval of these positions for reasons previously indicated, subject to review when the 1958-59 Budget request is submitted.

The Los Angeles regional office combines all activities in the Los Angeles area under a single regional director in lieu of the previous arrangement whereby personal income tax and corporation tax activities were carried on separately, and we believe the new arrangement to be a distinct improvement from the organizational standpoint.

Branch offices are operated at Bakersfield, Long Beach, San Bernardino, San Diego and Santa Barbara, under supervision of the Los Angeles regional director.

San Francisco Regional Office

Four clerical positions are requested to replace those to be terminated at June 30, 1957, for continuance of the federal comparison program and we likewise recommend their approval, subject to review when the 1958-59 Budget request is submitted.

A reorganization has been completed in the San Francisco area, similar to that in Los Angeles.

Branch offices are operated at Fresno, Oakland, San Jose, Stockton and Santa Rosa under the supervision of the San Francisco regional directors.

Tables 1, 2, and 3, which follow, are prepared from data contained in the agencies "cost of operations and revenue statement" and show total costs and revenues for the entire agency segregated on a functional basis. We believe this type of data is significant both for management purposes and budgetary control, and believe more of it should be done, particularly in tax agencies, where the relationship between revenue derived from certain types of activities, and the cost of these activities is highly significant.

Franchise Tax Board—Continued

The agency points out that with respect to personal income tax revenues from audit activities certain revenue which would normally have been treated as revenue for 1955-56 has been "deferred" to subsequent years because of the controversial nature of the subject matter of the assessments involved, and that the total of such "deferred" revenue amounts to \$1,910,496 for 1955-56. This of course, understates the revenue for the current year for purposes of comparison with prior years, and likewise will overstate the revenue for some future year.

Table 1. Bank and Corporation Tax, Summary of Activities, 1955-56

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Basic:					
Service and investigation	65,339	93,347	\$147,454,603	\$254,481	\$579.43
Formal refund claims	891	8,507	—1,275,329	24,139	—52.83
Exempt corporations	--	5,353	--	13,756	--
Compliance with Section 23705, Revenue and Taxation Code	--	11,197	--	30,637	--
Totals	66,230	118,404	\$146,179,274	\$323,013	\$452.55
Nonaudit enforcement:					
Assessments corrected	1,166	23,501	\$632,329	\$53,705	\$11.77
New accounts	1,123	8,574	352,976	20,463	17.25
Totals	2,289	32,075	\$985,305	\$74,168	\$13.28
Audit:					
General audit:					
Sacramento	52,047	25,549	\$848,024	\$88,027	\$9.63
Los Angeles	934	26,197	407,325	91,748	4.40
San Francisco	442	11,405	272,677	43,967	6.20
Allocation audit:					
Sacramento	11,413	40,737	2,229,138	142,012	15.70
Los Angeles	403	14,427	1,846,776	54,946	33.61
San Francisco	312	9,779	736,753	39,542	18.63
New York	249	9,452	454,547	36,347	12.51
Chicago	161	9,368	1,765,815	36,432	48.47
Delinquents and arbitraries	10,716	4,766	342,802	17,095	20.05
Totals	76,677	151,680	\$8,903,857	\$550,116	\$16.19
Totals	145,196	302,159	\$156,068,436	\$947,297	\$155.39

Franchise Tax

Item 131

Franchise Tax Board—Continued

Table 2. Personal Income Tax, Summary of Activities, 1955-56

<i>Activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Basic:					
Service operations	3,065,883	548,973	\$118,667,150	\$1,406,324	\$84.38
Refund claims allowed ..	6,945	36,956	—391,477	112,761	—3.47
Total	3,072,828	585,929	\$118,275,673	\$1,519,085	\$77.86
Nonaudit enforcement:					
Sacramento:					
Information at source	12,426	29,324	\$207,583	\$62,553	\$3.31
Federal compliance project	7,673	21,269	234,802	59,021	3.98
Preliminary examination	52,527	109,065	440,547	244,631	1.80
Los Angeles:					
Information at source	96,631	182,571	1,612,694	395,318	4.08
Federal compliance ..	27,498	72,645	635,837	156,949	4.05
Miscellaneous	836	3,207	4,093	7,519	0.54
San Francisco:					
Information at source	49,878	94,978	818,573	214,000	3.83
Federal compliance ..	24,240	71,075	559,122	156,190	3.58
Miscellaneous	690	4,878	1,962	13,243	0.15
Totals	272,399	589,012	\$4,515,213	\$1,309,424	\$3.45
Audit—Table 3	1,898,894	469,003	\$3,928,162	\$1,345,805	\$2.92
Totals	5,244,121	1,643,944	\$126,719,048	\$4,174,314	\$30.36

Table 3. Personal Income Tax, Summary of Audit Activities, 1955-56

<i>Activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Headquarters:					
Drawer audit	1,827,948	159,282	\$840,335	\$418,089	\$2.01
RAR Unit	7,297	40,060	541,148	107,310	5.04
Specialist section	39,103	35,497	462,214	99,384	4.65
Primary audit	5,823	8,626	41,982	22,255	1.39
Los Angeles:					
Field audit	7,820	86,592	973,683	261,427	3.72
Residence and withholding	859	22,497	1,119,756	70,848	15.81
San Francisco:					
Field audit	6,288	84,406	318,478	266,441	1.20
Residence and withholding	545	13,232	—540,284	42,063	—
Sacramento:					
Field audit	3,211	18,811	170,850	57,988	2.95
Totals	1,898,894	469,003	\$3,928,162	\$1,345,805	\$2.92

Efficiency and Economy

In answer to a request by this office for a report on steps taken to achieve greater efficiency and economy during the past year the agency has submitted a report listing 21 separate improvements made in operating procedures, such as:

Franchise Tax Board—Continued

1. A simplified method of taking a trial balance of the personal income tax accounts receivable ledger.
2. Transporting mail received in Los Angeles and San Francisco to headquarters in bulk for opening and processing in lieu of local processing.
3. Development of additional operating manuals.
4. Improved procedures in connection with corporation tax allocation audits.
5. Extended use of standardized forms in personal income tax processing.
6. Centralized typing, stuffing and mailing of personal income tax mail.
7. Simplified filing procedures in connection with personal income tax files.
8. Reorganization of the agency along the lines generally recommended in report AN615 of the Management Analysis Section of the Department of Finance, issued on February 15, 1955. This matter was made the subject of a recommendation in our 1953-54 analysis, in which the lack of centralized control of operations in the field offices was pointed out.

On August 1, 1956, the operations in the two regional offices were reorganized on a functional basis, and as of January 1, 1957, a comparable reorganization was started in headquarters, with the appointment of a chief and an assistant chief of operations.

Details of the reorganization, as far as headquarters is concerned are still in the process of being worked out, and it is too early yet for any evaluation of the results, but we believe the plan is generally sound and will provide better control and through integration of many activities, particularly in the regional offices, a more efficient and economical administration of all programs.

STATE TREASURER

ITEM 132 of the Budget Bill

Budget page 494
Budget line No. 7

FOR SUPPORT OF THE STATE TREASURER FROM THE GENERAL FUND

Amount requested	\$368,472
Estimated to be expended in 1956-57 Fiscal Year	349,888
Increase (5.31 percent)	\$18,584

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$21,617	\$6,533	\$15,084	495 31
Operating expense	19,910	19,910	—	495 49
Equipment	—19,943	—19,943	—	495 56
Less increase in reimbursements	—3,000	—3,000	—	495 61
Total increase	\$18,584	\$3,500	\$15,084	495 63

State Treasurer—Continued

RECOMMENDATIONS

Amount budgeted	\$368,472
Legislative Auditor's recommendation	353,388
Reduction	\$15,084

SUMMARY OF RECOMMENDED REDUCTIONS		Budget	
		Page	Line
1 Assistant State Treasurer	\$10,344	495	27
1 Senior stenographer	4,740	495	28
Total reduction	\$15,084		

All warrants drawn by the State Controller are paid by the State Treasurer. He has custody of all moneys and securities belonging to the State and is responsible for moneys and securities held in trust by the State.

ANALYSIS

For the 1957-58 Fiscal Year the Treasurer's office is requesting two additional positions, an assistant treasury deposit officer at a salary of \$5,106 and an intermediate clerk at a salary of \$3,294.

The assistant treasury deposit officer is justified on the increased activity in the pooled money investment program. The intermediate clerk is requested for the bond servicing section which shows an increase as follows:

<i>Fiscal year</i>	<i>Coupons</i>	<i>Bonds</i>
1951-52	819,810	17,865
1952-53	1,010,179	17,822
1953-54	1,248,543	21,219
1954-55	1,412,255	26,660
1955-56	1,624,277	34,583
1956-57	1,825,102	33,429
1957-58	2,379,024	39,939

We recommend approval of the two positions requested.

An Assistant State Treasurer and a senior stenographer position to provide clerical assistance was established in the current budget to become effective January 1, 1957. Part of this expenditure is being financed from savings and part from a \$2,406 allocation from the emergency fund. Justification given to our office for the establishment of these two positions is as follows:

"The agency is proposing an additional assistant to the State Treasurer effective January 1, 1957. This position would assist the State Treasurer in areas affecting policy and would allow the present deputy to devote more time to the actual operations of the office. The stenographer would provide the necessary clerical assistance to this position."

A policy question as to whether the functions performed by the Office of State Treasurer should be changed from one which is a constitutional elective office to one who is appointed by the Governor, and whether there should be a consolidation of the function of investing

State Treasurer—Continued

the idle funds of the State in this office or some other office, has been raised by the new State Treasurer and is contained in the Governor's Message to the Legislature.

We believe that this problem should be resolved on the basis of sound organizational principles based in turn upon a careful review of the investment function of the State. The two positions of Assistant State Treasurer and secretary referred to above are directly related, we believe, to this question. In the event that the office is reconstituted to consolidate the investment function in one office, it will be necessary to make certain changes in organization. On the other hand, it may well be that a position such as is proposed here would have no place or need in a newly constituted office within the jurisdiction of an executive officer appointed by the Governor.

It is our recommendation that the function be reconstituted and consolidated within an office responsible to the Governor.

We recommend, therefore, that these established positions not be approved for inclusion in the new budget until this fundamental question is resolved and appropriate organization and personnel changes are made.

In respect to this basic question of organization Price Waterhouse & Company in their survey for the Joint Legislative Budget Committee in 1954 made the following statement regarding the duties in part of the Treasurer's Office.

Duties of the Office**General**

"The duties of the State Treasurer may be described generally as those of a custodial or service nature; little, if any, discretionary fiscal control is exercised by the office over the State's revenues or expenditures. Usually the Treasurer's activities are initiated by, or require the approval of, some of the State's officers, boards and committees or by the Legislature and its committees. The Treasurer is named as an ex-officio member of some of these controlling bodies."

Price Waterhouse recommended the abolishment of the constitutional elective Office of State Treasurer. Their reasons for this recommendation are as follows:

"The functions of the Office of State Treasurer with a staff of about 40 are described in a separate section of this report. The principal duties of the office fall in the following categories:

1. Receipt, deposit and disbursement of state moneys.
2. Investment of the State's funds—with consent and advice of others for the most part.
3. Safekeeping of securities of the State, pledged collateral and personal property held in trust.
4. Servicing the bonded debt of the State.

State Treasurer—Continued

"We believe that it serves no useful purpose to have these functions of the executive branch lodged in an elective office not under the Governor's jurisdiction. The safeguards which appear to be established by the separation of powers are more imaginary than real; furthermore, there are some distinct disadvantages attributable to the separation.

"The Treasurer's principal function of receiving, depositing and disbursing monies, while important, is relatively routine and the important underlying controls and safeguards are not prescribed, supervised or ascertained by the Treasurer. He receives the revenues that are cleared to him by collecting agencies; he has no means of knowing, except by their reports, the amounts which he should have received. He deposits the receipts in banks but the depositary must be selected with the consent of the Director of Finance and the State Controller. He disburses by honoring, with cash or bank check, warrants prepared and signed by the State Controller; he has no means of independently knowing whether the warrants are for a valid purpose or that due appropriation has been made for the disbursement. Furthermore, in most instances he does not know at the moment he makes the disbursement whether or not the unexpended balance in the fund to which the warrant applies is sufficient to meet the disbursement. Controls over these phases, and there are controls which are effective, rest in other offices, mainly the State Controller, Department of Finance and the originating agencies. The Treasurer does know the amount of money he has on hand and in the bank and the checks that he has issued that have not been presented for payment. He does not know, except when advised, what warrants are outstanding or what claims are in process.

"It should be understood that the functions of the Treasurer must be performed. But they could be performed more effectively in a separate division of the Department of Finance. Having them in an elective office adds no significant safeguards.

"Safekeeping of securities of the State and pledged collateral is simply a custodial function although it requires servicing to obtain the interest revenues. No safeguards or advantages are derived from an elective office. Perhaps that is not so in case of the custody of personal property held in trust. The owner of the property may feel easier about its custody if he believes it is where it cannot be intermingled with properties used in the State's operations.

"Investment of funds seems to be, for the most part, a responsibility shared with others. It is difficult to see how these functions can be separated from the main operations of a State or how their importance has been evaluated in determining the qualifications for this office. Deposit of funds in interest-bearing bank accounts is governed by statute and the selection of banks is made with the consent of others. The major investment in securities for which the Treasurer is solely responsible relates to the Surplus Investment

State Treasurer—Continued

Fund (at June 30, 1953) the fund balance was \$184,600,000 of which \$76,200,000 was invested in securities). However, investment is restricted to federal securities with short-term maturity or redemption provisions.

"The place of a state treasury in a state's organization was discussed in the first partial report (1951) of the State Assembly Interim Committee on Governmental Reorganization and the abolishment of the elective office was recommended therein. We agree with the arguments that were presented there but they were largely based on the theme that the functions could be more expeditiously performed within the Department of Finance. We believe there are other, and perhaps more compelling, arguments not dealt with in that report. We have discussed elsewhere in this report the difficulty of defining inherent powers of elective offices under the Constitution; so long as elective offices other than the Governor exist, the possibility remains that inherent powers not heretofore exercised may be claimed for an office. Further, as the State's activities increase, the possibility remains that such offices will be assigned functions which more properly belong under the chief executive. We also believe that the existence of the office of the Treasurer as a separate elective office creates additional impedimenta to legislation, particularly that dealing with fiscal matters, and makes more difficult the prescribing by rule and regulation and integrated processing or receipts, disbursements and financial information."

In prior analyses of the Treasurer's Office we have criticized the management of the investment of temporarily idle funds and the loss of potential revenue to the State from that source. The administration of this function under the Pooled Money Investment Board, of which the Treasurer is Chairman, has improved significantly within the past year and investment income has increased correspondingly. While the change in law passed in 1955 has created an improved structure and procedure, there are other improvements which should be made securing greater centralization and elimination of technical defects in the program. Legislation to do this will be introduced for this purpose at the request of the Joint Legislative Budget Committee.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

ITEM 133 of the Budget Bill

Budget page 497

Budget line No. 23

FOR SUPPORT OF THE CALIFORNIA HIGHWAY PATROL FROM THE
MOTOR VEHICLE FUND

Amount requested	\$21,667,772
Estimated to be expended in 1956-57 Fiscal Year	19,202,375
Increase (12.8 percent)	\$2,465,397