

State Scholarship Commission—Continued

As mentioned in past analyses, we have not recommended approval of special scholarship programs which tend to fragment the State's student assistance program. It seems evident that numerous other groups which do not fare well in the general program and/or which view scholarships as recruitment aids may well advocate additional special programs. The costly proposals of the Master Plan for Higher Education on state scholarships, subsistence grants, graduate fellowships, awards for advanced work in teacher training, and all types of expansion of special programs and special interests should be closely scrutinized. Also, the recommendation made by the Governor's Committee on the Study of Medical Aid and Health for the establishment of grants-in-aid for undergraduate medical students and for the encouragement of enrollment for nurse and dental training is another area outside the structure of the general scholarship program and should be examined critically.

We recommend approval of this item as budgeted except for the reduction of \$10,000, for 100 awards, in the agricultural scholarship program for 1961-62.

BOARD OF CONTROL

ITEM 112 of the Budget Bill

Budget page 297

**FOR SUPPORT OF THE BOARD OF CONTROL
FROM THE GENERAL FUND**

Amount requested	\$15,725
Contribution to State Employees' Retirement System	1,049
Total	\$16,774
Estimated to be expended in 1960-61 fiscal year	16,357
Increase (2.5 percent)	\$417
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

The Board of Control, essentially as it exists and functions today, dates back to 1927.

It consists of the Director of Finance, who is designated by law as the chairman, the State Controller, and a third member appointed by and serving at the pleasure of the Governor. The third member may be a state officer who shall act ex officio. If he is not a state officer he is entitled to \$25 per day for each day of actual attendance at meetings of the board, not in excess of four meetings per month, plus travel. The Board of Control normally meets twice a month.

The board exercises two general types of functions, rule making and acting as an administrative tribunal.

Among its more important rule making responsibilities are those relating to the following:

1. Presentation and audit of claims against the State.
2. Allowances for travel for state officers and employees.
3. Use of state-owned motor vehicles.

State Scholarship Commission—Continued

and renewals. For the agricultural scholarship program \$20,000 is expected to be spent in grants. The increases over the previous year's level for these two categories of expense are \$528,000 and \$16,000 respectively.

With regard to the growth in General Fund expenditures as a result of the growth in number of awards available, two factors are present, both working to raise the General Fund support. First is the number of awards themselves, and the second is the gradual increase each year in the average value of the grants made. In 1956 the average award amount in the general scholarship program was \$408. In 1957 this figure was \$416, then \$426, \$432 and a 1960-61 academic year figure of \$445. For 1961-62, the average value of the award is expected to be \$525 (\$1,680,000 divided by the 3,200 awards available = \$525). Even if this average value were to remain at the same level in the three succeeding years during which the total number of general awards available is due to rise, the increase in the General Fund expenditure will be \$336,000 per year (\$525 per award times 640 new awards yearly = \$336,000) or \$1,344,000 for awards alone by 1964. As mentioned above, this projection does not account for increases in the average value of the award, although it is likely this figure will rise as the tuition costs of private institutions continues to rise thus exerting its effect on the determination of the value of awards given to qualified applicants in order that they may attend the institution of their choice. It is also noted that the average value of awards under the agricultural award program has risen, and may be expected to follow a similar course with the extension of the total number of awards to be granted.

In view of the growth in award numbers provided by the Legislature, it is well to look at the commission's request for 1.5 new positions as intermediate typist-clerk to handle the increased workload. In order to maintain the work measurement ratio for the numbers of clerical staff in relation to applications received currently at a level in excess of 1:2100, the position request appears justified. *We recommend approval of the 1.5 positions sought*, noting the increases projected for awards to be granted and applications expected to be received. A factor seriously contributing to the workload element present in this growth is additional time required to be expended in assessing award value in relation to the financial need and intended college choice of each of the eligible applicants.

However, we do recommend a reduction of \$10,000, equivalent to 100 awards, in the agricultural scholarship program. It is noted that for the first year of the program 100 awards were to be available, and that there were actually only 97 applicants. Although it is appreciated that changes in the administration of the program may be expected to produce a greater number of applicants for the 1961-62 competition, it is still felt that the progression for the budget year under consideration to a total of 200 awards is premature. Therefore a reduction in awards available to the same level as the 1960-61 program is felt advisable, with the subsequent allowance of another year to see whether the program will develop to meet the original expectations.

Board of Control—Continued

<i>Unit</i>	<i>Man-years</i>
Administrative advisor (legal) -----	1.00
Accounting office -----	0.13
Audits Division (audit refunds for approval) -----	1.67
Organization and Cost Control Division (revise rules) -----	1.70
Total -----	4.50

From the foregoing it appears to us that the value of the services performed for the Board of Control, which are not included in its budget bill item, could approximate \$35,000 in salary costs alone.

In our 1952-53 analysis, page 215, we commented upon the fact that certain tax refunds required approval by the Board of Control, while others did not and recommended that a study be made of the entire system of tax refunds for all taxes in the State of California, with a view to determining proper safeguards consistent with lowest administrative costs.

At the present time Board of Control approval is required for certain refunds made under tax laws administered by the Board of Equalization and the Franchise Tax Board whereas it is not required for refund of the following taxes:

- Inheritance Tax
- Gift Tax
- Unemployment Insurance Tax
- Disability Insurance Tax
- Gasoline Tax—Refunds to consumers for nonhighway use

It is significant to note that refunds in the second group greatly exceed those in the first, both as to numbers and amounts.

Since 1952-53, two developments have taken place which we believe justify serious consideration of the elimination of the requirement for Board of Control approval of any tax refunds.

First, the office of Auditor General has been created, which provides an added safeguard through the medium of a post audit directly responsible to the Legislature.

Second, either minimum amounts have been established for certain Board of Equalization or Franchise Tax Board administered taxes below which Board of Control approval is not required or the minimums existing at that time have been increased. Currently they are \$100 for most of the taxes in question.

The elimination of the requirements for Board of Control approval of refunds of the taxes in question would not only reduce costs to the Board of Control, but would also result in savings in the tax agencies and would make for a more businesslike administration of the taxes involved.

Such a change would, of course, involve numerous changes in various laws.

ANALYSIS

The \$417, or 2.5 percent increase, represents replacement of a standard by an electric typewriter. *We recommend approval of the amount requested.*

Board of Control—Continued

4. Establishment of headquarters for department heads, elected administrative officials, and members of boards and commissions, for purposes of claiming travel expenses.

Among its more important activities as an administrative tribunal are the following:

1. To discharge state officers and agencies from their accountability for collecting or refunding small amounts of money.
2. To make merit awards to state employees for suggestions increasing the efficiency of state operations.
3. To approve the refund, credit, or cancellation of certain state taxes, usually above certain minimum amounts specified in the law.
4. To approve claims against the State for which settlement is provided by law but for which no moneys are available, or the settlement of which is not otherwise provided for by law.

The last named activity is probably the most significant workload item from the standpoint of time consumed, since these claims must be reviewed, hearings held in some instances, and if approved by the board and the Governor, must be included in a separate budget bill item for legislative claims to provide money for payment.

The amounts approved by the Legislature for legislative claims included in the budget acts for the last five years are as follows:

<i>Budget Act year</i>	<i>Budget Act item number</i>	<i>Amount</i>
1956 -----	286	\$147,783
1957 -----	277	173,902
1958 -----	266	707,536
1959 -----	273	240,599
1960 -----	268	118,869

Following are workload indicators of certain of the major activities of the agency:

<i>Activity</i>	<i>Actual 1957-58</i>	<i>Actual 1958-59</i>	<i>Actual 1959-60</i>	<i>Estimated 1960-61</i>	<i>Estimated 1961-62</i>
Legislative claims filed -----	884	846	616	646	665
Petitions for discharge from accountability ---	378	445	503	528	543
Merit awards' -----	315	352	601	660	693
Establishing headquarters -----	311	443	481	481	481

The budget for the Board of Control makes provision for two clerical positions only. However, a substantial amount of work of a high level technical nature is performed for the board by the staff of the Department of Finance. Estimates of the extent of this work, during 1959-60, furnished by the Department of Finance are as follows:

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 298

FOR SUPPORT OF STATE CONTROLLER
FROM THE GENERAL FUND

Amount requested	\$3,370,678
Contribution to State Employees' Retirement System	186,915
Total	\$3,557,593
Estimated to be expended in 1960-61 fiscal year	3,843,089
Decrease (8.0 percent)	\$285,496

TOTAL RECOMMENDED REDUCTION

None

GENERAL SUMMARY

The Constitution provides for the office of State Controller, to be filled by election for a term of four years (Article V, Sec. 17). The Controller is one of those constitutional officers whose compensation cannot be increased or diminished during his term of office (Article V, Sec. 22).

Duties assigned to the Controller by the Constitution are the following:

1. He has sole responsibility for withdrawing money from the Treasury pursuant to Article IV, Sec. 22, which reads in part as follows:

“No money shall be withdrawn from the Treasury but in consequence of appropriation made by law, and upon warrants duly drawn thereon by the Controller. . .”

2. Agencies are subject to requirements for filing claims pursuant to Article IV, Sec. 1a, which reads as follows:

“Notwithstanding any limitations or restriction in this Constitution contained, every state office, department, institution, board, commission, bureau, or other agency of the State, whether created by initiative law or otherwise, shall be subject to the regulations and requirements with respect to the filing of claims with the State Controller and the submission, approval and enforcement of budgets prescribed by law.”

3. He is ex officio a member of the Board of Equalization. (Art. XIII, Sec. 9.)

4. He is a member of the Reapportionment Commission. (Article IV, Sec. 6.)

5. He is the last in order of succession of those who may succeed to the governorship. (Art. V, Sec. 16.)

6. He may, jointly with the Governor, approve allocation of funds to the Attorney General for certain purposes. (Art V, Sec. 21.)

7. He is a member of the State Highway Finance Board. (Art. XVI, Sec. 3.)

All the other duties which he presently performs are assigned to him by statute, including membership on a number of boards and commissions, such as the Board of Control, the Franchise Tax Board, the Pooled Money Investment Board, the State Lands Commission, and others.

State Controller—Continued

The activities of the Controller's office are grouped into eight divisions, the proposed man years and expenditures of which for 1961-62 are as shown in Table 1.

TABLE 1
1961-62 Expenditures by Division and Fund and Proposed Man Years

Division	Proposed man-years	Proposed expenditures		
		Total	General Fund	Special Funds
Administration -----	31.4	\$258,040	\$258,040	-
Accounting -----	52.5	486,966	449,867	\$37,099
Audits -----	67.2	509,260	403,903	105,357
County Budgets and Reports-----	28.2	340,593	164,094	176,499
Disbursements -----	109.0	1,243,187	1,243,187	-
Inheritance and Gift Tax-----	95.3	822,529	822,529	-
Tax Collection and Refund-----	83.5	634,282	29,058	605,224
Tax Deeded Lands-----	27.3	229,125	-	229,125
Total -----	494.4	\$4,523,982	\$3,370,678	\$1,153,304
Retirement -----		260,249	186,915	73,334
Total -----	494.4	\$4,784,231	\$3,557,593	\$1,226,638
Percent of total expenditures-----		100%	74.2%	25.3%

A major share of the activities of the Controller's office stem from his constitutional responsibility to act, in effect, as the disbursing officer of the State, a function which is performed by the disbursement division, the expenditures of which amount to about one-fourth of his total budget. Closely related thereto are the activities of the audits division, which preaudits claims against the State before warrants are drawn and also audits the accounts of certain local agencies which are the beneficiaries of subvention programs, and the division of accounting which maintains the central control accounts for all state funds and performs other related duties.

Not related to his constitutional responsibility are the activities carried on by the Inheritance and Gift Tax Division and the Tax Collection and Refund Division, which, in our view are strictly tax functions which could better be handled by a centralized department of revenue, the creation of which we have repeatedly recommended in the past.

The County Budgets and Reports Division is primarily concerned with the accounting and reporting of the financial transactions of local political subdivisions, while the Tax Deeded Lands Division performs certain functions relating to delinquent property taxes.

The most significant development in the Controller's office in recent years has been the adoption of electronic data processing in the Division of Disbursements, a program which is expected to save the State substantial amounts of money in future years.

Another recent significant development has been the accumulation and publication of data regarding the net earnings of inheritance tax appraisers which are attributable to their activities in this field.

ANALYSIS

While the total expenditure program for the Controller's office is detailed on pages 298 to 307 of the budget by divisions, which amounts

State Controller—Continued

generally to a functional basis, rather than by fund, the office is financed by appropriations from five separate funds, the proposed amounts for 1961-62 being as shown in Table 2.

TABLE 2
Proposed Appropriations and Total Expenditures
1961-62, by Fund

Fund	Budget act appropriation		Retirement	Total Expenditures
	Item No.	Amount		
General	113	\$3,370,678	\$186,915	\$3,557,593
Motor Vehicle Transportation Tax	116	206,042	13,512	219,554
Motor Vehicle Fuel	114	575,681	34,693	610,374
Redemption Tax	115	229,125	15,331	244,456
State School Building Aid	117	142,456	9,798	152,254
Total		\$4,523,982	\$260,249	\$4,784,231

The total requested expenditure program for the Controller shows a decrease of \$264,204, or 5.7 percent for 1961-62, as shown on budget page 298, line 16. This represents a decrease of \$235,496 in the General Fund portion offset by increases of \$21,292 in the four special funds, as detailed, by division, in Table 3.

TABLE 3
Total Expenditures 1960-61 and 1961-62, by Division, and Comparison

Division	Total Expenditures		Increase or (—) Decrease		
	Estimated 1960-61	Proposed 1961-62	Total	General Fund	Other Funds
Administration	\$256,475	\$258,040	\$1,565	\$1,565	
Accounting	495,014	486,966	—8,048	—8,762	\$714
Audits	499,136	509,260	10,124	10,229	—105
County Budgets and Reports	337,988	340,593	2,605	—324	2,929
Disbursements	1,539,889	1,243,187	—296,702	—296,702	
Inheritance and Gift Tax	800,991	822,529	21,538	21,538	
Tax Collection and Refund	617,543	634,282	16,739	834	15,905
Tax-deeded Lands	228,284	229,125	841		841
Total	\$4,775,320	\$4,523,982	—\$251,338	—\$271,622	\$20,284
Retirement	273,115	260,249	—12,866	—13,874	1,008
Total	\$5,048,435	\$4,784,231	—\$264,204	—\$285,496	\$21,292

A total of eight new positions are requested, offset by a reduction of 52.5, or a net reduction of 44.5.

More detailed comments follow on a division by division basis.

Administration

This division provides general housekeeping and staff services for the entire agency as well as technical assistance to the Controller relating to his responsibilities as a member of boards and commissions. No new positions are requested, and no increase in the level of service.

We recommend approval of the amount requested.

State Controller—Continued

Accounting

The accounting division had an authorized staff of 55.7 for 1960-61, including 2.2 positions which will terminate as of June 30, 1961.

It is proposed to re-establish two of these positions, an intermediate typist-clerk and an accountant I for 1961-62, to handle increased workload in connection with the new electronics data processing, and to eliminate one intermediate clerk position because of the elimination of a clerical operation under electronic data processing.

We recommend approval of the following position changes:

Position	Number	Amount	Budget	
			Page	Line
Add intermediate typist-clerk -----	1	\$4,092	300	16
Add accountant I -----	1	5,634	300	17
Delete intermediate clerk -----	-1	-4,512	300	22
Net increase -----	1	\$5,214		

While this represents a net increase of one position, the total authorized for 1961-62 will actually be 1.2 less than the positions authorized for 1960-61, and the total budgeted for the division, exclusive of retirement, will be \$8,048 less, as shown in Table 3.

Audits

While the number of positions requested for 1961-62 shows a decrease of one over those authorized for 1960-61, the total requested shows an increase of \$10,124, due principally to a decrease in reimbursements for field audits of flood relief programs.

The net reduction of one position is due to the completion of field audits under the flood relief programs of 1958 and 1960, which decreased staff requirements by two, offset by an increase of one required for field audits under the program of State Aid for Local Water Projects authorized by the 1959 Legislature.

We recommend approval of the amount requested.

County Budgets and Reports

This division is principally concerned with the review and publication of information relating to financial transactions of political subdivisions, and the amount requested is for the continuation of the same staff and the same level of service as that authorized for 1960-61.

We recommend approval of the amount as requested.

Disbursements

This division, which is supported entirely by the General Fund, shows a decrease in expenditures for 1961-62 over 1960-61 of \$296,702, of which \$202,338 represents salaries and \$98,833 equipment, the decrease in salaries being due to the substitution of electronic data processing procedures for punched card operations. This has resulted in a decrease in the effective man-years required from 166.3 in 1960-61 to 109 in 1961-62, a decrease of 57.3 man-years, or 34.5 percent.

State Controller—Continued

The conversion from conventional punched card methods to electronic data processing is expected to be completed by June 30, 1961, and is based on comprehensive studies which started in 1957. The estimated savings as calculated by the agency on an averaged out basis are as follows:

Gross savings, next five years	
1961-62 -----	\$100,000
1962-63 -----	100,000
1963-64 -----	100,000
1964-65 -----	100,000
1965-66 -----	350,000
Total -----	\$750,000
Less added initial costs during 1959-60 and 1960-61 -----	300,000
Net savings as of June 30, 1966 -----	\$450,000

It is anticipated that the annual saving of \$350,000, estimated for 1965-66, will continue thereafter.

It is our understanding that these savings are predicted upon purchase of the equipment involved and upon application of the procedures to operations in the Controller's office only.

It is our further understanding that the Controller, with the approval of the Department of Finance, has agreed to purchase the equipment involved for \$940,420, payable in annual installments over a five-year period, starting on or about January 1, 1961, with interest at five percent on the unpaid balance, and further, that annual payments of principal and interest, plus maintenance costs, will approximate the annual payments which would be required on a lease basis.

While no money has been budgeted during either 1960-61, or 1961-62 for purchase of this equipment, we are informed that the amounts shown on budget page 303, line 9, for data processing-operation, of \$365,098 and \$374,652 for 1960-61 and 1961-62, respectively, include amounts for rental of equipment sufficient to cover the installment payments, including interest, plus maintenance costs.

Advantages urged for purchase rather than continued rental of the equipment are that it will increase the savings substantially after 1964-65, when the equipment will be completely paid for and that it will permit the use of the equipment by other agencies, on a second shift basis, without the additional payments which would be required on a rental basis.

We recommend approval of the amount requested on the condition that both the Controller and the Department of Finance make every effort to extend the use of the equipment to other agencies on a contract basis.

Inheritance and Gift Tax

This division has a staff of 91, exclusive of temporary help, distributed as follows by class and location:

State Controller—Continued

Class	San Francisco			Los Angeles	Total
	Sacramento	San Francisco	Los Angeles		
Chief of division (attorney) -----	1	—	—	—	1
Administrative assistant I -----	1	—	—	—	1
Attorney -----	5	6	9	—	20
Auditor -----	9	4	8	—	21
Technician and clerk -----	15	10	23	—	48
Total -----	31	20	40		91

The staff reviews the reports filed by the inheritance tax appraisers, verifies calculation of the tax, participates in court proceedings and renders assistance to inheritance tax appraisers and taxpayers' representatives. It also performs housekeeping and accounting functions with respect to inheritance tax collections and administers the gift tax.

Inheritance tax appraisers, who are not state employees, perform a key function in the administration of the inheritance tax, as do county treasurers, and as we have previously pointed out, we believe there are serious deficiencies in present methods of administration. Since these deficiencies could not be corrected without legislation, we are referring to them in a later section of this analysis.

Six additional positions are requested to handle increased workload, offset, in part by a reduction of two man-years of temporary help.

We recommend approval of the following additional positions requested:

	Number	Amount	Budget	
			Page	Line
Sacramento Office:				
Intermediate clerk -----	3	\$12,378	303	71
Intermediate stenographer-clerk -----	1	4,194	303	72
San Francisco Office:				
Intermediate clerk, effective 1/1/62 -----	1	1,950	303	74
Los Angeles Office:				
Junior counsel -----	1	6,360	303	77
Total -----	6	\$24,882		

**Recommended Changes in Inheritance Tax Administration
Requiring Legislation**

From studies which we have made we are convinced that the present system of inheritance tax administration under which responsibilities are divided among independent inheritance tax appraisers, county treasurers, the probate courts and the State is wasteful and inefficient. It is archaic and geared to an era with an economy characterized by a relatively small and homogeneous population, difficult travel, inadequate communication facilities and an absence of effective fiscal administration at the state level.

The result is a substantial loss of revenue to the State.

Our reasons for concluding that the State is losing substantial amounts of revenue under the present system stem from the nature of the process for establishing the amount of the tax. This is fixed by a court order, based upon a report filed with the court by an inheritance tax appraiser which places a valuation on the estate. The inheritance

State Controller—Continued

tax appraiser, though he is appointed by the State Controller, is not a state employee but in effect an officer of the court.

Courts are not in a position to question valuations placed upon estates by appraisers because they have no staff for that purpose, and, by the very nature of the judicial process, a court will normally accept such valuations in the absence of any showing to the contrary.

Representatives of the estates cannot be expected to protest if the valuations are conveniently low and it is to the interests of the inheritance tax appraisers to avoid controversies which may be time consuming because they are compensated on a fee basis and the fees are conditioned on the size of the estate, rather than on the amount of work performed or time spent on the appraisal.

While the state inheritance tax division has a statutory responsibility to “. . . co-operate with, advise, and assist inheritance tax appraisers . . .” it has no authority to alter valuations set by the appraisers, and furthermore it would not be in a position to do so in most instances, even if it had, since it has no appraisers on its staff.

Accordingly it appears to us that the present system tends to place a premium on *undervaluation* rather than on *accurate valuation* of the estates by the inheritance tax appraisers, and that the activities of the appraisers are not subject to adequate supervision or review. If, on the average, estates are undervalued by 10 percent, the loss in revenue to the State could amount to at least \$6.5 million in a year where inheritance tax collections are estimated at \$58 million.

There are two general indications that estates are being undervalued by the inheritance tax appraisers at the present time:

1. The almost total lack of protests filed with the courts as to valuations placed on the estates by the inheritance tax appraisers.
2. The fact that the examiners for federal estate tax purposes, who are career civil service employees, find it necessary to raise valuations set by the California appraisers as much as 100 percent in approximately one-half the cases involving closely held securities and real property.

Furthermore, in the course of our studies, specific instances have been brought to our attention where parcels of real property have been grossly undervalued by inheritance tax appraisers. A system which permits gross undervaluation also does not provide consistent and equitable treatment of taxpayers.

As we pointed out in our 1959-60 analysis of the Budget we believe that inheritance tax administration should be completely overhauled and suggest two possible alternatives.

(1) The first alternative would not change the present method of assessing the tax but would provide that:

- a. Functions now performed by the existing inheritance tax appraisers be performed entirely by state civil service personnel.
- b. Commissions now paid to inheritance tax appraisers for probate appraisals under Section 609 of the Probate Code be paid instead to the State. Such commissions amount to an estimated \$1,250,000 per year.

State Controller—Continued

- c. Commissions to county treasurers for collection of the tax and other services, which amounted to \$525,000 in 1959-60 be eliminated, with payment of the tax to be made direct to the State and any needed services now performed by county treasurers to be performed by state employees or by others, such as safe deposit officials of banks, under a direct contract with the State. Payment of the tax direct to the State would result in additional interest earnings of \$100,000 per year to the State by eliminating delay in receiving the money, and would put into the State Treasury immediately \$4 to \$7 million of much needed revenue.
- d. Commissions now paid to the existing inheritance tax appraisers by the State for inheritance tax appraisals which amounted to \$260,000 in 1959-60 be eliminated, any needed appraisers, of course, to be full-time state employees.

The estimated fiscal effects of such a program per year can be summarized as follows:

Additional revenue:		
Probate appraisers' fees	\$1,250,000	
Interest	100,000	\$1,350,000
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Costs eliminated:		
Commissions to county treasurers	\$525,000	
Appraisers' fees for inheritance tax appraisals	260,000	785,000
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Total		\$2,135,000

In addition, we believe that substantial additional revenue could result from more accurate appraisals performed by technically qualified personnel functioning on a full-time basis, under adequate supervision and control. If these additional revenues approximated \$6.5 million, the total gain to the State from this change in program would amount to over \$8.5 million per year.

As a partial offset to this, there would be the added cost to the State of assuming the functions now performed by inheritance tax appraisers and county treasurers, but we believe that this would be substantially less than the \$2 million these are now receiving for their services.

(2) The second alternative, which is more far reaching than the first, is a complete revamping of the entire existing process, designed to:

- a. Place the tax on a self-assessed basis.
- b. Provide for administration entirely at the state level by civil service staff.

This proposal would eliminate the tax-setting function of the courts, eliminate the present inheritance tax appraisers and transfer all functions now performed by the county treasurers to the State.

It would involve changes in the Probate Code under which all estates must be appraised by inheritance tax appraisers even where it can readily be determined, without an appraisal, that no tax is due.

It appears to us that appraisals are not only *not* needed for tax purposes in such cases, but probably not for any purpose in many instances, and that their cost constitutes an unnecessary charge against the estates.

State Controller—Continued

However, the question of whether estates should be appraised where no tax liability is involved, and who should do the appraising where appraisals are needed in such instances, appears to be primarily a matter of probate procedure rather than tax administration. One possibility, which appears to us to have considerable merit, would be to require that such appraisals be made by the state staff on the basis of reimbursement for actual costs.

Combined savings and additional revenues would be the same as those detailed under the first alternative, except that the State would not receive the estimated \$1,250,000 in probate appraiser fees.

The estates themselves would be relieved of the costs of unnecessary appraisals under this proposal.

It should be noted that the self-assessment principle is used for all income taxes, the federal estate tax, the California gift tax and the inheritance taxes in 10 states, as well as for substantially all other major state taxes in California.

A complete revamping of the entire process for inheritance tax administration could best be carried out if the tax were to be administered by a centralized department of revenue, with an extensive field organization where certain phases of its administration could be readily integrated with those of other state taxes.

Tax Collection and Refund Division

This division has two major functions, refund of gasoline tax to users where the fuel is purchased tax paid and used off the highway, and collection of five taxes assessed by other agencies. Gasoline tax refunds of \$18,824,433 were made during 1959-60 as the result of 82,705 claims received, while the corresponding estimates for both 1960-61 and 1961-62 are \$17,800,000 and 78,705 claims.

No new positions are requested and no increase in the level of service is proposed.

We recommend approval of the amount requested.

We believe that substantial economies could result from assignment of certain of the functions performed by this division to another agency, but since this would require legislation it is commented upon under a separate heading.

Economies in Tax Collection Activities Requiring Legislation

The agency indicates that the authorized positions, exclusive of temporary help, were distributed as follows at July 1, 1960:

Class	Total	Administration	Gasoline tax refunds	Tax collections
Chief of division	1	1	--	--
Auditor	11	--	11	--
Tax compliance representative	17	--	5.5	11.5
Technician and clerk	55	2	35.5	17.5
Totals	84	3	52.0	29.0

The activities handled by the 29 people shown under Tax Collections in the foregoing consist almost exclusively of collection of two taxes

State Controller—Continued

assessed by the Board of Equalization, the truck tax and the gasoline tax, with the former accounting for the major portion of the effort.

We believe that the separation of the assessing and collection activities for these two taxes serves no useful purpose and results in needless duplication, since both agencies maintain essentially the same records and the Controller must receive information from the Board of Equalization before undertaking collection action.

Our observations, over a period of time, supplemented by conversations with staff members of the agencies involved lead us to the conclusion that all of the collection activities now performed by the Controller's office with respect to the truck tax and the gasoline tax, as well as the insurance tax, could be absorbed by the Board of Equalization without any increase in its existing staff.

Accordingly we believe that legislation accomplishing this transfer would result in elimination of substantially all of the 29 positions engaged in tax collection activities in the Controller's office at an annual saving in administrative costs of approximately \$240,000, including retirement. It should be noted that substantially all of this saving would accrue to two special funds, the Motor Vehicle Transportation Tax Fund and the Motor Vehicle Fuel Fund, both of which are in effect, "feeder funds" to the Highway Users Tax Fund.

In our 1959-60 analysis on pages 4 and 5, we renewed the recommendation which we have repeatedly made since 1943, that a centralized department of revenue be created, headed by a director, appointed by the Governor to administer all state taxes now administered by the Board of Equalization, the Franchise Tax Board and the Controller, and made the further recommendation that pending creation of such a department, some reduction in present costs could be achieved by transferring gasoline tax refunds from the Controller to the Board of Equalization.

Upon further review of the matter, we are not convinced that the last named move is desirable at this time, since it appears to us that gasoline tax refunds are being administered more efficiently in the Controller's office than they would be in the Board of Equalization.

This is due primarily to two factors:

1. Centralized administration of the field work on a well-planned statewide workload program basis, uncomplicated by the artificial considerations imposed by the geographical boundaries of the equalization districts, and

2. The fact that electronic data processing equipment has been in use for the verification and audit selection process since June 1, 1960.

Tax Deeded Lands

This division performs a number of functions having to do with lands on which local property taxes are delinquent, and is the only division in the Controller's office supported entirely by a special fund, the State Redemption Tax Fund, which serves no other purpose.

We have serious reservations as to the need for the activity at all at the state level since property tax delinquencies would appear to be a matter of local concern.

State Controller—Continued

However, since legislation would probably be involved in any curtailment of the division's activities, we are discussing the matter in detail in a separate section of this analysis.

One existing position was abolished as of July 1, 1960, and no new positions or increase in the level of service are being requested for 1961-62.

We recommend approval of the amount requested.

**Recommendations for Economies in Administration of Laws Regarding
Tax-deeded Lands Which Would Require Legislation**

The authorized staff of the Tax-deeded Lands Division was distributed as follows, by location and class at July 1, 1960:

Location	Total	Chief and	Managers and	Clerical
		Assistant Chief	Assistant Managers	
Sacramento (headquarters) ----	13	2	2	9
Los Angeles -----	5	--	1	4
Oakland -----	3	--	2	1
Riverside -----	3	--	2	1
Fresno -----	2	--	1	1
Santa Barbara -----	1	--	1	--
Eureka -----	1	--	1	--
Total -----	28	2	10	16

This division of the Controller's office has the following functions:

1. Receives and maintains a copy of local property tax-delinquent lists which are supplied by the county tax collectors.
2. Checks the delinquent tax lists for accuracy of property descriptions.
3. Checks the legal notices of the delinquent tax list which are prepared by the county tax collectors.
4. Makes the necessary clerical adjustments on its records when delinquent property is redeemed.
5. Maintains a file and inventory of property which has been "tax deeded" to the State.
6. Gives a clearance to county tax collectors to sell "tax-deeded" property. When this type of property is sold, this division makes the necessary clerical adjustments on its records.
7. Rents and leases "tax-deeded" property.
8. Advises county tax collectors on procedures for handling delinquent and "tax-deeded" property.

Tax-delinquent property is divided into two main types. The first type is called "tax sold," which is a descriptive phrase referring to property the taxpayer still owns and has all rights in except for the existence of a tax lien. By June 8 of each fiscal year the county tax collector prepares and publishes a list of all property on which the current taxes have not been paid. This property then remains delinquent or "tax sold" for a period of five years, during which time the taxpayer can redeem his property and eliminate the tax lien by paying the delinquent taxes, interest, penalties and a redemption fee of \$1.50.

State Controller—Continued

All such funds except the redemption fee go to the county. The redemption fee is revenue for the State Redemption Tax Fund which is used to support the Tax-deeded Lands Division in the Controller's office.

After property has been delinquent for five years, the county tax collector prepares a deed and sends it to the Controller. Such property then is called "tax deeded," which means that the former owner has lost his rights to the property and it is now owned by the State. The former owner can redeem his property until it is sold at a tax auction by the county tax collector. When "tax-deeded" property is sold the county receives all the proceeds except for a \$1.50 redemption fee which goes to the State Redemption Tax Fund.

During 1961-62, the State Controller's office expects to receive a list of 135,000 parcels of property which are "tax sold" and only 3,500 parcels which are "tax deeded." During the same year the office expects to process 120,000 "tax-sold" redemptions and 5,500 "tax-deeded" sales. From these figures it is evident that most of the workload of this division, and the funds for their support, come from "tax-sold" property.

The branch offices of this division are primarily concerned with renting "tax-deeded" property. They appraise the property, prepare the rental contracts, and in general supervise these properties. The rental proceeds, all of which go to the counties with no provision for reimbursing the State for the cost of making the rental contracts or collecting the proceeds, were as follows by branch office for 1959-60:

<i>Branch office</i>	<i>Amount</i>
Sacramento -----	\$114
Los Angeles -----	2,424
Oakland -----	13,705
Riverside -----	2,619
Fresno -----	1,141
Santa Barbara -----	200
Eureka -----	3,455
Total -----	\$23,658

The State's participation in the handling of tax-delinquent property may have been desirable during the depression years of the 1930's, but we do not believe it is necessary at the present time.

We believe that the administration of tax-delinquent property is and should be clearly a function only of local government. The counties collect the taxes, maintain the records on tax delinquencies, receive the proceeds from redemptions, determine the price for which "tax-deeded" property should be sold, and even conduct the sales. The State's role in this field is a duplication of the efforts of local government.

It is interesting to note that in 1942-43, this division had a staff of 55, as against 28 at the present time.

The transfer to the counties of all activities now performed by the State in connection with tax-deeded lands would require extensive amendments to the Revenue and Taxation Code. However, it appears to us that the transfer of the rental function now performed by the

State Controller—Continued

branch offices in the Tax-deeded Lands Division could be accomplished without extensive amendment. Furthermore, it appears to us possible, that under the provisions of Section 3655 of the Revenue and Taxation Code, the Controller could delegate these functions to the counties without any change in the law.

The direct identifiable savings to the State from the elimination of the branch offices and their staffs would be as follows during 1961-62:

<i>Salaries and wages</i>	<i>Amount</i>
8 tax-deeded land representatives-----	\$63,840
7 clerks-----	34,954
<i>Operating expenses</i>	
Traveling in-state, for land representatives-----	12,546
Rent for six branch offices-----	10,112
<i>Equipment</i>	
For branch offices-----	777
Total -----	\$122,229

The savings to the State from the elimination of the entire function would be \$244,456 during 1961-62, as shown on budget page 298, line 11, and also on budget page 307, line 16, and in Table 2 of our analysis.

The State Redemption Tax Fund, the condition of which is shown on budget page 307, lines 1 to 18, is used solely for the support of the Tax-deeded Lands Division, and will have an estimated surplus of \$744,957 on July 1, 1961, and \$754,001 on June 30, 1962.

We recommend that this fund be abolished, its surplus transferred to the General Fund, any future revenues be earmarked for the General Fund, and any future expenditures for support of the Tax-deeded Lands Division be made by an appropriation from the General Fund.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 298

FOR ADDITIONAL SUPPORT OF STATE CONTROLLER FROM THE MOTOR VEHICLE FUEL FUND

Amount requested-----	\$575,681
Contribution to State Employees' Retirement System-----	34,693
Total -----	\$610,374
Estimated to be expended in 1960-61 fiscal year-----	596,613
Increase (2.3 percent)-----	\$13,761

TOTAL RECOMMENDED REDUCTION----- None

This appropriation is for costs in the following divisions in the Controller's office:

<i>Division</i>	<i>Amount</i>
County Budgets and Reports-----	\$176,499
Tax Collection and Refund-----	399,182
Total -----	\$575,681

The first amount is for reviewing and reporting on the use of state gasoline tax funds apportioned to cities and counties, while the second

State Controller—Continued

is for gasoline tax refunds and collection of the gasoline tax. Operations of these divisions are included under Item 113.

We recommend approval.

STATE CONTROLLER

ITEM 115 of the Budget Bill

Budget page 298

**FOR ADDITIONAL SUPPORT OF STATE CONTROLLER
FROM THE REDEMPTION TAX FUND**

Amount requested -----	\$229,125
Contribution to State Employees' Retirement System -----	15,331
Total -----	\$244,456
Estimated to be expended in 1960-61 fiscal year -----	243,462
 Increase (0.4 percent) -----	 \$994

TOTAL RECOMMENDED REDUCTION ----- None

This appropriation is for support of the Tax-Deeded Lands Division in the Controller's office, the details of which are included under Item 113.

Our discussion under that item includes a recommendation that the Redemption Tax Fund be abolished and its revenue, expenditures and balance, the last-named estimated at \$744,957, as of June 30, 1960, be transferred to the General Fund.

We recommend approval.

STATE CONTROLLER

ITEM 116 of the Budget Bill

Budget page 298

**FOR ADDITIONAL SUPPORT OF STATE CONTROLLER
FROM THE MOTOR VEHICLE TRANSPORTATION TAX FUND**

Amount requested -----	\$206,042
Contribution to State Employees' Retirement System -----	13,512
Total -----	\$219,554
Estimated to be expended in 1960-61 fiscal year -----	213,700
 Increase (2.7 percent) -----	 \$5,854

TOTAL RECOMMENDED REDUCTION ----- None

This appropriation is for costs of collection of the Motor Vehicle Transportation Tax in the Tax Collection and Refund Division of the Controller's office, the details of which are included under Item 113.

We recommend approval.

STATE CONTROLLER

ITEM 117 of the Budget Bill

Budget page 298

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

Amount requested	\$142,456
Contribution to State Employees' Retirement System	9,798
Total	\$152,254
Estimated to be expended in 1960-61 fiscal year	151,571
Increase (0.5 percent)	\$683

TOTAL RECOMMENDED REDUCTION None

This appropriation is for costs in the following divisions in the Controller's office:

<i>Division</i>	<i>Amount</i>
Accounting	\$37,099
Audits	105,357
Total	\$142,456

These amounts are for cost of auditing and accounting for the expenditures of school districts for property financed by state loans under the School Building Aid Program. Operations of these divisions are included under Item 113.

We recommend approval.

STATE BOARD OF EQUALIZATION

ITEM 118 of the Budget Bill

Budget page 307

1961-62

**FOR SUPPORT OF STATE BOARD OF EQUALIZATION
FROM THE GENERAL FUND**

Amount requested	\$13,140,586
Contribution to State Employees' Retirement System	1,077,811
Total	\$14,218,397
Estimated to be expended in 1960-61 fiscal year	13,973,397
Increase (1.8 percent)	\$245,000

TOTAL RECOMMENDED REDUCTION \$388,934

State Board of Equalization—Continued

Summary of Recommended Reductions

	Amount	Page	Budget Line
Information officer II:			
Business taxes—districts:			
1 Tax auditor III-----	\$9,747	310	26
Vacant positions:			
General administration:			
1 Intermediate stenographer-clerk-----	4,404	308	62
1 Senior stenographer-clerk-----	4,740	308	62
Business taxes—headquarters:			
1 Auditor I-----	5,634	309	73
1 Tax auditor II-----	7,008	309	73
1 Tax compliance supervisor II-----	7,728	309	73
1 Senior field representative-----	6,060	309	73
Business taxes—districts:			
3 Tax auditor II-----	21,024	310	26
11 Auditor I-----	61,974	310	26
2 Field representative-----	10,728	310	27
2 Intermediate stenographer-clerk-----	8,808	310	28
1 Intermediate typist-clerk-----	4,194	310	28
Property taxes—valuation:			
1 Intermediate typist-clerk-----	4,194	311	25
Electronic data processing:			
Administration:			
10 Clerical for six months-----	22,224	308	62
Printing expense:			
Administration (small items)-----	2,417	308	72
Property taxes (small items)-----	2,226	311	38
Business taxes—headquarters (small items)-----	10,622	310	5
Business taxes—districts (small items)-----	4,406	310	42
Business taxes—headquarters (cigarette stamps)-----	29,952	310	5
Equipment:			
Business taxes—districts (small items)-----	1,364	310	49
Property taxes (small items)-----	420	311	45
Administration (per Table 8)-----	25,582	309	4
Business taxes—headquarters (per Table 8)-----	8,635	310	16
Business taxes—district (per Table 8)-----	11,679	310	49
Property taxes (per Table 8)-----	360	311	45
Business taxes—districts (planned replacements)-----	3,508	310	49
Administration (auto replacements)-----	1,820	309	4
Business taxes—districts (auto replacements)-----	12,815	310	49
Business taxes—districts (auto replacements)-----	1,820	310	49
Property taxes—(auto replacements)-----	1,820	311	45
Field offices:			
Administration:			
Rent (per Table 9)-----	16,860	308	78
Rent (per Table 10)-----	26,905	308	78
Business taxes—districts:			
11 Clerical positions-----	47,256	310	28
Total-----	\$388,934		

GENERAL SUMMARY

The Board of Equalization in its present form was created by the Constitution of 1879, and consists of four members elected by districts and the State Controller, ex officio. Section 9 of Article XIII of the Constitution, as amended in 1884, provides that the “* * * Legislature shall have power to redistrict the State into four districts as nearly

State Board of Equalization—Continued

equal in population as practical * * *.” There has been one redistricting since 1879, that in 1923, at which time the Board of Equalization had a staff of six and total annual expenditures of \$37,000.

The number of counties in each equalization district and the population as estimated by the Department of Finance on July 1, 1960, are as follows:

Equalization district	Number of counties	Population	
		Number	Percent
1 -----	7	2,226,700	14.0
2 -----	18	3,308,600	20.9
3 -----	25	1,206,300	7.6
4 -----	8	9,118,400	57.5
	58	15,860,000	100.0

The board has the following duties under the Constitution:

Article XIII, Section 9 “* * * to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation * * *.”

Article XII, Section 14. To assess, annually, the properties of all privately owned public utilities which “* * * shall be subject to taxation to the same extent and in the same manner as other property * * *.”

Article XX, Section 22. To assess and collect excise taxes on the manufacture, importation and sale of alcoholic beverages in this State.

Article XIII, Section 14 $\frac{1}{2}$. To assess the tax on insurance companies. The Insurance Commissioner determines the amount of the tax in the first instance, audits the tax base and collects the tax paid with the returns, while the State Controller collects the remainder of the tax.

In addition to its constitutional responsibilities the board performs the following functions under various statutory provisions:

(1) Supervises and assists local assessors in connection with property tax administration.

(2) Hears appeals from decisions of the Franchise Tax Board under the Personal Income Tax and Bank and Corporation Tax Laws.

(3) Administers the Itinerant Merchants Act.

(4) Assesses and collects the state sales and use tax.

(5) Assesses and collects the local sales and use tax for cities and counties under the Bradley-Burns law.

(6) Assesses and collects the private car tax.

(7) Assesses and collects the use fuel tax (diesel tax).

(8) Assesses the motor vehicle transportation license tax (truck tax) which is collected by the State Controller.

(9) Assesses the motor vehicle fuel license tax which is collected by the State Controller who also administers the provisions of the law relating to refunds for nonhighway use.

(10) Administers the cigarette tax.

(11) Makes sample appraisal surveys in each county at least once every three years and publishes the assessment ratios for each county and the statewide average not later than September 2, of each year

State Board of Equalization—Continued

pursuant to Chapter 1682, Statutes of 1959. The first such publication was as of September 2, 1960.

(12) Notifies the Superintendent of Public Instruction not later than October 1, of each year of the factor by which the assessed values of property on the local roll in each county must be modified to conform to the statewide average, which factor must be used in certain calculations involving allocation of state funds or repayment of school building construction loans. This is done pursuant to Chapter 1786, Statutes of 1959, and two such notifications have been made, in 1959 and 1960.

The Board of Equalization, acting as a board usually meets on an average of approximately five days per month. Most meetings are held in Sacramento, although the board meets approximately 14 days per year in Los Angeles, and one day each in San Francisco, San Diego and Fresno. These meetings are devoted to hearing appeals from actions of the Franchise Tax Board, and proposed actions by its own staff on tax deficiencies, consideration of matters of general policy and, at certain times of the year, to equalization of local property tax assessments, valuation of public utility properties and assessment of the taxes on insurance companies and private cars.

When not meeting as a board, the time of the four district elected members is taken up with matters affecting their individual districts pursuant to Section 15623 of the Government Code which reads as follows:

“Each member of the State Board of Equalization elected by the voters of an equalization district shall investigate the administration, enforcement, and operation within the district from which he is elected of all laws, the administration and enforcement of which are vested in the board.

“Each such member may appoint a deputy to assist him in the performance of his duties under this section. The deputy shall be so appointed as to be exempt from civil service under paragraph (6), subdivision (a), Section 4, Article XXIV of the Constitution, and not otherwise.”

The agency is organized into the units shown in Table 1, the authorized personnel of which are shown for 1961-62, exclusive of temporary help, of 12.3 man-years.

State Board of Equalization—Continued

Table 1—Authorized Staff, By Units, 1961-62
Exclusive of Temporary Help

<i>Units</i>		<i>Staff</i>
Executive units:		
Board member and staffs.....	20	
Legal	31	
Internal audit	5	
Personnel unit	10	
Total		66
Administrative Service Division.....		213.5
Business taxes:		
Headquarters	454.5	
Districts	1,518	
Total		1,972.5
Property taxes:		
Administration	5	
Intercounty equalization	58	
Assistance unit.....	29	
Valuation	65	
Total		157
County contract mapping.....		51.3
Total		2,460.3

The executive units, which include the elected board members, are located in headquarters in Sacramento, except that three of the four elected board members maintain offices and small staffs at other locations as well, namely Pasadena, San Francisco and Visalia.

All of the other units shown are located in Sacramento, except business taxes, districts, and the intercounty equalization unit, which has staff in five locations.

For purposes of business tax administration the State is divided into 11 districts, which consist of a county or a group of counties within each equalization district. As we have pointed out in the past, the use of equalization district boundaries as the basis for administrative subdivisions results in needless duplication of facilities since these boundaries divide certain major economic areas in the State, notably in the San Francisco Bay area and the territory tributary to Sacramento, and such an artificial administrative structure would certainly complicate the administration of such taxes as the bank and corporation tax and the personal income tax, should these ever be assigned to the board.

By contrast, the field activities for these two taxes are currently administered by the Franchise Tax Board on a regional basis, from Sacramento, San Francisco, and Los Angeles, an arrangement we regard as superior to the four equalization district pattern used in the Board of Equalization.

Improvements in Administration During Past Year

Each of the 11 districts is headed by a district tax administrator who reports directly to a chief of field operations in Sacramento.

State Board of Equalization—Continued

This is a new position, the specifications for which were approved by the State Personnel Board on September 23, 1960, and indicate, among other things that the position “. . . directs the activities of the District Tax Administrators and evaluates their performance and takes or recommends appropriate action leading to improved operational efficiency.” The position is in effect a conversion of the former position of assistant sales tax administrator, and is filled by the former incumbent of that position. We believe the creation of the position is a step in the right direction, provided the position is permitted to function in practice in accordance with the duties outlined in its official job specification, and its use will achieve a greater degree of centralized administrative control than has existed in the past. The position has a salary range of \$1,155-\$1,405, which is one step higher than the old position of assistant sales tax administrator.

Two other significant administrative changes were made as of October 1, 1960, which we believe are steps in the right direction.

One was the reduction in the number of administrative districts in California from 12 to 11 by the consolidation of the former Redding district with the Marysville district, and the transfer of Solano County from the Marysville district to the Santa Rosa district.

The other was the creation of the “out-of-state” district consisting of staff in Chicago, New York and Sacramento. This staff is now headed by a District Tax Administrator II, headquartered in Sacramento. The staff in Sacramento, in addition to reviewing and directing the work of the staff in New York and Chicago also makes field audits, and performs certain compliance functions in a number of western states. Centralization of responsibility for all aspects of out-of-state activity in a single individual should make for a more efficient operation.

Another improvement is that counties are now being charged for services of the timber appraisers in the Property Tax Division in assessing timber properties for the purposes of local property tax assessments. This is in accordance with recommendations we have made in the past that more of the activities of the Assistance Unit in the Property Tax Division should be conducted on a reimbursable basis.

Continuing Deficiencies in Administration

On the other side of the picture, field surveys made by this office during the summer and fall disclosed that shortcomings which we have commented upon in the past still exist.

One is the uneven distribution of the audit staff on a workload basis, a fact also recognized by the Auditor General.

In one locality, in particular, overstaffing was so apparent that it was a matter of comment by the staff members themselves.

Another is the lack of uniformity of policy regarding security deposits in different parts of the State, some of them in contiguous localities, a fact also recognized by the Auditor General.

Still another is the dual line of responsibility under which the district tax administrators function. Their line supervisor is the Chief

State Board of Equalization—Continued

of Field Operations in Sacramento. In addition they have more or less close relationships with the elected board member from their district for two reasons.

1. Because the board member is charged by law with investigation of the administration of all laws in his district, the administration and enforcement of which are vested in the board.

2. Because the very nature of their jobs brings them into contact with many activities of the communities in which they reside, and the development of such contacts may be of value to the Board Member from the public relations standpoint.

In spite of the best intentions on the part of the individuals involved, we believe that this condition, which is inherent in the basic structure of the agency itself, tends to make district tax administrators more autonomous, and less amenable to centralized direction from headquarters than they would be if they had only one boss.

We believe that the widespread lack of uniformity in numerous aspects of the field activities of this agency, which have been commented upon by ourselves and many others over a period of years, is directly attributable to the condition noted, and constitutes strong evidence of the fact that such a condition does exist.

Our view is that the only effective remedy is to remove the cause by constituting the field operations of this agency a part of a centralized department of revenue headed by a single director, appointed by and responsible to the Governor, a type of organization for revenue administration which we have recommended on numerous occasions in the past

In our 1960-61 analysis we called attention to the long delay which exists in the Board of Equalization in processing appeals from the Franchise Tax Board, and cited data as to the status of such appeals at December 31, 1958, which we had obtained from the working papers of the Auditor General, in substantiation thereof.

Similar data, from the same source, indicates that the status of such appeals at June 30, 1960, is not improving.

The amount of money involved in the appeals has increased from \$9,500,000 at December 31, 1958 to \$12,800,000 at June 30, 1960.

Furthermore the number of cases ready for hearing, on which hearings had not been held, increased from 163 at December 31, 1958 to 231 at June 30, 1960, and the money involved increased from \$3,911,000 to \$4,330,000.

Likewise the number of cases on which hearings had been held but had been taken under submission pending preparation of an opinion increased from 74 at December 31, 1958, involving \$812,000 to 144 at June 30, 1960 involving \$1,554,606. Of this group some of the cases had been held under submission as long as four years, as shown in the following summary by year in which the case was taken under submission :

State Board of Equalization—Continued

<i>Year taken under submission</i>	<i>Number of cases</i>
1956 -----	3
1957 -----	14
1958 -----	13
1959 -----	85
1960 -----	29
Total -----	144

A part of the money involved in these cases represents claims for refund while the remainder represents deficiencies, which constitute potential additional revenue to the State. In either event it appears to us that the cases are not being handled as expeditiously as they should be, which suggests that this agency is not the best type of vehicle for handling an appeals function.

Security and Theft Detail

The security and theft detail is a small unit in the Business Taxes Division which advises refineries as to improvements in security measures to prevent thefts of gasoline and obtains evidence to support criminal prosecutions when thefts are suspected.

In our 1960-61 Budget Analysis we recommended against purchase of specialized equipment for this unit, since it appears to us that

- (1) The taking of appropriate security measures is the responsibility of management, not the State, since management has more at stake and
- (2) Obtaining evidence for criminal prosecutions is the job of duly constituted law enforcement agencies rather than a tax agency at the State level.

It should be noted that the State performs no comparable services for other state taxpayers, such as those subject to the sales tax, where theft of merchandise may present a similar problem.

Working papers of the auditor general, which we have examined, indicate that during 1958-59 the security and theft detail was instrumental in obtaining additional tax assessments for \$9,900 at a cost of \$33,000.

We recommend that the need for this unit be re-examined for possible elimination.

New Offices Established During 1960-61

The agency established a new branch office in Covina shortly after December 31, 1959, another in Palmdale at about the same time, and moved into an additional large office in Pasadena in December, 1960.

None of these offices were requested as part of any proposed budget, and as a consequence their need, location, or the type of facilities acquired have never been the subject of legislative review or approval.

We believe new field office facilities are of sufficient importance to warrant legislative review and approval in order to assure conformity with accepted standards of economy and need, and recommend that such a policy be followed in future.

With respect to the Pasadena office, the 1960-61 Budget request indicated that the agency proposed to move a part of its staff from its main location in downtown Los Angeles to a new location in East Hollywood, the remainder to remain in downtown Los Angeles. A 10-year

State Board of Equalization—Continued

lease on property at the East Hollywood location was signed by the Board of Equalization on March 18, 1960 and approved by the Deputy Director of Finance on March 31, 1960.

On April 19, 1960 a 10-year lease for an additional location in Pasadena was signed by the Board of Equalization and approved by the Director of Finance on the same day.

The Pasadena lease called for the construction of a building to include 9,500 square feet of usable space and the property involved includes parking space for 51 vehicles.

Established procedure for leasing, as outlined in the State Administrative Manual, contemplates advance approval by the Budget Division of intended staffing for the office and availability of funds for rent, as well as preparation by the space allocation unit in the Department of Finance of a sample plan including outline specifications for solicitation of proposals. In this case none of the established procedures were followed.

There is evidence that solicitation of proposals was not widespread, that the space requirements are excessive, and that construction is considerably above the minimum standard established by the State.

It appears that consideration was given in the Pasadena area of offers from only three firms, without the normal sample plan and outline specifications. There is no indication that consideration had been given to locations in other areas, or to possible space in the State Building in Los Angeles, or that comparable bids on new construction were requested.

The new office in Pasadena will house a staff of 50 at the present time, including the board member from Equalization District IV, the district tax administrator for Los Angeles County, their immediate staffs and a unit of 12, including two clerical, engaged in gasoline, beverage, and cigarette tax audits and collection activity on a county-wide basis.

The nature of the operation of this staff is such that a minimum of public contacts will be involved, since, except for the specialized audit unit, its functions are entirely administrative and relate to the activities of the seven subdistrict offices in Los Angeles County, where public contacts take place.

The building includes an employees' lunchroom containing approximately 374 square feet and a hearing room containing approximately 736 square feet with a capacity of 70 people. As noted elsewhere in this analysis the board holds hearings in the Los Angeles area on an average of about 14 days a year.

It appears to us that a central location, such as the new state building in downtown Los Angeles would have been a more efficient place for this office than Pasadena.

Location of the office in the state building would have eliminated the need for the employees' lunchroom and the hearing room, or 1,110 square feet of space, so that approximately 8,400 square feet would have provided for the same facilities in the state building as are available in Pasadena. The excess cost to the agency under the present

State Board of Equalization—Continued

arrangement over the cost of comparable space in the state building had it been available, is as follows, on a monthly basis:

Monthly rental of Pasadena office	\$3,562
8,400 square feet in state building at 33 cents per square foot...	2,772
	\$790
Remainder—excess cost per month	\$790

These excess costs would amount to \$9,480 per year, or \$94,800 over the period of the lease, which is a minimum amount, since the lease provides that the State shall pay any increase in property tax which may be assessed against the property for fiscal years after 1961-62.

Employee Parking

SCR 43, enacted during the 1959 legislative session, established the policy of providing parking space for state employees, and "that a system of fees shall be established and maintained which is designed to meet as nearly as is feasible to do so the total statewide cost of developing and operating the parking facilities."

It appears to be the intent of this resolution, as outlined in Sections 4125.03 and 4125.04 of the State Administrative Manual that employees will be required to pay for parking their personal vehicles on state property, including property leased by the State, and that the agencies involved shall charge for such parking at rates to be reviewed by the Department of Finance.

Certain of the Board of Equalization offices in Los Angeles, including the new headquarters office in Pasadena, appear to have parking facilities substantially in excess of those required for public contacts or state owned vehicles. Apparently this excess space is being used for employee parking without imposition of the charges contemplated by SCR 43.

Sales Tax Audit Revenue

Tables 2, 3 and 4 which follow, are based on cost data which the agency has been keeping since 1950-51. Costs shown include all direct costs, including an estimate for audit collection costs, as well as some not directly budgeted by the agency, while net revenues are compiled on a basis which approximates as nearly as possible the actual cash to be collected after deducting an estimate for uncollectibles.

Starting with 1956-57 audits were made for local sales and use tax purposes under the Bradley-Burns Law, as well as for state purposes, a single audit serving both purposes. Both the costs and the net revenue attributable to local sales and use taxes are included in the totals shown in Tables 2, 3 and 4. The costs involved are not available. The revenue included, however, can be estimated rather accurately from available data, and the distribution is approximately as follows from 1955-56 to 1959-60.

<i>Year</i>	<i>Total</i>	<i>Local</i>	<i>State</i>
1955-56	\$9,906,507	None	\$9,906,507
1956-57	11,601,955	\$675,234	10,926,721
1957-58	12,123,007	2,150,621	9,972,386
1958-59	13,586,285	3,443,575	10,142,710
1959-60	14,021,322	3,822,804	10,198,518

State Board of Equalization—Continued

It is interesting to note that the additional state revenue attributable to this program has remained fairly constant during the five-year period shown.

Table 2—Summary of Sales Tax Audit Results, by Years, 1950-51 to 1959-60

Year (1)	Audit hours (2)	Man- years (3)	Cost		Net revenue	
			Total (4)	Per hour (5)	Total (6)	Per dollar of cost (7)
California audits:						
1950-51	913,829	507.7	\$4,335,774	\$4.74	\$7,688,786	\$1.77
1951-52	837,647	465.4	4,620,989	5.52	7,280,715	1.58
1952-53	848,966	471.6	5,301,944	6.25	7,525,672	1.42
1953-54	835,732	464.3	5,416,139	6.48	8,239,479	1.52
1954-55	821,970	456.7	5,426,314	6.60	8,086,010	1.49
1955-56	754,970	419.4	5,307,720	7.03	8,596,599	1.62
1956-57	754,958	419.4	5,792,164	7.67	10,354,023	1.79
1957-58	812,938	451.6	6,681,692	8.22	10,259,214	1.54
1958-59	845,745	470.0	6,980,091	8.25	12,213,443	1.75
1959-60	814,192	452.3	7,309,262	8.98	12,268,574	1.68
Totals	8,240,947	457.8	\$57,172,089	\$6.94	\$92,507,515	\$1.62
Out-of-state audits:						
1950-51	28,120	15.6	\$176,867	\$6.29	\$815,930	\$4.61
1951-52	22,830	12.7	186,929	8.19	691,476	3.70
1952-53	24,443	13.6	214,055	8.76	806,153	3.77
1953-54	23,691	13.2	197,583	8.34	572,934	2.90
1954-55	24,189	13.4	207,542	8.58	448,168	2.16
1955-56	41,039	22.8	339,803	8.28	1,309,908	3.85
1956-57	44,801	24.9	419,337	9.36	1,247,932	2.98
1957-58	48,455	26.9	516,530	10.66	1,863,793	3.61
1958-59	55,498	30.8	565,525	10.19	1,372,842	2.43
1959-60	49,594	27.6	547,022	11.03	1,752,748	3.20
Totals	362,660	20.1	\$3,371,193	\$9.30	\$10,881,884	\$3.23
Total audits:						
1950-51	941,949	523.3	\$4,512,641	\$4.79	\$8,499,716	\$1.88
1951-52	860,477	478.1	4,807,918	5.59	7,972,191	1.66
1952-53	873,409	485.2	5,515,999	6.32	8,331,825	1.51
1953-54	859,423	477.5	5,613,722	6.53	8,812,413	1.57
1954-55	846,159	470.1	5,633,856	6.66	8,534,178	1.51
1955-56	796,009	442.2	5,647,523	7.10	9,906,507	1.75
1956-57	799,759	444.3	6,211,501	7.77	11,601,955	1.87
1957-58	861,393	478.5	7,198,222	8.36	12,123,007	1.68
1958-59	901,243	500.8	7,545,616	8.37	13,586,285	1.80
1959-60	863,786	479.9	7,856,284	9.10	14,021,322	1.78
Totals	8,603,607	477.9	\$60,543,282	\$7.04	\$103,389,399	\$1.71

State Board of Equalization—Continued

Table 3—Sales Tax Field Audit Revenue and Cost by Districts, 1959-60

	<i>Net Revenue</i>	<i>Audit Costs</i>	<i>Revenue per \$1 of costs</i>
San Diego -----	\$853,457	\$389,654	\$2.19
Los Angeles -----	5,577,250	8,837,583	1.97
Marysville -----	281,681	162,518	1.73
San Bernardino -----	836,832	489,703	1.71
Santa Rosa -----	430,089	254,484	1.69
Santa Barbara -----	219,262	142,570	1.54
San Francisco -----	1,420,363	934,359	1.52
Oakland -----	945,814	682,734	1.39
Sacramento -----	723,805	528,994	1.37
Redding -----	107,914	85,472	1.26
Fresno -----	460,680	387,289	1.19
San Jose -----	411,427	413,902	.99
Totals California -----	\$12,268,574	\$7,309,262	\$1.68
Out-of-State -----	1,752,748	547,022	3.20
Total -----	\$14,021,322	\$7,856,284	\$1.78

Table 4—Sales Tax Field Audit Revenue and Cost by District for Ten Years Ended June 30, 1960

	<i>Net Revenue</i>	<i>Audit Costs</i>	<i>Revenue per \$1 of costs</i>
San Bernardino -----	\$5,972,105	\$3,378,060	\$1.77
Los Angeles -----	39,961,538	22,805,426	1.75
Santa Rosa -----	3,039,507	1,757,648	1.73
Redding -----	1,217,411	733,646	1.66
Marysville -----	1,933,827	1,215,709	1.59
San Francisco -----	11,815,973	7,706,818	1.53
Oakland -----	7,583,808	4,997,853	1.52
San Diego -----	4,586,193	3,082,642	1.49
San Jose -----	4,748,866	3,198,948	1.48
Sacramento -----	5,307,327	3,629,481	1.46
Woodland -----	887,429	629,783	1.41
Fresno -----	4,043,106	2,889,504	1.40
Santa Barbara -----	1,410,375	1,146,571	1.23
Totals California -----	\$92,507,515	\$57,172,089	\$1.62
Out-of-State -----	10,881,884	3,371,193	3.23
Total -----	\$103,389,399	\$60,543,282	\$1.71

The data in Table 5 is a segregation of the California audits for the years shown into four groups; A, those resulting in refunds, B, those resulting in no change, C, those where no single audit produced revenue in excess of its cost; and D, those where each audit produced revenue in excess of its cost.

The net revenues and costs shown are not the same as those shown in Table 2, since net revenues have not been reduced for uncollectible accounts and costs have not been increased for audit collection costs, and there are other minor differences due to the limitations of the mechanical processes by which the data were compiled, although the data in Table 5 are comparable for the three years shown.

We believe this type of analysis has significance in the overall evaluation of the sales tax field audit program since it indicates that a major part of the audit hours, 54.6 percent in 1954-55, 53.4 percent in 1957-58

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Equalization

State Board of Equalization—Continued

and 52.7 percent in 1959-60, were devoted to making audits which are of no direct benefit to the State from the standpoint of revenue production.

We believe this emphasizes the need for a more careful selection process in the deployment of the audit staff.

Table 5—California Sales Tax Audits, 1954-55, 1957-58, and 1959-60, Classified as to Individual Audits Producing More Than or Less Than Cost

Year and Class of audit (1)	Audits		Hours		Net Revenue (6)	Cost (7)
	Number (2)	Per- cent (3)	Number (4)	Per- cent (5)		
1954-55 Year						
A—Refunds	2,254	5.1	44,456	5.4	—\$690,546	\$274,867
B—No change	12,875	29.1	119,390	14.5		734,661
C—Deficiencies under cost	12,470	28.1	285,241	34.7	828,628	1,776,568
Total nonprofitable ..	27,599	62.3	449,087	54.6	\$138,082	\$2,786,096
D—Deficiencies over cost	16,725	37.7	372,970	45.4	8,319,794	2,319,791
Total	44,324	100.0	822,057	100.0	\$8,457,876	\$5,105,887
1957-58 Year						
A—Refunds	2,243	6.1	51,728	6.4	—\$1,610,750	\$406,218
B—No change	11,229	29.1	114,321	14.1		893,947
C—Deficiencies under cost	10,194	26.3	267,223	32.9	1,034,641	2,101,840
Total nonprofitable ..	23,765	61.5	433,272	53.4	—\$576,109	\$3,402,005
D—Deficiencies over cost	14,895	38.5	378,586	46.6	11,173,971	2,971,627
Total	38,660	100.0	811,858	100.0	\$10,597,862	\$6,373,632
1959-60 Year						
A—Refunds	2,135	5.6	47,731	5.9	—\$1,273,274	\$410,009
B—No change	13,457	35.1	129,786	15.8		1,114,862
C—Deficiencies under cost	9,590	24.9	254,547	31.0	1,083,261	2,186,559
Total nonprofitable ..	25,182	65.6	432,064	52.7	—\$190,013	\$3,711,430
D—Deficiencies over cost	13,209	34.4	388,035	47.3	13,089,086	3,333,221
Total	38,391	100.0	820,099	100.0	\$12,899,073	\$7,044,651

ANALYSIS

The total expenditure program of the agency, detailed on budget pages 307 to 314, is supported by the following appropriations:

Fund	Appropriations			Total expenditures
	Item number	Amount	Retirement	
General	118	\$13,140,586	\$1,077,811	\$14,218,397
Motor Vehicle Transportation Tax	119	1,028,790	65,783	1,094,573
Motor Vehicle Fuel	120	973,015	62,841	1,035,856
Total		\$15,142,391	\$1,206,435	\$16,348,826

The foregoing total expenditures represent an increase of \$272,372 over those of 1960-61, or 1.7 percent. A further analysis of this increase, by categories, is shown in Table 6.

State Board of Equalization—Continued

Table 6—Expenditures by Categories, 1960-61 and 1961-62 and Comparison

Category	1960-61	1961-62	Increase or (—) decrease
Salaries and wages:			
Positions now authorized -----	\$16,332,419	\$16,600,942	\$268,523
Estimated salary savings -----	—724,890	—614,751	110,139
Total salaries and wages -----	\$15,607,529	\$15,986,191	\$378,662
Operating expenses -----	3,025,646	3,148,229	122,583
Equipment -----	255,892	197,238	—58,654
Retirement contributions -----	1,205,458	1,206,435	977
Total—gross expenditure program	\$20,094,525	\$20,538,093	\$443,568
Reimbursements:			
Local sales and use tax administration -----	—\$3,670,000	—\$3,825,000	—\$155,000
Mapping service to counties -----	—259,977	—273,719	—13,742
Timber appraisals for counties -----	—47,546	—50,000	—2,454
Miscellaneous -----	—40,548	—40,548	--
Total reimbursements -----	—\$4,018,071	—\$4,189,267	—\$171,196
Net expenditure program -----	\$16,076,454	\$16,348,826	\$272,372

It will be noted that the proposed total expenditure program for this agency for 1961-62 is \$20,538,093, rather than \$16,348,826, by reason of the fact that it receives reimbursements of \$4,189,267, most of which comes from cities and counties for local sales tax administration under the Bradley-Burns Local Sales and Use Tax Law.

The reimbursements from counties for timber appraisals represents a new program, started in 1960-61.

While no new positions are requested the total effective man-years of personnel time, as shown on budget page 307, line 46, shows an increase of from 2,346.6 to 2,381.9, an increase of 35.3 or 1.5 percent. This is due to an anticipated decrease in vacant positions, reflected by the decrease in salary savings of \$110,139 or 15.2 percent, shown in Table 6.

Because of the fact that our recommendations generally deal with more than one organizational unit, the remainder of our analysis follows a pattern, by type of recommendation, rather than by unit.

Information Officer II

A new position of information officer II is proposed, as a reclassification of an existing position of tax auditor III, to fill the need for communication to the board staff and the affected public.

We recommend against creation of this position.

While the additional funds involved are minor, because of a higher pay scale for the proposed new job (a maximum of \$950 per month as compared to \$821 per month, or \$1,548 per year); we believe that the present staff is adequate for such purposes.

An established position of public information officer was deleted by the Legislature on our recommendation in 1955, on the ground that the duties of the deputies to the members should encompass such functions. We see no reason to change our recommendation at the present time.

State Board of Equalization—Continued

The fact that the agency proposes, in effect, to abolish an existing tax auditor III position to provide funds for the new position leads us to believe that the agency itself regards the tax auditor III position as surplus, and accordingly

We recommend elimination of one tax auditor III position, \$9,747, budget page 310, line 26.

The amount of \$9,747 is the average salary budgeted for 107 tax auditor III positions in business taxes, districts, as detailed on page 215, line 70, in the salary supplement.

A further reason for this reduction is that the Auditor General, in his working papers on the Board of Equalization audit, which we have examined, notes an overstaffing in the districts at this level.

Vacant Positions

Section 20 of the Budget Act of 1960 reads as follows:

“No money appropriated by this act shall be used to pay the salary of any authorized state position, which position was vacant and had been vacant or continuously unfilled during the period between October 1, 1959, and July 1, 1960, except with the specific approval of the Department of Finance, subsequent to July 1, 1960.

“The Department of Finance, not later than 30 days prior to the convening of the 1961 Regular Session of the Legislature, shall present to the Joint Legislative Budget Committee, assembled in meeting, a report of all positions as of July 1, 1960, which were vacant or continuously unfilled during the period between October 1, 1959, and July 1, 1960, and a report of all authorizations to fill vacant positions and all positions abolished pursuant to this section.”

In the course of our review of the detailed salary schedules supporting the budget request, and verified by a check of the Controller's payroll records, we noted that there were 26 positions which would have been continuously unfilled during the period between October 1, 1959, and July 1, 1960, had it not been for the fact that the positions were filled by the transfer of an incumbent from another position in the same class and location. These transfers were made in July, 1960, on a retroactive basis, effective as of May 1, 1960, and in every instance the position from which the incumbent was transferred was accordingly recorded as unfilled during the period from May 1, 1960, to July 1, 1960.

It appears to us that this action results in a direct circumvention of the intent of Section 20 of the Budget Act of 1960, since the positions were not reported to the Department of Finance by the agency, and as a consequence were not reported by the Department of Finance to the budget committee as having been continuously vacant for the specified period, nor were they authorized for continuance by the Department of Finance after July 1, 1960.

We recommend deletion of the following 26 positions shown in Table 7 which were, in effect, vacant between October 1, 1959, and July 1, 1960, \$146,496.

State Board of Equalization—Continued

Table 7—Vacant Positions Recommended for Deletion

	Number	Amount	Budget	
			Page	Line
General Administration:				
Intermediate stenographer-clerk	1	\$4,404	308	62
Senior stenographer-clerk	1	4,740	308	62
Total	2	\$9,144		
Business Taxes, Headquarters:				
Auditor I	1	\$5,634	309	73
Tax auditor II	1	7,008	309	73
Tax compliance supervisor II	1	7,728	309	73
Senior field representative	1	6,060	309	73
Total	4	\$26,430		
Business Taxes, Districts:				
Tax auditor II	3	\$21,024	310	26
Auditor I	11	61,974	310	26
Field representative	2	10,728	310	27
Intermediate stenographer-clerk	2	8,808	310	28
Intermediate typist-clerk	1	4,194	310	28
Total	19	\$106,728		
Property Taxes, Valuation:				
Intermediate typist-clerk	1	\$4,194	311	25
Grand total	26	\$146,496		

We believe that the fact that these positions were continuously vacant for 10 months during the 1959-60 fiscal year is indicative of the lack of need for their continuance.

Electronic Data Processing

We have been informed that the agency proposes to substitute a new electronic data processing system, using tape, for its present punched card tabulating equipment, and to this end has ordered equipment, for delivery in January, 1962, at a monthly rental cost of \$7,965, whereas monthly rental payments on the present equipment which it proposes to discontinue, amount to \$4,261.

The agency also owns some tabulating equipment which it proposes to discontinue using, the equivalent monthly rental of which is \$576, although the cost of this equipment and its salvage value are not known.

No study has been made to indicate the need for the substitution of the more expensive tape installation for the existing installation, nor to indicate savings which will result from the change, other than the statement which appears in correspondence which we have examined that "we propose to eliminate 10 employee positions in the agency."

We believe that recognition should be given to this savings in the budget year by the elimination of 10 or more positions for the last six months of the fiscal year, and that the measure of the savings should be the difference between \$7,965 and \$4,261 or \$3,704 per month, which represents the increase in equipment rental.

We recommend elimination of 10 clerical positions for six months at \$3,704 per month or a total of \$22,224 (budget page 308, line 62).

State Board of Equalization—Continued

A letter from the administrative service officer of the Board of Equalization to the Organization and Cost Control Division of the Department of Finance, dated March 30, 1960, contains the following statements:

“We will make a comprehensive effort to discover additional savings in equipment and personnel as we further streamline some of our presently mechanized operations.

“We also expect to find many additional profitable applications as we expand our analyses into these ‘twilight’ areas not previously mechanized due to the limitations of ‘conventional’ equipment.”

Statements, such as the foregoing, do not appear to us to be sound justification for a major increase in costs such as that represented by the new installation.

If any future savings are developed as the result of the expansion of the electronic data processing program we believe they should be clearly identified and recorded as appropriate budget reductions for the year in which the savings are to be realized, and not offset against increases due to increased workload or increases in the level of service. It is our view that any such increases should be shown separately and justified on their own merits.

Printing

The board's estimate of printing expense for the current and budget year as shown below, as well as actual expenditures for the four previous years.

	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
General administration-----	\$31,684	\$53,045	\$22,919	\$46,484	\$35,830	\$50,789
Property taxes-----	7,368	8,950	12,517	13,411	17,113	17,465
Business taxes						
Headquarters—Cigarette tax stamps and related printing-----	---	---	---	498,888	461,496	409,076
Districts-----	6,910	7,874	10,383	10,213	12,441	13,838
All other-----	88,700	77,204	76,601	120,028	66,031	144,024
Total-----	\$134,662	\$147,073	\$122,420	\$689,024	\$547,911	\$635,192

We recommend reduction of printing by \$19,671, as follows:

Division	Amount	Budget	
		Page	Line
Administration-----	\$2,417	308	72
Property tax-----	2,226	311	38
Business tax headquarters-----	10,622	310	5
Business tax districts-----	4,406	310	42
Total-----	\$19,671		

The amounts shown above are given in the printing schedule as “miscellaneous items, \$200 or less.”

We believe that the reproduction unit in the supply section with two multilith machines and a mimeograph and 4.5 positions should be able to handle these unidentified items in lieu of printing.

State Board of Equalization—Continued

The integration of the several business taxes and the activity of the forms control unit, in the administrative analysis section, comprising four positions, should have produced substantial economies in printing expense, yet expenditures are increasing.

The business tax district offices, in large part, have either mimeograph or multilith equipment, which can perform the necessary duplication of minor printed items, although we feel this equipment should be centralized and the forms reproduced only on a statewide standardized basis.

A reduction in printing should require a reappraisal of existing forms and promote not only savings in printing, but also economies in work procedure.

The printing schedule for cigarette taxes reflects the following budgeted expenditures:

Cigarette tax stamps.....	\$374,200
Provision for 6 percent increase in price.....	29,952
Other printing related to cigarette tax.....	4,645
Provision for 6 percent increase in price.....	279
Total	\$409,076

We recommend a further reduction of printing, \$29,952, budget page 310, line 5.

This reduction is to eliminate the provision for a 6 percent price increase for cigarette stamps shown in the foregoing, which, in addition to being wrong in principle is calculated on a cost of \$499,200 rather than on \$374,200.

The cigarette tax stamps are purchased under a negotiated contract and there are no indications that a 6 percent price increase will be experienced in the budget year. The 6 percent applied to all other estimates of printing is in accordance with instruction from Department of Finance.

Equipment—General

Equipment requested for 1961-62 may be summarized as follow:

Replacements:	<i>Adminis- tration</i>	<i>Business taxes Headquarters</i>	<i>Districts</i>	<i>Property taxes</i>	<i>Total</i>
Planned replacement program	\$8,715	\$15,977	\$41,750	\$7,220	\$73,662
Automobiles	1,820	---	29,195	1,820	43,568
All other	26,071	845	16,277	375	32,835
Additional	9,845	20,906	11,012	5,410	47,173
Total	\$46,451	\$37,728	\$98,234	\$14,825	\$197,238
Budget page	309	310	310	311	
Line number	4	16	49	45	

In reviewing the equipment requests we took exception to a number of items where it appeared that the justification was weak or non-existent and as a result we discussed these items in detail with the agency which agreed to the elimination of five items, totaling \$1,784.

We recommend a reduction in equipment of \$1,784, as follows:

State Board of Equalization—Continued

Division	Amount	Budget	
		Page	Line
Business taxes districts-----	\$1,364	310	49
Property taxes -----	420	311	45
Total -----	\$1,784		

As to the remaining items which we questioned the agency appeared to take the position that further substantiation of their requests for individual items was unnecessary, since being obligated to adhere thereto would result in an undesirable restriction on flexibility. We cannot agree that this viewpoint has validity since we believe proper justification reflects good planning while a lack of justification reflects poor planning. Furthermore we believe equipment should be budgeted strictly on the basis of need for the particular items requested and at the time needed.

We recommend a further reduction in equipment of \$46,256, as follows:

Division	Amount	Budget	
		Page	Line
Administration -----	\$25,582	309	4
Business taxes, headquarters-----	8,635	310	16
Business taxes, districts-----	11,679	310	49
Property taxes -----	360	311	45
Total -----	\$46,256		

The basis for this recommendation, generally, is that we do not believe the equipment has been properly justified.

The items in question are summarized in Table 8, the item numbers shown being the agency's identification number, while further comments regarding the individual items follow Table 8, identified by item numbers and amounts.

State Board of Equalization—Continued

Table 8—Recommended Reductions in Equipment

Description	Amount requested	Agency item number
Administration—replacement:		
3 chairs	\$147	1
Card file	385	2
Graphotype	1,650	4
Addressograph	8,000	5
Electric check endorser	2,100	6
Mail stuffing machine	8,500	8
Electric collator	3,775	9
Mimeograph machine	825	11
Administration—additional:		
Electric tab pulling machine	200	18
Total administration	\$25,582	
Business taxes headquarters—additional:		
Bookkeeping machine	\$8,635	67
Business taxes districts:		
Replacement, chairs, tables and stands Los Angeles	\$4,928	77
Additional—various items, Los Angeles	1,204	98
Additional—desks and tables, Los Angeles	537	109
Replacements—7 tables, Oakland	805	125
Replacements—2 chairs, Fresno	166	143
Additional—Santa Ana,		
2 typewriter desks	432	165
2 desks	430	166
2 swivel arm chairs	190	167
2 standard 13-inch typewriters	408	168
Additional—El Centro, 2 air conditioners for state cars	640	185
Replacements—17 chairs, Sacramento	1,173	194
Additional—2 bookcases, Santa Rosa	130	211
Replacement—6 tables, Santa Barbara	636	214
Total business taxes, districts	\$11,679	
Property taxes—additional	\$360	39
Grand total	\$46,256	

The justification submitted by the agency for the foregoing items and our comments thereon are given by item numbers, in the material which follows.

Items 1 and 2, \$147 and \$385

These are duplications. Item 1 was approved for replacement in 1960-61 and item 2 in both 1958-59 and 1960-61. Item 1 was purchased in 1947 and item 2 in 1930.

Items 4 and 5, \$1,650 and \$8,000

Requested on basis of age only, no indication of condition. Item 4 was purchased in 1946 and item 5 in 1950.

A similar addressograph machine purchased in 1946 was replaced during 1960-61.

State Board of Equalization—Continued

We believe it is possible that the addressograph operation may be replaced with electronic data processing, which is an additional reason why replacement should be deferred.

Item 6, \$2,100

Machine not old enough to warrant replacement, since it was purchased in 1959. Said to be unreliable.

Item 8, \$8,500

Replacement is requested on the basis of continuous idle time due to breakdowns. The machine was purchased in 1958.

This is one of two machines in the mail room that is used in inserting business tax returns and instructions in envelopes for mailing to taxpayers. The other machine is considerably older but operates reliably.

We feel that the age of this machine does not warrant trade-in.

Also, the Franchise Tax Board has a stuffing machine similar to the one requested which would serve adequately at such time as a breakdown prevented a complete run.

Item 9, \$3,775

A collator purchased in 1950, is used in the assembly of reports and other multipaged documents which have been reproduced by the board. Justification is that "the foot-operated collator is too slow and too tiring for the volume of work handled."

We feel that the intermittent use of this machine would not justify its purchase; a continuation of current procedure of using either the present machine or mail room personnel when they are not otherwise occupied would serve adequately.

Item 11, \$825

Replacement is requested on the basis of the poor condition of the machine, which was purchased in 1940.

We feel that with the advent of the forms control function initiated by the board, a number of machines located in district offices could be returned to the headquarters. Also, the board has a number of multi-lith machines for larger volume production work. There is no indication that these are not adequate.

Item 18, \$200

This machine has already been purchased.

Item 67, \$8,635

This machine is requested in order that an average of 4,942 auditors work sheets per year could be prepared by machine rather than by hand. The agency indicates that a net savings of one position would result through machine preparation, although no position has been recommended by the agency for deletion.

We believe that purchase of the machine should be deferred pending study of possible use of electronic data processing for this operation.

State Board of Equalization—Continued

Item 77, \$4,928

This group, which includes agency items 77 to 91, represents 62 items for the six Los Angeles subdistrict offices, consists of chairs, tables, adding machine stands and telephone stands. The extent of the justifications for these items are "worn out," "obsolete," "they are in bad condition; upholstery worn out," "over 20 years old" "to replace broken oak chair," "do not have proper adjustments and upholstery is worn out," "unsafe to use," "leather seat worn beyond repair," and "needs new tops and legs are unstable." Some items have no justification and none of the items are identified by Board of Equalization equipment numbers.

We feel that the justification for these items is insufficient.

Item 98, \$1,204

This includes agency items 98-105 and 112-114 and consists of various items for offices in Los Angeles for which no justification is given.

Item 109, \$537

This includes agency items 109-111 and consists of desks and a table for Los Angeles offices for employees using surveyed equipment which leads us to believe either that replacement was previously authorized or that the present equipment is adequate.

Item 125, \$805

To replace seven wooden tables, which were purchased in 1948, with metal tables. There is no indication why metal tables are needed.

Item 143, \$166

The justification reads, "To complete office furniture group utilized by district compliance supervisor and district auditor supervisor. They will replace chairs mentioned above which are worn substantially and have an unattractive appearance which will be in conflict with the new desks ordered for these supervisors in the 1960-61 Budget."

The chairs were purchased in 1934 and 1937.

We feel that this is not a proper reason for replacement.

Items 165-168, \$1,460

The justification states that these items are requested for new positions which have been approved.

Although the positions are new to this particular office, Santa Ana, they are merely a reassignment of positions within the agency. Equipment was approved for these positions when they were first authorized. We therefore feel that as these positions have been reassigned, that the equipment should have been reassigned also.

Item 185, \$640

Two air conditioners are requested for state cars assigned to field representatives in the Imperial Valley.

State Board of Equalization—Continued

It is contrary to state policy as indicated by Sections 4103.3 and 4104 of the State Administrative Manual to provide air conditioners for other than elective constitutional officers and heads of departments. If this policy is wrong it should be modified on other than an agency by agency basis.

Item 194, \$1,173

Justification incomplete. Chairs to be replaced not identified.

Item 211, \$130

“The desks in this office are modern and attractive; the new book-cases are needed to bring the facilities up to proper standards.” Replacement of a wooden, homemade bookcase is requested.

Item 214, \$636

“These tables have had some hard usage and should be replaced so as to match existing steel furniture in the office.”

The tables were purchased from 1941 to 1949.

Item 39, \$360

We believe that these files can be provided from those which will be excess upon the installation of a \$3,000 open shelf filing system which has been requested.

Equipment—Planned Replacement Program

The planned replacement program includes adding machines, calculators, typewriters, and flattop and typewriter desks. This program presumes an average life expectancy for the first three classes of 10 years, and for both types of desks of 20 years, and provides for their orderly replacement. This program was made possible by additional information available through the use of data processing equipment.

This program is basically sound, providing a management tool which precludes the necessity for replacement justification of each item in these categories. A schedule is prepared for each operating unit allowing that unit to replace a given number of items annually, at the unit head's discretion without regard to actual age, as a newer machine may actually be less desirable than an older one.

We recommend reduction of equipment, replacements for business tax, districts, of \$3,508, budget page 310, line 49, further identified below by agency item number.

<i>Description</i>	<i>Amount</i>	<i>Agency item number</i>
1 desk, flattop, with typewriter table-----	\$216	127
2 desk, flattop -----	362	128
1 desk, comptometer -----	181	145
1 desk, flattop -----	170	158
1 adding machine -----	289	171
3 desk, flattop -----	510	172
3 desk, typewriter -----	660	186
1 calculator -----	950	204
1 desk, flattop -----	170	205
Total -----	\$3,508	

State Board of Equalization—Continued

These replacement items are requested in addition to those requested under the planned replacement program, which we have approved. They are intended to accelerate the program.

We do not believe that a program, once established upon sound principles, should be allowed to become a device for securing budget approval of additional items without proper individual justification, and there has been no showing that the planned replacement program is not adequate, or should be modified at this time.

We suggest that if this program is to continue, effective control be exercised. A re-evaluation is due for several other reasons. The Auditor General reports that surveyed items are currently in use, indicating that their useful life had not expired at the time they were surveyed, and also that additional items have been obtained in some instances rather than replacements, as intended. The survey procedure for equipment is such that operator preference rather than condition is a prerequisite for replacement. The integration of business taxes should logically have created surpluses, a fact confirmed by the Auditor General, yet no reduction in equipment requests is apparent.

Equipment—Automobile Replacements

The agency is requesting \$32,835 for replacement of 18 automobiles. Of these one is for possible accident replacement, one is in Los Angeles where Department of Finance pool cars are readily available, one is for a car which was transferred to the Department of Finance pool in Fresno on August 22, 1960, and seven are for cars which will not have been driven 100,000 miles at the end of the 1961-62 fiscal year.

We recommend elimination of \$18,275 for the following automobile replacements:

Division	Number	Amount	Budget	
			Page	Line
Administration (accident replacement)-----	1	\$1,820	309	4
Business taxes, districts (less than 100,000 miles) -----	7	12,815	310	49
Business taxes, districts (in Fresno pool) ---	1	1,820	310	49
Property taxes (in Los Angeles)-----	1	1,820	311	45
Total -----	10	\$18,275		

We recommend against the first item because we see no reason for providing funds for an unknown contingency. Furthermore, we believe there are adequate facilities in the Department of Finance pool to provide transportation, either on a daily or a monthly rental basis for any cars which may be destroyed by accidents.

We recommend against the second item because it is generally contrary to established state policy to replace cars which have gone less than 100,000 miles and there has been no showing as to why exceptions should be made in these instances.

We recommend against the third item, because it is an obvious error since the vehicle in question is no longer owned by the Board of Equalization and any funds for replacement will be provided from sources available to the Department of Finance pool.

State Board of Equalization—Continued

We recommend against the fourth item because the vehicle is located in Los Angeles, where adequate service is available in the Department of Finance pool, and we believe that pool operations should be extended, wherever possible, since they are more economical, from the overall state standpoint than vehicles operated by individual agencies.

Field Offices

At present the Board of Equalization has 64 field offices in its 11 administrative districts in California, ranging in size from an office in Los Angeles, with a staff of 117, to several one and two man offices in other parts of the State.

In our 1960-61 Analysis of the Budget Bill, pages 209-211, we commented on the lack of criteria governing the establishment of field offices by the Board of Equalization, indicated what appears to us to be the major consideration in determining the location of field offices in a tax agency, and suggested two criteria which, if applied would have reduced the number of field offices from 61 to 34 at a saving of \$82,485, based on 1960-61 estimates.

The Senate Finance Committee adopted the following resolution at the 1960 Session:

“ . . . that the Board of Equalization submit a report to the next Session of the Legislature setting forth the criteria which it uses to justify the establishment, continuance, or discontinuance of field offices, including appropriate staffing patterns and workload considerations, and that this report include a review of the comments of the Legislative Analyst, appearing on pages 209 to 211 of the 1960-61 Analysis of the Budget Bill.”

Following are the pertinent comments contained in our 1960-61 analysis:

“We believe that standards governing the establishment of field offices should be predicated upon a clear understanding of the basic function of such an office in a tax agency.

“Offices have been justified in the past largely on the basis of ‘better service to taxpayers.’

“We think this is the wrong approach since taxpayers generally have sound reasons for direct contact with field offices at very infrequent intervals. In the case of the sales tax, for example, a contact would be required upon starting the business, another, perhaps not oftener than once every three years in the event of an audit, and then only if there were controversial points involved, and another, perhaps upon quitting business. Periodical requests for information can usually be handled satisfactorily by telephone or by mail.

“Our view is that the governing consideration in determining the location of field offices in a tax agency is that they should be located in such a manner as to make for the most efficient and economical use of the staff engaged in the field work incident to the administration of the tax laws involved. This means generally that

State Board of Equalization—Continued

the offices should be located where the workload exists, and if they are located on this basis, the matter of necessary 'service to taxpayers' would appear to be adequately achieved.

"In the absence of any positive standards governing the establishment of field offices, we believe that the following tests could well be applied:

"1. *Minimum Size.* It appears to us that offices are justified only where a sufficient workload exists to require their maintenance on a full-time basis, with a sufficient staff to assure reasonable continuity of operations, some semblance of supervision and some degree of specialization, and in a tax agency such as this, we believe this requires at least three units of technical personnel and one clerk. Our view is that offices smaller than this are not justified and that work in areas now served by such offices can be handled adequately on an itinerant basis as is done in some areas of the State at the present time.

"2. *Proximity to Other Offices.* We believe that offices should be at least 50 miles apart, subject to the two following exceptions:

"a. Workload concentration—Where substantial concentrations of workload exist, as for example at least 6,000 permits in each area to be served.

"b. In very large cities—Traffic conditions and rental situations in very large cities may justify several smaller offices in preference to a single large office, provided that such an arrangement will result in no overall increase in operating costs."

Table 9 shows the 20 field offices which would be eliminated if the "minimum size" test were to be applied, with the square footage and rent of each office being taken from the 1961-62 budget justification papers.

The offices shown in this table are the same as those referred to in our 1960-61 analysis except that Chico and Palmdale have been included.

We are informed that the Colusa office is to be closed in March, 1961.

State Board of Equalization—Continued

Table 9—Board of Equalization Field Offices to be Eliminated on Basis of "Minimum Size Test"

Branch	Staff January 1, 1961			Total	Office	
	Audit	Field repre-	Clerk		Square feet	1961-62 rent
Equalization District II						
Bishop	1	-	1	2	384	\$1,200
Jackson	1	-	-	1	720	780
Madera	1	1	1	3	450	1,200
Sonora	1	1	1	3	316	1,380
Equalization District III						
Auburn	1	1	1	3	300	600
Chico	1	1	1	3	724	1,200
Colusa	-	-	-	0	370	480
Crescent City	-	1	1	2	393	960
Lakeport	-	-	-	0	90	660
Mt. Shasta	1	1	-	2	270	720
Nevada City	1	1	1	3	450	900
Oroville	1	-	1	2	918	1,500
Placerville	1	1	1	3	400	840
Quincy	-	-	1	1	300	660
Red Bluff	1	1	-	2	Desk space	600
Roseville	1	-	-	1	330	780
Susanville	-	1	-	1	250	600
Yreka	-	1	-	1	168	120
Equalization District IV						
Ontario	-	1	1	2	435	1,080
Palmdale	1	1	-	2	170	600
Total	13	13	11	37	7,438	\$16,860

Table 10 shows the nine offices which would be eliminated if the "proximity" test were to be applied, with the square footage and rent of office being taken from the 1961-62 budget justification papers, the offices being the same as those referred to in our 1960-61 analysis.

Table 10—Board of Equalization Field Offices to be Eliminated on Basis of "Proximity Test"

Branch	Staff January 1, 1961			Total	Office	
	Audit	Field repre-	Clerk		Square feet	1961-62 rent
Equalization District I						
Santa Cruz	3	1	1	5	950	\$2,250
Equalization District II						
Hanford	3	2	2	7	772	3,600
Martinez	3	3	1	7	1,023	3,375
Merced	5	2	2	9	1,424	3,240
Equalization District III						
Napa	2	1	1	4	628	1,560
San Rafael	3	2	1	6	1,000	3,150
Woodland	3	1	1	5	781	1,630
Equalization District IV						
Santa Maria	2	1	1	4	450	900
Ventura	5	4	3	12	3,600	7,200
Total	29	17	13	59	10,628	\$26,905

On December 19, 1960, the agency furnished us with information which will be contained in its report to the Senate Finance Committee in response to the resolution previously referred to. This information

State Board of Equalization—Continued

was confined to a review of the comments in our 1960-61 analysis, and did not include a complete statement of the criteria used to justify the establishment, continuance or discontinuance of its field offices.

In the absence of such a statement we believe that the field offices of the Board of Equalization should be adjusted to reflect the application of the criteria which we suggested in our 1960-61 analysis.

We recommend elimination of the following amounts:

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Rent, 20 small offices shown in Table 9-----	\$16,860	308	78
Rent, 9 offices shown in Table 10-----	26,905	308	78
11 clerical positions shown in Table 9 at \$4,296 each	47,256	310	28
Total-----	\$91,021		

The closing of these offices would result in some further reductions in office expense, which we have not attempted to identify. It could also result in some increase in travel expenses depending upon how the affected staff were to be assigned.

We believe it reasonable to assume that the workload of the 11 clerical positions in the one- and two-man offices could be absorbed by the existing clerical staff in the larger offices, which, of course, would include the clerical staff in the nine offices shown in Table 10. If experience should prove otherwise, appropriate adjustment would be required at a later date.

We believe that a more efficient field operation will result from the better supervision incident to the concentration of the staff into fewer and larger units. We do not believe that the practice of permanent assignment of either a single auditor or a single field representative, or one of each, to work in a small community is conducive either to the best interests of the State, or to the most effective development of the professional abilities of the individuals so assigned. On the one hand, the effectiveness of tax administration is hampered by the normal human tendency to become too friendly with taxpayers in small communities, and on the other hand the individuals do not gain the varied experience obtainable from operating in a wider field.

In its letter of December 19, 1960, the agency states:

“Nor can we agree that ‘taxpayers generally have sound reasons for direct contact with field offices at very infrequent intervals.’ The implication that most of the more than one thousand taxpayers who visit our offices each day are there for frivolous reasons would be debated by the taxpayers themselves, we are sure.”

Our point, of course, is not that most of the 1,000 taxpayers who visit the offices daily do so for frivolous reasons but that any given taxpayer generally has need for office contacts at very infrequent intervals, and that such being the case, it is not necessary to provide facilities solely for this purpose which are not otherwise needed.

The letter of December 19, 1960, includes a series of calculations purporting to show that, with three exceptions, the State would lose money by closing the offices in question, for two reasons,

State Board of Equalization—Continued

- (a) Increase in travel expenses, and
- (b) Loss in revenue from audits by reason of reduction in available audit time resulting from an increase in travel time.

Both are based on the assumption that it is necessary to maintain the present coverage, in terms of total available time, at all locations involved. We seriously question the need for such coverage at many of these locations, and it is precisely for this reason that we believe suitable criteria should be developed and subject to review and approval by the Legislature as to what constitutes appropriate coverage at all types of locations.

In calculating the loss in revenue from audits the agency has used a figure of \$15.06 per hour, which is the statewide average for 1959-60, whereas detailed records which we have examined indicate that at smaller offices the average is substantially lower than this, at Jackson, for example, it was less than one-third of the statewide average.

We believe that more effective use of audit manpower would result if it were deployed in productive areas on a flexible basis rather than being tied to areas of low productivity on a fixed geographical basis.

STATE BOARD OF EQUALIZATION

ITEM 119 of the Budget Bill

Budget page 307

FOR ADDITIONAL SUPPORT OF STATE BOARD OF EQUALIZATION FROM THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	\$1,028,790
Contribution to State Employees' Retirement System	65,783
<hr/>	
Total	\$1,094,573
Estimate to be expended in 1960-61 fiscal year	1,082,418
<hr/>	
Increase (1.1 percent)	\$12,155
TOTAL RECOMMENDED REDUCTION	None

This appropriation is for costs of administration of the Motor Vehicle Transportation License Tax and the provisions of the Itinerant Merchants Law, the details of which are included under Item 118. Any adjustments in that item relating to administrative costs of the foregoing will require a corresponding adjustment in this item.

Subject to the above qualification we recommend approval as budgeted.

STATE BOARD OF EQUALIZATION

ITEM 120 of the Budget Bill

Budget page 307

FOR ADDITIONAL SUPPORT OF STATE BOARD OF EQUALIZATION FROM THE MOTOR VEHICLE FUEL FUND

Amount requested	\$973,015
Contribution to State Employees' Retirement System	62,841
<hr/>	
Total	\$1,035,856
Estimated to be expended in 1960-61 fiscal year	1,020,639
<hr/>	
Increase (1.5 percent)	\$15,217
TOTAL RECOMMENDED REDUCTION	None

State Board of Equalization—Continued

This appropriation is for costs of administration of the motor vehicle fuel (gasoline) tax and the use fuel (diesel) tax, the details of which are included under Item 118. Any adjustments in that item relating to administrative costs of the foregoing, will require a corresponding adjustment in this item.

Subject to the above qualification we recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 121 of the Budget Bill

Budget page 314

FOR SUPPORT OF DEPARTMENT OF FINANCE
FROM THE GENERAL FUND

Amount requested	\$8,083,468
Contribution to State Employees' Retirement System	500,000
Total	\$8,583,468
Estimated to be expended in 1960-61 fiscal year	8,514,283
Increase (0.8 percent)	\$69,185
TOTAL RECOMMENDED REDUCTION	\$180,816

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Executive Office:			
1 deputy director	\$12,520	315	25
Administrative Service Office:			
1 tabulating machine operator	4,500	316	20
2 key punch operators	7,900	316	21
2 intermediate clerks	7,933	316	22
Audits Division:			
2 state financial examiners	13,344	317	13
Buildings and Grounds Division:			
1 telephone operator	3,900	319	47
Communications Division:			
1 assistant chief	11,400	320	60
Economic Development Agency:			
1 deputy commissioner	14,910	321	17
1 senior business development specialist	10,752	321	18
1 associate business development specialist	8,520	321	18
1 senior stenographer-clerk	5,459	321	20
1 intermediate stenographer-clerk	4,332	321	20
Temporary help	2,500	321	21
Rent, branch offices	8,754	321	34
Contract services	60,000	321	35
Organization and Cost Control Division:			
1 intermediate clerk	4,092	323	36
Total	\$180,816		

GENERAL SUMMARY

The Department of Finance is headed by a director, appointed by, and serving at the pleasure of the Governor. The Director of Finance is the highest salaried officer in the state government (excluding the University of California) except the Governor. He has primary responsibility for administering the financial and business programs of the State and furnishing centralized services for state agencies. The

Department of Finance—Continued

Director of Finance acts as the chief fiscal adviser to the Governor and is also responsible for preparing and executing the annual budget. The director also serves as chairman or member of 19 boards and commissions.

The department consists of the 13 divisions listed in the Budget, pages 314 to 327. In addition, it includes the printing division, shown in the appendix, which is financed by the Printing Fund, which is a working revolving fund. It also includes certain activities of the buildings and grounds division, the communications division and the purchasing division, which are financed by the Purchasing Revolving Fund, and which are also shown in the appendix.

The operations of the department are financed directly by the appropriations to the department in the budget bill and indirectly by appropriations to other state agencies for services rendered by the various divisions of the Department of Finance, which appear in the printed budget either as reimbursements, which are detailed on budget pages 314 to 327, or as revenues to the Printing Fund and the Purchasing Revolving Fund which are shown in the appendix. Both the revenues and reimbursements include some money received from outside sources which does not represent an appropriation to some other state agency for services rendered by the Department of Finance, but the amounts are relatively small.

The total money available to the Department of Finance for its proposed expenditure program for 1961-62 may be summarized as follows:

Direct appropriations :	
Budget bill item 121, General Fund-----	\$8,083,468
Budget bill item 122, Fair and Exposition Fund-----	238,959
Budget bill item 123, School Building Aid Fund-----	773,372
Related retirement contributions-----	567,400
	<hr/>
Total (budget page 314, line 52)-----	\$9,663,199
Reimbursements, Budget Page 327, line 13-----	6,602,033
	<hr/>
Subtotal-----	\$16,265,232
Estimated revenues, Printing Fund, budget page 1023-----	7,816,987
Estimated revenues, Purchasing Revolving Fund, budget page 1025-----	7,143,656
	<hr/>
Grand total-----	\$31,225,875

Department of Finance—Continued

An analysis of the expenditure program financed by direct appropriations and reimbursements, by divisions is shown in Table 1.

Table 1—Department of Finance, Total Expenditures, Reimbursements, and Net Expenditures Financed by Direct Appropriations, by Divisions

<i>Division or other unit</i>	<i>Total</i>	<i>Less reim- bursements</i>	<i>Net ex- penditures</i>
Executive Office -----	\$330,200		\$330,200
Administrative Service Office -----	1,538,395	\$670,653	867,742
Audits -----	902,039	16,000	886,039 ¹
Budget -----	691,416	21,500	669,916
Buildings and Grounds -----	9,072,511	5,514,928	3,557,583
Communications -----	145,989		145,989
Economic Development Agency -----	233,240		233,240
Fairs and Expositions -----	194,735	55,776	138,959 ²
Local allocations -----	778,372		778,372 ³
Organization and cost control -----	448,904	7,700	441,204
Planning Office -----	116,301		116,301
Property acquisition -----	235,288	215,236	20,052
Purchasing -----	1,010,442	100,240	910,202
Subtotal -----	\$15,697,832	\$6,602,033	\$9,095,799
Retirement contributions -----	567,400		567,400 ⁴
Total -----	\$16,265,232	\$6,602,033	\$9,663,199

NOTES: ¹ Includes \$100,000 from Fair and Exposition Fund

² Entire amount from Fair and Exposition Fund

³ Includes \$773,372 from School Building Aid Fund

⁴ Includes \$16,200 from Fair and Exposition Fund and \$51,200 from School Building Aid Fund.

Of the 13 divisions listed in Table 1, three are essentially staff units, four are concerned with fiscal matters, and five are primarily service units, while one serves the public, rather than state agencies. The staff units include the Executive Office, Administrative Service Office, and Organization and Cost Control Division. The fiscal divisions are Audits and Budget which examine or execute the State's fiscal laws and policies, as well as Fairs and Expositions and Local Allocations, which administer state funds to local public agencies. The service divisions include Buildings and Ground, Communications, Planning, Property Acquisitions and Purchasing. The Economic Development Agency, which serves the public rather than state agencies, has been located in the department.

The total staff of the Department of Finance, by source of support, in net man-years, is shown below:

<i>Source of support</i>	<i>Actual 1959-60</i>	<i>Estimated 1960-61</i>	<i>Proposed 1961-62</i>
Direct appropriation and reimbursements -----	1,655.6	1,896.7	1,901.1
Printing Fund (printing division) -----	753.6	693.9	577.8
Purchasing Revolving Fund -----	187.6	232	252
Total man-years -----	2,596.8	2,822.6	2,730.9

The decrease in staff in the printing division is due to a decision of the Board of Education to purchase certain elementary school textbooks from private publishing firms.

Department of Finance—Continued

Reporting for Revolving Funds

We believe that the reporting for the activities of revolving funds, such as the Printing Fund and the Purchasing Revolving Fund, which appears in the printed budget is not adequate, in that it does not clearly set forth amounts expended for the purchase of equipment on a comparative basis, from year to year.

We believe that the reporting might well include the incorporation of a statement patterned after a "Source and Application of Funds" statement, used in commercial accounting. Such a statement has been included in audit reports prepared by the Auditor General on the State Printing Fund and the Purchasing Revolving Fund.

We recommend that a study be made by appropriate agencies in the Department of Finance, in collaboration with the Auditor General, looking toward the development of better methods of presentation of the transactions of revolving funds such as those of the Printing Fund and the Purchasing Revolving Fund, in the printed budget for the 1962-63 fiscal year.

Devonshire Downs

In the 1959 session, the Legislature abolished the 51st District Agriculture Association and transferred the property to the Department of Finance. The Legislature was to determine if the property should be used to meet the educational needs of San Fernando Valley State College or some other urgent education use. (Chapter 1733, Statutes of 1959). This property, known as Devonshire Downs, was assigned to the supervision of the Administrative Service Office, which leased the facilities and collected costs for management services. Since it has been determined that the property will not be utilized by San Fernando Valley State College, we suggest that appropriate action be taken to dispose of the property as surplus state property.

Economic Development Agency

This agency was created by Chapter 1911, Statutes of 1959, in effect September 18, 1959, for the purpose of encouraging new business and industries to locate in California and also to render advice and provide economic information for existing California firms.

The major functions of this agency are to:

- (1) Gather and disseminate statistical information useful to industry, commerce and agriculture.
- (2) Sponsor or conduct studies of factors affecting the development of economic activity in California.
- (3) Promote and encourage the location of new and the expansion of existing businesses in California.
- (4) Aid business concerns in their relationship with appropriate federal agencies.

The head of this agency is the commissioner, who is appointed by and serves at the pleasure of the Governor. The first commissioner was appointed in September of 1959 and held office until September 1960. The present commissioner was appointed in January 1961.

Department of Finance—Continued

The first commissioner, who had a leave of absence from his teaching duties at University of California at Los Angeles, operated out of the Los Angeles office. This arrangement resulted in a lack of centralized development for the agency. We are informed that the present commissioner intends to make the Sacramento office his headquarters.

This agency has a staff of 15.5, of which two are administrative, one is an economist, six are field men and 6.5 clerical.

Although it is primarily an economic agency, it has only one economist position on its staff and has relied upon contract services for its economic research. During 1961-62, the contract services are budgeted at \$60,000 which amounts to about 25 percent of the budget.

The headquarters office of this agency is in Sacramento, and branch offices are in San Francisco and Los Angeles.

ANALYSIS

The expenditure program of the Department of Finance for 1961-62, as detailed on budget pages 314 to 327, is supported by appropriations from three funds as follows:

Fund	Budget Act Appropriation			Total expenditures
	Item number	Amount	Retirement	
General Fund	121	\$8,083,468	\$500,000	\$8,583,468
Fair and Exposition Fund.....	122	238,959	16,200	255,159
School Building Aid Fund.....	123	773,372	51,200	824,572
Total.....		\$9,095,799	\$567,400	\$9,663,199

The total increase in proposed expenditures amounts to \$84,440 or 0.9 percent. A detail of this increase by division or other unit is shown in Table 2.

Table 2—Analysis of Increase in Expenditures, by Division or Unit Expenditures

Division or unit	Estimated 1960-61	Proposed 1961-62	Increase or (—) decrease
Executive Office	\$311,931	\$330,200	\$18,269
Administrative Service Office	852,335	867,742	15,407
Audits	860,805	886,039	25,234
Budget	670,577	669,916	—661
Buildings and Grounds.....	3,617,877	3,557,583	—60,294
Communications	130,121	145,989	15,868
Economic Development Agency.....	230,227	233,240	3,013
Fairs and Expositions.....	137,275	138,959	1,684
Local Allocations	764,801	773,372	13,571
Organization and Cost Control	426,237	441,204	14,967
Planning	111,573	116,301	4,728
Property Acquisition	20,052	20,052	—
Purchasing	884,548	910,202	25,664
Subtotal	\$9,018,359	\$9,095,799	\$77,440
Painting portrait of Governor.....	3,000	—	—3,000
Retirement contributions	557,400	567,400	10,000
Total	\$9,578,759	\$9,663,199	\$84,440

A further analysis of the increase, by category, is shown in Table 3.

Department of Finance—Continued

Table 3—Analysis of Increase in Expenditures, by Category

	1960-61	1961-62	Increase or (—) decrease
Salaries:			
Positions now authorized.....	\$10,968,319	\$11,226,240	\$257,921
Proposed increase in positions, net..	---	108,136	108,136
Salary savings	—260,970	—232,600	28,370
Total salaries.....	\$10,707,349	\$11,101,776	\$394,427
Operating expenses	4,506,949	4,544,237	37,288
Equipment	82,613	51,819	—30,794
Reimbursements	—6,278,552	—6,602,033	—323,481
Retirement contributions	557,400	567,400	10,000
Painting portrait of Governor.....	3,000	---	—3,000
	\$9,578,759	\$9,663,199	\$84,440

The increase of \$394,427 in salaries is due to salary increases, a net increase of 20, in proposed new positions and a decrease in salary savings, and is offset in large part by an increase of \$323,481 in reimbursements, which is due largely to an increase of \$267,711 or 8.8 percent, in charges to other agencies for janitorial and maintenance services by the Buildings and Grounds Division, indicated on budget page 320, line 27.

Without this increase the expenditures of the Buildings and Grounds Division, as shown in Table 1, would have shown an increase of \$207,417, rather than a decrease of \$60,294.

A total of 27 new positions are requested for 1961-62. Of these, 17 appear to us to be justified on a workload basis, while we are recommending disapproval of the remaining 10. Our reasons, in each instance, are set forth by division in the sections which follow.

Executive Office

We recommend approval of one assistant counsel, \$7,728, budget page 315, line 42.

This position is requested as a result of the increasing legal activity on water contracts. In August 1960, the Attorney General rendered an opinion that water contracts negotiated by the Department of Water Resources require the approval of the Director of Finance before appropriations are expended. The new position will meet the increased workload resulting from the legal activity on master and individual contracts, not only on existing water projects but on future projects authorized from the State Water Bond Act which was approved by the voters at the last general election.

The budget request for 1961-62 includes funds for three existing deputy director positions, budget page 315, line 25. One of these positions, which may be further identified on page 218, line 32 in the salary supplement, has been vacant since December 1959, and was still vacant on January 9, 1961.

We recommend deletion of one deputy director position, \$12,520, budget page 315, line 25.

Department of Finance—Continued

This recommendation is comparable to similar recommendations we have made in other agencies, in the interests of economy, where existing positions have been vacant for long periods of time, and no demonstration of need has been made.

Administrative Service Office

This division includes the accounting office and the departmental library. Included in the accounting office is a tabulating unit. The accounting office maintains the records and accounts of all support and capital outlay appropriations assigned to the Department of Finance, except appropriations for fairs and expositions, printing, and state lands. It also does the bookkeeping for the Purchasing Revolving Fund, handles accounts for 12 smaller agencies on a reimbursable basis and processes reimbursements from other state agencies for services rendered by the department.

The division is currently undergoing expansion of its departmental library and the tabulating unit of the accounting office to implement improved procedures and programs. It is requesting 11 additional positions, including 1 for the library and 10 for the tabulating section. The request for the latter 10 positions is based on the department's continuing program for improving clerical procedures. The program is based on continuing study being conducted by the Organization and Cost Control Division which periodically reports on the feasibility of converting data processing from manual to machine accounting methods. On the basis of our analysis of this study and tabulating section operations, we submit the following recommendations:

We recommend elimination of the following positions:

Position	Number	Amount	Budget	
			Page	Line
Tabulating machine operator-----	1	\$4,500	316	20
Key punch operator-----	2	7,900	316	21
Intermediate clerk-----	2	7,933	316	22
Total-----	5	\$20,333		

These five positions are requested to implement new procedures which may be recommended at a future date by the study mentioned in the foregoing. These positions relate to possible procedural changes anticipated for Purchasing Division, Property Acquisition, Buildings and Grounds, Budget Division and Local Allocation Division. It appears to us, however, that the status of these projects provides no basis for the need of these positions. Regarding the Purchasing Division, the recommendations that purchase orders be processed on machine by the tabulating section for statistical analysis were implemented as of March 1959. The increased workload resulting from this additional operation was absorbed by the existing staff of the tabulating section. The Budget Division and Local Allocation Division projects have not yet been undertaken.

Department of Finance—Continued

Considering the present status of these programs, the absence of recommendations for additional assignments or anticipated workload for the tabulating section, we see no justification for these positions and recommend that they not be approved. We recommend that the Organization and Cost Control Division in its future projects in this area indicate savings in costs between existing and proposed procedures, as related to improved efficiency anticipated from the new procedures.

We recommend the approval of one senior tabulating machine operator, one tabulating machine operator, two key punch operators and one intermediate clerk, budget page 316, lines 19-22, for \$22,139.

These five positions were originally included in the 1960-61 Budget on a temporary basis and are now being budgeted as permanent positions. These positions relate to the portion of the Organization and Cost Control Division study discussed above dealing with the Printing Division. We are informed that as recommended by this study, accounting records of printing plant operations will be processed by the tabulating section starting in January 1961.

We recommend approval of one intermediate clerk position as budgeted for the library service, \$3,900, budget page 316, line 24.

The departmental library is undergoing a reorganization which will combine existing library facilities now located in several divisions, including the Administrative Adviser's Office, Budget Division, Economic Development Agency and Organization and Cost Control Division. Effective during June 1961, the newly centralized library service will be housed in a single physical facility in the Capitol. The requested position is supported by workload data compiled from a sample work survey by the librarian.

Audits Division

Section 13294 of the Government Code reads as follows:

“The department [of Finance] shall examine and expert the books of the several state agencies, at least once every two years, and as often as the director deems necessary.”

The audits division conducts examinations of the accounts of all state agencies pursuant to the foregoing. It also makes annual examinations of the state, district and county fairs as required by law and renders accounting assistance to state agencies on a contract basis.

The present staff of 100 includes 91 financial examiner positions, and two additional examiner positions are requested for handling additional auditing activities resulting primarily from the recent expansion of the state college program.

We recommend deletion of two financial examiner II positions, \$13,344, Budget page 317, line 13.

It appears to us that the proper scope and responsibilities of internal auditors for certain agencies, the audit staff of the Department of Finance, and the Auditor General, are not clearly defined nor understood at the present time, and that until these matters are clarified,

Department of Finance—Continued

and possible areas of duplication eliminated, we cannot recommend an increase in staff.

Price Waterhouse & Co., a nationally known firm of certified public accountants, in a survey for the Joint Legislative Budget Committee in 1954 on "Accounting and Auditing for the State of California," outlined a program for the allocation of responsibility as among internal auditors, auditors for the Department of Finance, and auditors responsible to the Legislature, such as the staff of the present Auditor General, which we believe to be essentially sound.

It appears to us that at the present time the total audit effort of the State is not being used in accordance with the general plan outlined in the Price Waterhouse report and that as a result some inefficiencies and duplications exist.

We accordingly recommend that before any increase in staff is granted to the Division of Audits a comprehensive re-examination be made of the present total audit effort in the light of the recommendations contained in the Price Waterhouse & Co. report. We believe such a study could well be assigned to the Auditor General.

The Price Waterhouse report pointed out in 1954 that the work of the existing internal auditors assigned to some of the departments varied considerably in quality and the Audits Division and the Auditor General agree that little progress has been made in improving this situation during the last five years.

The Price Waterhouse & Co. report suggested that the Auditor General should have a staff of between 30 and 40 and that a staff of 80 to 90 should be adequate for the Department of Finance, and also recommended that greater emphasis be placed on developing internal audit staffs in the individual agencies. It also pointed out that more internal auditing in the operating agencies would tend to reduce the scope of the audit work performed by the Department of Finance.

It is interesting to note, in this connection, that one large state agency, the Board of Equalization, has, by administrative reassignment of its existing staff during the current year, increased its internal audit staff from three to five, an additional fact which we believe has a bearing on the increase requested in the Department of Finance audit staff.

We believe the Legislature should give consideration to amending Section 13294 of the Government Code to remove the requirement that audits be made by the Department of Finance at least every two years, since we believe that, in many instances, less frequent audits would suffice.

Budget Division

The Budget Division includes a financial and population research section which conducts the economic research required for its revenue forecasts, population estimates and other basic data which are essential in long range fiscal planning. One additional research position is requested by the division for its city population estimation program.

We recommend approval of the junior research technician position as budgeted, \$5,496, budget page 317, line 75.

Department of Finance—Continued

As a result of 1957 and 1959 legislation, qualified cities and counties may request the Department of Finance to make estimates of their population on a reimbursable basis. (Chapter 2345, Statutes of 1957, and Chapter 512, Statutes of 1959.) The State Controller may use these population estimates in between the decennial federal census as the basis for distributing revenue from motor vehicle taxes and license fees.

The financial and population research section, which conducts this program, anticipates a substantial increase in the number of applications from cities as a result of provisions in the 1959 legislation. The position appears to us to be justified on a workload basis and it is anticipated that reimbursements from the cities will offset the salary of this position.

Buildings and Grounds Division

This division is charged with the operation and maintenance of all state-owned buildings under Department of Finance jurisdiction as well as privately owned buildings where state agencies rent office space. At present, the division services 53 buildings and 67 acres of grounds in Sacramento, San Francisco, Los Angeles, Fresno and Oakland. The division includes building operation personnel such as engineers, janitors and elevator operators, and telephone operators.

The division is requesting four additional positions to meet increased workloads in building operations. During 1961-62 it proposes to abolish six elevator operator positions when the public works building in Sacramento is converted to automation and to eliminate one chief engineer position in Los Angeles.

We recommend the approval of one office building engineer, one janitor and one intermediate clerk, \$15,000, budget page 319, lines 45, 46, and 49.

The first two positions were established on a temporary basis in the 1960-61 fiscal year to relieve a heavy workload situation and are now requested on a permanent basis for the 1961-62 fiscal year.

The building engineer is needed to service the military quarters leased at Town and Country Center in Sacramento, while the janitor is being utilized for servicing the two branch offices of the Department of Water Resources in Sacramento which cannot be satisfactorily done under present arrangements. The proposed intermediate clerk will be assigned to the telephone office in San Francisco to handle billings and perform other clerical functions and appears to be justified on a workload basis.

We recommend deletion of one telephone operator, \$3,900, budget page 319, line 47.

This position is requested for the capitol telephone exchange in Sacramento to provide an operator for an additional unit at the switchboard which will be ready for operation in January, 1962. The capitol telephone exchange will activate two operator positions in January, 1961, when two new PBX units are ready for operation. Workload data supported the need for the latter two positions which were budgeted for the 1960-61 fiscal year. No workload data was avail-

Department of Finance—Continued

able, however, which projected any anticipated increase in workload that could not be handled by the existing operators in the 1961-62 fiscal year.

Communications Division

This division serves as a technical staff for the Director of Finance and the State Communications Advisory Board. It provides the technical service for co-ordinating communication systems utilized jointly by state and local public agencies as well as for communication facilities operated by state agencies. The division has responsibility for installing and maintaining new and existing communication systems and devotes considerable attention to engineering and operating problems relating thereto. The radio maintenance section with a staff of 77 provides centralized maintenance services, through its 37 shops located throughout the State, for state agencies utilizing radio equipment. This service is financed by the Purchasing Revolving Fund, which is discussed elsewhere in our analysis. The communications system now operated by the State includes radio, telephone, teletype and microwave. The statewide microwave system, which is maintained by this division, is discussed under the Forestry Division in the Department of Natural Resources elsewhere in our analysis.

The staff of this division, shown on budget page 320, consists of 14, which is exclusive of the 77 positions shown in the Purchasing Revolving Fund operation. These include an associate communications engineer located in the Sacramento office, who supervises that group.

We recommend deletion of the assistant division chief, \$11,400, budget page 320, line 60.

The requested position is intended to relieve the division chief of general administrative workload which has developed from the increase of services in radio maintenance and installation of the state microwave system. However, no information on the administrative responsibilities to be assigned to the new position or data to support an increase of workload at the top administrative level has been presented, and it appears to us that the position is not warranted on a workload basis.

The existing supervisory staff appears to be adequate for this type of organization since it includes two senior communications engineers who exercise supervision over a technical staff of six engineers and the associate engineer in charge of radio maintenance has four supervisors in charge of field operations.

Economic Development Agency

We recommend that the \$60,000 budgeted for contract services, budget page 321, line 35, be deleted.

During the calendar year 1960 this agency contracted for seven research projects costing \$78,928, as shown in Table 4.

It will be noted from Table 4, that five of the contracts deal with specific industries, mainly those associated with Central and Southern California rather than with the State's economy as a whole, and also that all except one of the contracts were given to graduate students or members of the faculty of the University of California at Los Angeles.

Department of Finance—Continued

Table 4—Research Contracts Made by the Economic Development Agency During the Calendar Year 1960

Subject	Cost	Personnel	Estimated completion date
1. Study of Employment -----	\$23,950	3 UCLA professors	January 1961
2. Textile and Apparel Industries ----	2,800	UCLA graduate student	January 1961
3. Impact of California's Tax and Fiscal Structure on Industrial Development -----	15,028	UCLA professor	January 1961
4. Fruit and Vegetable Canning and Freezing Industries -----	5,700	UCLA graduate student	February 1961
5. Opportunities for Expansion of Machinery Industry -----	14,000	2 UCLA graduate students	April 1961
6. Fabricated Metal Products Industry -----	16,500	UCLA professor	April 1961
7. Followup Study on Textile Mills in California -----	950	Private firm	February 1961
Total -----	\$78,928		

The only material issued to date, as a result of these contracts, is a partial report on item 1 in Table 4. This report attempted to establish procedures whereby any community in California could estimate what percentage of its labor force was engaged in the production of goods and services to be marketed outside of the community, either in other areas of California or in areas outside the State. The objective of this report has merit but we doubt if the conclusions in their present form have any practical application.

The agency has presented no program for the use of the \$60,000 requested for contract services for 1961-62.

Many public agencies and private organizations in California are already producing quality research on various aspects of the statewide economy. We suggest that the agency devote more of its efforts to utilizing this information and encouraging interested groups to undertake useful studies rather than sponsoring extensive projects on its own.

In addition to economic research the agency has also used contract services for promotional activities. In June of 1960, the agency spent \$9,600 in connection with the Governor's Good Neighbor Conference in Los Angeles. We do not believe that this activity was a proper function because it is closely associated with direct advertising, which was clearly contrary to legislative intent when this agency was created. Also, it established a precedent with respect to future expenditures by the agency.

We recommend that the San Francisco and Los Angeles branch offices be closed and that rent of \$8,754, budget page 321, line 34, and any other expenses directly related to these offices be deleted.

During the next year or two the main activity of the business development specialists assigned to these offices will be to assist local communities in preparing their area economic surveys and establishing

Department of Finance—Continued

local economic development groups. This activity already involves considerable traveling. The maintenance of branch offices, at this stage of the agency's development and level of staffing, does not appear economical. Public contacts at these offices will be mainly to obtain information on available plant sites. However, the local offices do not have this information at the present time. Therefore, we believe the public will obtain better service, and the agency will have more flexibility in the development of its staff if all activities are centralized in the Sacramento headquarters.

We recommend elimination of \$31,563 for the following existing positions now located in branch offices:

Class	Amount	Budget	
		Page	Line
1 Senior business development specialist -----	\$10,752	321	18
1 Associate business development specialist ----	8,520	321	18
1 Senior stenographer-clerk -----	5,459	321	20
1 Intermediate stenographer-clerk -----	4,332	321	20
Temporary help -----	2,500	321	21
Total -----	\$31,563		

The existing personnel of this agency, as of January 1961, are distributed as follows:

Monthly salary range	Positions	San			Totals
		Sacramento	Fran-cisco	Los Angeles	
\$1,516	Commissioner -----	1	--	--	1
1,243	Deputy commissioner -----	1	--	--	1
821-998	Senior industrial economist -----	--	1	--	1
821-998	Senior business development specialist -----	1	2	1	4
676-821	Associate business development specialist ----	1	--	1	2
376-458	Senior stenographer-clerk -----	1	1	1	3
341-415	Intermediate stenographer-clerk -----	1	1	1	3
	Temporary help -----	--	0.5	--	0.5
	Totals -----	6	5.5	4	15.5

Currently there are four senior business development specialist positions, one each in Sacramento and Los Angeles and two in San Francisco. Since the main function of these positions, which are essentially field positions, is working with local communities, we see no reason why the San Francisco office with its concentrated area should have more staff than the other areas which have either a larger geographic area or a greater population. If these positions are transferred to Sacramento, the reduced staff should be sufficient to handle their present workload.

One associate position should be sufficient to handle the office work of the three senior field men.

Currently this agency has 6.5 clerical positions for eight executive and technical personnel. This is a very high ratio and by centralizing the agencies operations in one office, with a reduced staff, the four remaining clerical positions should be more than ample for the remaining six executive and technical positions.

We also recommend the position of deputy commissioner \$14,910, be abolished, budget page 321, line 17.

Department of Finance—Continued

The above budget reductions would leave this agency with a technical staff of six positions instead of the current eight. We doubt that two high salaried executives are needed to supervise either the existing or the reduced staff.

We believe, that the agency should put major emphasis on:

- (1) Outlining a program, which it apparently does not now have, which focuses attention on pertinent problems having statewide significance as a guide for interested groups, and
- (2) Co-ordinating the efforts of existing groups engaged in furthering economic development in order to make the most effective use of available facilities and information.

Local Allocation Division

This division constitutes the technical staff for the Director of Finance and State Allocation Board. It has responsibility for the administration of several programs of state aid to local governmental agencies which is almost entirely confined to the State Building Aid program at the present time. The division is requesting an additional position for its clerical staff.

We recommend approval of the senior account clerk position, \$4,512, budget page 322, line 53.

This position is requested to provide a clerical position for the Northern California area office on the same basis as provided in the Bay and Southern California offices. In 1960-61, the latter two offices were granted one clerical position each to handle the routine work of processing documents relating to furniture and equipment allowances for school districts. These are now handled by the professional staff in the Northern California office. This position will relieve the professional staff of this work and appears justified on this basis.

Organization and Cost Control Division

This division provides services and management research through conducting studies and making recommendations to state agencies for improving their accounting and administrative procedures. The division also includes a unit which processes employees' suggestions for evaluation by the Merit Award Board. An additional clerical position is requested to this unit.

We recommend deletion of one intermediate typist-clerk \$4,092, budget page 323, line 36.

This position is requested to meet the immediate clerical workload which has developed primarily from the Governor's Work Improvement Proposal Program. This program was designed to give training to supervisors and employees. It was administered in conjunction with the Training Division of the State Personnel Board and provided training to some 9,500 supervisors and employees in work simplification procedures. The program was in effect during 1959 and 1960, and it is estimated that the work will not be complete until July, 1961. Excess workloads which have developed periodically from such projects, or regular projects of the Merit Award Board, have been expedited with assistance from temporary help and the central typing pool as well as

Department of Finance—Continued

by the use of form letters. Considering that the Governor's Work Improvement Proposal Program is terminated and assistance is available for handling periodic heavy workloads, we believe there is not an adequate basis to justify the proposed position.

Property Acquisition Division

This division has responsibility for administering the state real estate program. It procures property for new and expanding state office and institutional buildings, manages state property in the interim before it is transferred to authorized state agencies, and disposes of surplus state property. The division also serves as the secretariat for the State Public Works Board and as adviser to the Director of Finance on real estate transactions of all state agencies which require his approval. Two temporary positions are being proposed for permanent status in the current budget.

We recommend approval of one associate land agent, \$9,384, and one junior-intermediate stenographer-clerk, \$4,404, as budgeted on page 324, lines 78 and 74, to June 30, 1962 only.

In the spring of 1960, these positions were established on a temporary basis to activate the surplus property program which up to that time lacked proper staffing. The division is now requesting that these positions be continued on a permanent basis.

We recommend that they be continued for an additional year only, to terminate on June 30, 1962, since revenue from sale of state lands is expected to decrease after June 30, 1962.

Purchasing Division

This division is the central purchasing agency for all state departments and institutions, except the University of California. It is headed by the state purchasing agent who also is responsible for the central stores activities and the automotive management activities carried on under the Purchasing Revolving Fund, with staffs of 27.2 and 118.6 respectively, for 1961-62.

Two additional clerical positions are requested to provide needed clerical assistance to the buyers staff, by bringing the ratio of buyers to clerks up to the standard ratio of one buyer to two clerks in the San Francisco and Los Angeles area offices.

We recommend approval of two intermediate typist-clerk positions, budget page 326, line 18, \$3,996 and line 20, \$3,996.

It appears to us that the positions are justified on a workload basis.

We recommend approval of one parking facilities specialist, \$8,520, budget page 326, line 22.

The request for the parking administrator stems from Senate Concurrent Resolution, No. 43, passed by the 1959 Legislature, which related to the need for state employees parking facilities. The Department of Finance has assigned responsibility for this program to automotive management. A similar position was established on a temporary basis in August 1960, but is presently unfilled. It appears to us that the program will entail continuing problems which will develop from the normal expansion of the state government and that these problems will

Department of Finance—Continued

require special attention which cannot be given by the present staff.

We have pointed out in previous years that it does not appear to us that the automotive management activities belong in the Purchasing Division, since they are primarily concerned with the operation of the state automotive pool, supervision of state garages and parking facilities, and other related activities, rather than to purchases.

The Auditor General has called attention to misuse of state cars in certain agencies, a condition which has apparently extended over a considerable period of time at a substantial cost to the State.

Indications of possible misuse can be obtained from records on file in the automotive management section, and we believe that failure to obtain and use this information, on a timely basis, is an indication of the need for more direct administrative concern with this function by top management in the department.

DEPARTMENT OF FINANCE

ITEM 122 of the Budget Bill

Budget page 314

FOR ADDITIONAL SUPPORT OF DEPARTMENT OF FINANCE FROM THE FAIRS AND EXPOSITION FUND

Amount requested	\$238,959
Contribution to State Employees' Retirement System	16,200
Total	\$255,159
Estimated to be expended in 1960-61 fiscal year	253,475
Increase (0.7 percent)	\$1,684
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

Of this appropriation \$138,959 is for support of the Fairs and Expositions Division and \$100,000 is for audits of county and district fairs by the Audits Division, the details of which are included in the analysis of Budget Bill Item 121. Any change in that item affecting these activities will require a corresponding adjustment in this item also.

We recommend approval as budgeted, subject to the foregoing qualification.

DEPARTMENT OF FINANCE

ITEM 123 of the Budget Bill

Budget page 314

FOR ADDITIONAL SUPPORT OF DEPARTMENT OF FINANCE FROM THE SCHOOL BUILDING AID FUND

Amount requested	\$773,372
Contribution to State Employees' Retirement System	51,200
Total	\$824,572
Estimated to be expended in 1960-61 fiscal year	811,001
Increase (1.7 percent)	\$13,571
TOTAL RECOMMENDED REDUCTION	None

Department of Finance—Continued

GENERAL SUMMARY

This appropriation is all for support of the Local Allocations Division, the details of which are included in the analysis of Budget Bill Item 121. Any change in that item affecting this division will require a corresponding adjustment in this item also.

We recommend approval as budgeted, subject to the foregoing qualification.

Department of Finance

CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 124 of the Budget Bill

Budget page 328

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

Amount requested	\$2,396,478
Contribution to State Employees' Retirement System	39,000
Total	\$2,435,478
Estimated to be expended in 1960-61 fiscal year	2,442,092
Decrease (0.3 percent)	\$6,614
TOTAL RECOMMENDED REDUCTION	\$58,956

Summary of Recommended Reductions

	Amount	Budget Page	Line
Increase in items having over \$1,000			
in direct fair operating expense	\$8,956	329	47
Advertising and public relations	50,000	329	28

GENERAL SUMMARY

The California State Fair and Exposition is authorized under the provisions of Article 1, Sections 70 through 77, of the Agricultural Code. Funds for operation of the fair are provided as set forth in Sections 19622 and 19624 of the Business and Professions Code, which makes allocations from the Fair and Exposition Fund. Presently, the statutes provide support for the California State Fair in the amounts of \$250,000 and \$15,000 for the junior show.

In 1961, a new program titled "A Spring Festival" will be initiated on the state fairgrounds under the joint auspices of the State Fair and 52nd District Agricultural Association. This Spring Festival will be held for nine days, April 15 to 22d, inclusive. The horse show, formerly a feature of the State Fair, will now be a feature of the festival and we have been informed that this change meets with the approval of the various horsemen's associations throughout the State.

The following table has been prepared to show the relationship of expenditures to revenues. In the past nine years, revenues have never risen above 75.6 percent of expenditures. However, the agency has estimated that revenues will increase to 78.6 percent of expenditures in the 1961-62 fiscal year.

California State Fair and Exposition—Continued
Comparison of Total Expenditures and Revenues

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenues as percent of expenditures</i>
1952-53	\$1,890,797	\$1,265,236	\$625,561	66.9
1953-54	1,895,223	1,352,177	543,106	71.3
1954-55	1,964,428	1,281,100	683,328	65.2
1955-56	1,876,802	1,264,887	611,915	67.4
1956-57	2,104,397	1,470,357	634,040	70.0
1957-58	2,156,394	1,432,477	723,917	66.4
1958-59	2,126,993	1,449,405	677,588	68.1
1959-60	2,109,833	1,544,923	564,910	73.2
1960-61 *	2,457,092	1,859,066	598,026	75.6
1961-62 *	2,450,478	1,933,200	517,278	78.9

* Estimated as shown in 1961-62 Budget.

The following table reflects the annual per capita cost of the deficit of the State Fair when measured by the total number of paid attendance :

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid attendance</i>	<i>Per capita cost of deficit</i>
1951-52	\$587,300	481,862	\$1.22
1952-53	625,561	481,575	1.30
1953-54	543,106	473,099	1.15
1954-55	683,328	505,567	1.36
1955-56	611,915	373,363	1.64
1956-57	634,040	463,779	1.37
1957-58	723,917	458,300	1.58
1958-59	677,588	457,200	1.48
1959-60	564,910	518,647	1.09
1960-61 *	598,026	521,495	1.15
1961-62 *	517,278	450,000	1.15
Totals	\$6,766,969	5,184,887	\$1.30

* Estimated as shown in 1961-62 Budget.

Paid attendance for 1961-62 predicated on free admission for children under 16 years of age.

The deficit for the 11-year period, as set forth in the above table, will total \$6,766,969. The average per capita loss on a paid attendance of 5,184,887 for this same period is \$1.30. It is noted on the basis of the agency's estimate that the per capita loss is expected to be \$1.15 in 1961-62, which is identical with the per capita loss for the prior year.

ANALYSIS

Salaries and Wages

Salaries and wages for 1961-62 are scheduled at \$1,056,544 for 202.5 authorized positions. This is a decrease of \$92,465 or 8 percent under the \$1,149,009 estimated to be expended in 1960-61. The budget reflects a reduction of 20.2 temporary help positions in 1961-62.

Operating Expenses

Total operating expenses are scheduled at \$1,433,387 for 1961-62. This is an increase of \$29,810 or 2.1 percent over the \$1,403,577 estimated to be expended in 1960-61. The items of increase are related to the State Fair and not to the Spring Festival which has budgeted the

California State Fair and Exposition—Continued

identical amount for operating expenses in 1961-62 that they estimate will be expended in the current year.

The following table reflects the budget requests submitted by the agency for operating expense in prior years, with the re-estimate the following year, and the actual expenditure as related to the original budget request:

Fiscal year	Budget request	Operating Expense		Increase or decrease	Percent
		Revised budget	Actual expense		
1955-56	\$1,171,405	\$1,347,344	\$1,307,853	\$136,448	11.6
1956-57	1,311,785	1,291,146	1,331,935	20,150	1.5
1957-58	1,321,464	1,480,982	1,423,978	102,514	7.7
1958-59	1,288,957	1,370,612	1,263,353	—25,604	—1.9
1959-60	1,225,112	1,202,930	1,148,848	—76,264	—6.2

The principal items of increase by function are as follows:

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

	Increase	
	1961-62 over 1960-61	
	Amount	Percent
General expense	\$1,212	6.9
Rental equipment	1,244	4.8
Decorations	2,500	12.2
Night show	4,000	25.0
Total in items having over \$1,000 increase	\$8,956	

The agency has not submitted any information to justify their request for increases applying to the above listed items.

Furthermore, there is no indication that the proposed increases would improve either the attendance or the revenues at the fair.

We recommend a reduction of \$8,956 in operating expense from the agency's budget.

Advertising and Public Relations

The agency is requesting \$90,000 for advertising purposes in 1961-62, an increase of \$46,000 or 104.5 percent over the amount of \$44,000 estimated to be expended in 1960-61. No information has been submitted by the agency to indicate that the amount of money allocated for paid advertising has had any appreciable effect on the attendance at the fair. In a prior year's analysis, we pointed out that, despite a reduction of \$46,498 in the allocation for paid advertising in 1959-60, paid attendance at the fair increased 13.4 percent. In 1960-61, the Legislature reduced the agency's request for this function \$44,000. However, paid attendance increased 3,816 or 0.7 percent over the prior year despite the increase from 50 cents to \$1 for an adult admission.

We believe the management can continue to conduct their advertising program on a comparable basis with their prior year's operation with no adverse trend being reflected in the attendance at the fair.

We, therefore, recommend that the amount requested for paid advertising be reduced to \$40,000, a reduction of \$50,000 in the amount budgeted for advertising.

California State Fair and Exposition—Continued

Equipment

Equipment expenditures are scheduled at \$27,092 for 1961-62. This is an increase of \$9,041, or 50.1 percent over the amount of \$18,051 estimated to be expended in the 1960-61 fiscal year.

The following table reflects the budget requests submitted by the agency for equipment in prior years, with the re-estimate the following year, and the actual expenditure as related to the original budget request:

Fiscal year	Equipment				
	Budget request	Revised budget	Actual expense	Increase or decrease	Percent
1955-56	\$22,395	\$22,552	\$14,313	—\$8,082	—36.0
1956-57	19,747	19,859	19,110	—637	—3.2
1957-58	23,458	17,308	15,517	—7,941	—33.8
1958-59	11,677	11,427	9,633	—2,044	—17.5
1959-60	11,498	11,498	10,719	—779	—6.8

The major items of increase are the second increment of drapes for Governor's Hall, two replacement automobiles and new turnstiles and coin converters at a cost of \$10,950.

The budget, as originally submitted, requested \$28,914 for equipment. *We believe equipment requests are generally in line as now budgeted, and recommend approval.*

Department of Finance

CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 125 of the Budget Bill

Budget page 332

FOR AUGMENTATION OF THE STATE FAIR FUND FROM THE GENERAL FUND

Amount requested	\$230,000
Estimated to be expended in 1960-61 fiscal year	199,270
Increase (15.4 percent)	\$30,730
TOTAL RECOMMENDED REDUCTION	\$58,956

The 1959 Legislature amended the statutes to provide that deficiency allocations to the State Fair Fund should be made from the General Fund.

In line with our analysis of the State Fair, we recommend that \$58,956 be deducted from the \$230,000 requested to be transferred from the General Fund.

Department of Finance

SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 126 of the Budget Bill

Budget page 333

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

Amount requested	\$466,951
Contribution to State Employees' Retirement System	17,000
Total	\$483,951
Estimated to be expended in 1960-61 fiscal year	468,697
Increase (3.3 percent)	\$15,254
TOTAL RECOMMENDED REDUCTION	None

Sixth District Agricultural Association—Continued
GENERAL SUMMARY

The Sixth District Agricultural Association was formed under the provisions of Chapter 69, Statutes of 1880. The operational authority for the association is contained in Article 2, Sections 80 through 92, of the Agricultural Code.

Historically, the function of the Sixth District has been the operation and maintenance of the California Museum of Science and Industry and the parking lots for the Los Angeles Memorial Coliseum and Memorial Sports Arena.

In the current year, 26,000 square feet of exhibit space was added to the science wing and the agency proposes to construct a new building in 1961, to be financed by the federal government, to house a permanent exhibit of the peaceful public uses of atomic energy.

ANALYSIS

Total expenditures for 1961-62, including retirement costs, are proposed at \$483,951, an increase of \$15,254, or 3.3 percent, over the amount of \$468,697 estimated to be expended in 1960-61.

The following table reflects the expenditures and revenues for a five-year period:

	1957-58	1958-59	1959-60	1960-61*	1961-62*
Total expenditures †	\$263,401	\$495,398	\$370,625	\$468,697	\$483,951
Total revenues	258,303	447,113	576,556	609,000	660,500
Excess of expenditures over revenues	\$5,098	\$48,285	—\$205,931	—\$140,303	—\$176,549

* Estimated, as shown in 1961-62 Budget.
 † Includes funds for State Employees' Retirement.

The above table shows a substantial improvement in revenue in the budget year, which can be attributed to the estimated increase in parking lot revenue for 1961-62 fiscal year.

Salaries and Wages

The total amount requested for salaries and wages for 1961-62 is \$310,448, an increase of \$17,488, or 6 percent, over the total of \$292,960 scheduled for expenditure in this category during 1960-61.

The change in salary and wage costs is attributable to merit salary increases on 58 established positions and a total of four proposed new positions costing \$21,696.

The association owns and now operates the parking lots on approximately 26 acres of land surrounding Exposition Park. The funds to acquire and develop this property were advanced from the General Fund and the State Beach and Park Fund. These loans are being repaid in annual payments with interest from the revenue derived from the parking lots.

1 Assistant parking operation supervisor (budget page 334, line 76)	\$6,360
1 Parking meter collector and repair man (budget page 334, line 78)	4,664
1 Maintenance man—district fairs (budget page 334, line 79)	4,900

Sixth District Agricultural Association—Continued

In the current year the three positions were approved on a temporary basis to handle increased parking operations and related maintenance functions.

The agency now requests that these positions be established on a permanent basis to handle the increased workload of the parking operation.

The parking lot revenue is estimated to increase \$51,500 or 9.6 percent in 1961-62.

We recommend approval of these positions.

1 Senior exhibit designer-installer (budget page 334, line 38)— \$5,772

This position is requested to meet increased workload created by the expansion of the science wing which added approximately 26,000 square feet of permanent exhibit space to the facility. This position will also assist in related administrative duties to his function of designing and installing exhibits.

We recommend approval of this position.

Operating Expenses

Operating expenses are scheduled at \$217,448 for 1961-62. This represents an increase of \$6,516 over the amount of \$210,932 estimated to be expended in 1960-61 fiscal year.

The principal items of increase by function are:

Recurring maintenance—structure and grounds.....	\$3,500
Exhibit expense	3,000
Replace defective tile in horticulture hall.....	1,000

Equipment

Equipment expenditures are scheduled at \$4,627 for 1961-62. This is a decrease of \$6,661 or 59 percent under the amount of \$11,288 estimated to be expended in 1960-61.

We recommend approval of the item as budgeted.

Department of Finance**SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 127 of the Budget Bill

Budget page 337

FOR AUGMENTATION OF THE SIXTH DISTRICT AGRICULTURAL ASSOCIATION FUND, FROM THE GENERAL FUND

Amount requested.....	\$190,000
Estimated to be expended in 1960-61 fiscal year.....	190,000

Increase	None
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TOTAL RECOMMENDED REDUCTION.....	None
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ANALYSIS

In accordance with our review of the fiscal position of the Sixth District in the foregoing item, *we recommend approval of the amount requested by this transfer item.*

Department of Finance
STATE LANDS DIVISION

ITEM 128 of the Budget Bill

Budget page 338

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

Amount requested -----	\$1,115,442
Contribution to State Employees' Retirement System -----	57,990
Total -----	\$1,173,432
Estimated to be expended in 1960-61 fiscal year -----	1,175,388
Decrease (0.2 percent) -----	\$1,956
TOTAL RECOMMENDED REDUCTION -----	None

GENERAL SUMMARY

The Public Resources Code provides that "There is a State Lands Commission in the Department of Finance, consisting of the Controller, the Lieutenant Governor, and the Director of Finance." (Section 6101), which "... shall administer all laws and statutes committed to it through the Division of State Lands of the Department of Finance ..." (Section 6103). Vested in the Commission is "... full authority, as provided by law, to administer, sell, lease or dispose of the public lands owned by this State or under its control, including not only school lands but tidelands, submerged lands, swamp and overflowed lands, and beds of navigable rivers and lakes ..." and it is "... authorized to provide for the extraction of minerals and oil and gas from any or all of such lands ..." (Section 6216).

The commission acts exclusively as a policy-making body and as such has delegated administrative responsibility to an executive officer whose principal office is in Los Angeles, with branches in Santa Barbara, Huntington Beach, Rio Vista, Long Beach and Sacramento, the latter office being exclusively concerned with land records and sales.

The following table shows the authorized personnel for 1961-62, exclusive of additional positions requested, classified by general functions performed:

<i>Function</i>	<i>Number</i>
Executive -----	2
Administrative -----	9
Legal -----	2
Engineering and related -----	51
Auditing -----	8
Appraisers and other real property specialists -----	13
Clerical -----	28.4
Total -----	113.4

Of the total staff about 15 are normally assigned to the Land Records and Sales Section in Sacramento and the balance to the various offices in the southern part of the State.

Various codes and general laws charge the commission with responsibilities, the principal activities thereunder being summarized as follows:

1. Litigation: The division performs the technical staff work for the

State Lands Division—Continued

Attorney General in connection with state land litigation which mainly concerns oil properties. Pending at this time are about 140 actions including the following principal cases:

a. In *Orange County v. State*, the county is claiming certain tidelands, title to which is nominally in the State. The case is not at this time being pressed but success on the part of the county would cost the State revenues in the millions of dollars, the exact amount not having been estimated.

b. In *United States v. Anchor Oil*, the government is claiming some \$70 million of the State, the City of Long Beach and various oil producers for subsidence damage to its Long Beach naval shipyard. The matter has not, however, been set for trial.

c. In two actions by the State against the City of Long Beach, the State is seeking a determination of boundaries generally and a quit claim to mineral rights to certain tidelands at Alamitos Bay. The trial court found for the city in the latter case and the Attorney General has filed an appeal.

2. Surveying, monumenting and platting tidelands granted to political subdivisions of the State. This work is reimbursable.

3. Leasing of mineral lands, primarily oil tidelands: During the current year it is anticipated that between three and six areas of tide and submerged lands offshore Santa Barbara County will be offered for lease. Additionally, a parcel of such lands located at Montalvo, Ventura County, may be offered for lease. Some of the research and investigation in connection with these leases is performed by private agencies, \$14,000 being budgeted for the purpose for 1961-62.

4. Controlling and accounting for oil and gas royalties from approximately 90 active leases located on tide and submerged lands, and the surveillance over operations of the City of Long Beach in connection with the extraction of oil and gas from tidelands granted to the city.

5. Issuing permits for and supervising offshore geophysical and geological exploration for oil and gas. This work is reimbursable, \$12,000 being expected for the budget year.

6. Issuing commercial leases, easements, rights-of-way and recreational permits.

7. Mapping of sovereign lands of the State, both coastal and inland.

8. Maintaining an index of sovereign lands, indicating those encumbered by lease, permit, or otherwise. An amount of \$25,000 has been budgeted to make a special index of lands over which the United States has acquired jurisdiction as required by Section 127 of the Government Code. The agency has contracted the work out to the Remington Rand Company and it is expected to be completed in about two years.

9. Processing applications for purchase of school and federal lands, an important part of which is making appraisals, particularly of timber lands. Some of these costs are reimbursable and it is estimated that such reimbursements will amount to \$31,750 during 1961-62.

10. Maintaining official records relating to all state-owned lands.

In addition to the monetary items mentioned above, \$30,000 has been budgeted as the State's share of costs of determining the boundaries

State Lands Division—Continued

of tide and submerged lands of the City of Long Beach, and reimbursements of \$14,000 are expected for engineering reports and services to other agencies.

ANALYSIS

The agency requests one new associate counsel (\$862-1,048) to augment its existing legal staff of one assistant and one junior counsel.

We recommend approval of the position, budget page 338, line 73, \$9,852.

The division points out, and we agree, that where an agency has a substantial amount of day-to-day legal work, it is costly and impracticable to depend on the Attorney General for advice and work concerning matters of common occurrence and specialized nature. We believe that the nature and volume of the agency's work supports the establishment of a small legal section.

The Attorney General will, of course, continue to handle court litigation and other major matters.

Also requested is a new senior stenographer-clerk (\$376-458).

We recommend approval of the position, budget page 338, line 75, \$4,512.

The increase in the agency's clerical staff, 13 percent since 1955-56, has not kept pace with the comparable increase in total staff of 35 percent. This position will serve as secretary to the assistant executive officer and also perform other duties.

FRANCHISE TAX BOARD

ITEM 129 of the Budget Bill

Budget page 340

**FOR SUPPORT OF FRANCHISE TAX BOARD
FROM THE GENERAL FUND**

Amount requested	\$7,795,099
Contribution to State Employees' Retirement System	457,535
Total	\$8,252,634
Estimated to be expended in 1960-61 fiscal year	8,187,895
Increase (0.8 percent)	\$64,739
TOTAL RECOMMENDED REDUCTION	\$18,000

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Salaries and wages:			
1 Income tax agent, Special Investigations Division	\$8,940	341	27
Operating expenses:			
Traveling in-state, Special Investigations Division	1,690	341	62
Traveling out-of-state, Operations Division	5,000	342	61
Equipment:			
Typewriter replacement, Special Investigations Division	260	341	68
File cabinet, addition, Special Investigations Division	151	341	68
Typewriter stand, addition, Special Investigations Division	31	341	68
Typewriter chair, addition, Special Investigations Division	83	341	68
Photocopy machine, addition, Special Investigations Division	300	341	68
Typewriter replacement, L. A. Regional Office	1,362	343	27
Drinking fountain, addition, S. F. Regional Office	183	343	58
Total	\$18,000		

Franchise Tax Board—Continued

GENERAL SUMMARY

The Franchise Tax Board administers the personal income, bank and corporation franchise, and corporation income taxes. The board, consists of the Chairman of the State Board of Equalization, the Director of Finance and the State Controller. The administrator of this agency is the executive officer, who, according to law, is appointed by the board, with the consent of two-thirds of the Senate and can be removed by the board only with the consent of two-thirds of the Senate. The position is exempt from civil service. The present organizational structure of this agency consists of three divisions, administration, operations and special investigations, with headquarters in Sacramento. For the current fiscal year the administration division has 222.2 authorized positions, all of which are located in Sacramento, and it performs the accounting, cashiering, statistical, legal and appeals functions of this agency. The operations division has 1,008.1 authorized positions, or 81 percent of the total, and it has charge of the auditing, compliance and service functions. As Table 1 illustrates, operations has 669.8 positions in Sacramento, 254.3 in the San Francisco and Los Angeles offices, 54 in the 10 branch offices in California, and 30 in the two out-of-state offices. The special investigations unit was organized during 1951-52, and it consists of a tax counsel, six income tax agents and two clerical positions. Five of the agent positions are assigned to the regional or branch offices.

The disposition of personnel in Table 1 illustrates the following characteristics of the Franchise Tax Board:

1. Temporary help accounts for 20 percent of the authorized positions. This help consists of junior and intermediate clerks and is used to handle workload peaks in the accounting section where tax returns are received, in the files, and in connection with the Federal Comparison Project (FCP) and Information at Source Program (599).

2. The heavy reliance upon manual methods of processing income tax returns is responsible for the high proportion of technician and clerk positions, 71 percent.

3. The headquarters office in Sacramento has 40.3 percent of the board's auditing positions, the two regional offices 40.6 percent, the out-of-state offices 9.2 percent and the 10 branch offices in California 9.9 percent. The heavy reliance upon an office audit of personal income tax returns at headquarters, and upon franchise tax audits both in headquarters and at the regional offices, is largely responsible for this pattern of personnel distribution. The primary motivation for the establishment of branch offices in California is the convenience of the board's auditing and compliance personnel, rather than locations to service the public.

4. The limited number of collector positions indicates the reliance the board places upon the mails for taxpayer compliance.

Franchise Tax Board—Continued

Table 1—Authorized Positions in Franchise Tax Board, 1960-61,
By Division, Location and Type

	<i>Admin.- Legal</i>	<i>Auditors</i>	<i>Collec- tors</i>	<i>Technician- Clerk</i>	<i>Temp. Help</i>	<i>Total</i>
<i>Sacramento</i>						
Administration -----	20	--	--	141	61.2	222.2
Operations -----	2	122	7	370	168.8	669.8
Special investigations --	2	--	--	2	--	4
Total -----	24	122	7	513	230.0	896.0
<i>Operations—S. F. Region</i>						
San Francisco -----	2	47	3	42	9.8	103.8
Oakland -----	--	5	1	3	--	9
San Jose -----	--	5	1	2	--	8
Fresno -----	--	2	--	1	--	3
Santa Rosa -----	--	2	1	1	--	4
Stockton -----	--	2	1	1	--	4
Total -----	2	63	7	50	9.8	131.8
<i>Operations—L. A. Region</i>						
Los Angeles -----	1	76	8	58	7.5	150.5
Long Beach -----	--	5	2	3	--	10
San Diego -----	--	5	1	2	--	8
Bakersfield -----	--	2	--	1	--	3
San Bernardino -----	--	1	1	1	--	3
Santa Barbara -----	--	1	--	1	--	2
Total -----	1	90	12	66	7.5	176.5
<i>Operations, out-of-state</i>						
New York -----	--	14	--	1	--	15
Chicago -----	--	14	--	1	--	15
Total -----	--	28	--	2	--	30
<i>Special Investigations</i>						
San Francisco -----	1	--	--	--	--	1
Oakland -----	1	--	--	--	--	3
Los Angeles -----	3	--	--	--	--	3
Total -----	5	--	--	--	--	5
Grand total -----	32	303	26	631	247.3	1,239.3

Table 2 gives the disposition of the Franchise Tax Board's costs and staff by program for 1959-60. These cost figures contain certain overhead items which are not budgeted directly to this agency and therefore are slightly higher than the total expenditures for this agency for 1959-60, shown on budget page 340, line 41.

Table 2 indicates that 76 percent of the Franchise Tax Board's costs and almost 80 percent of its staff are used to administer the personal income tax. These facts have important budgetary implications which are discussed later in this analysis. The largest single item of cost for the personal income tax is the "basic" program which consists of housekeeping functions, such as accounting, handling the returns, and filing, and does not include any enforcement activities. Next in importance is auditing. Included under compliance are all enforcement activities other than auditing, which has more staff than

Franchise Tax Board—Continued

Table 2—Allocation of Franchise Tax Board Costs and Staff, 1959-60

Tax	Costs		Staff	
	Amount	Percent	Number	Percent
Personal income tax				
Audit -----	\$1,705,399	22.5	233.7	20.4
Compliance -----	1,591,145	21.0	293.8	25.6
Basic -----	2,487,117	32.9	386.8	33.7
Total -----	\$5,783,661	76.4	914.3	79.7
Franchise tax				
Audit -----	\$1,105,041	14.6	129.9	11.3
Compliance -----	81,450	1.1	13.5	1.2
Basic -----	601,440	7.9	89.7	7.8
Total -----	\$1,787,931	23.6	233.1	20.3
Grand total -----	\$7,571,592	100.0	1,147.4	100.0

auditing but its costs are slightly lower. For the franchise tax, auditing dominates, the "basic" program is secondary and compliance is relatively minor.

Summarized by program, rather than by tax, the costs and staff for 1959-60 were allocated as follows:

Program	Percent of cost	Percent of staff
Audit -----	37.1	31.7
Compliance -----	22.1	26.8
Basic -----	40.8	41.5
Total -----	100.0	100.0

Tables 3 and 4 contain more detailed information on the various segments of the auditing and compliance programs for these two taxes, and also show the revenue productivity of the board's enforcement program.

Most personal income tax returns are given a "drawer audit" which consists of an examination of the tax return by a desk auditor in the headquarters office. If the case is too complicated to be handled by correspondence, it is sent to the regional offices for a field audit. RAR's are copies of federal field audits which the board receives and uses as a basis for completing a state desk type audit. The cost of making this type of audit is low and this accounts for the high revenue productivity of this program. The specialist section handles the returns of fiduciaries, deceased persons, etc. Residence and withholding cases are a special type of field audit.

The information at source or "599" program consists of matching W-2 forms supplied by employers, with the employee's tax return to determine if the amount of income agrees and whether or not the employee filed a return. The 599's also cover items of nonsalary income, such as interest, dividends and royalties. In 1959, the Franchise Tax Board revised its federal comparison project, or "FCP" compliance program. Through a co-operative arrangement the federal government now supplies the board with punched cards containing

Franchise Tax Board—Continued

Table 3—Personal Income Tax Costs and Net Revenues
per Dollar of Cost, by Program, 1959-60

<i>Program</i>	<i>Costs</i>	<i>Percent of total</i>	<i>Net revenue</i>	<i>Net revenue per dollar of cost</i>
Audit :				
Field -----	\$734,220	12.7	\$2,646,275	\$3.60
Drawer -----	623,991	10.8	2,018,853	3.23
Revenue Agents Reports (RAR)	159,596	2.8	1,297,574	8.13
Specialists Section -----	112,899	1.9	503,022	4.46
Residence and Withholding----	74,694	1.3	243,146	3.26
Total—Audit -----	\$1,705,400	29.5	\$6,708,870	\$3.93
Compliance:				
Information at Source (599) --	\$967,802	16.7	\$3,220,460	\$3.33
Federal Comparison Project (FCP) -----	448,238	7.8	226,337	.50
Preliminary Examination ----	175,105	3.0	313,064	1.79
Total—Compliance -----	\$1,591,145	27.5	\$3,759,861	\$2.36
Basic :				
Service operations -----	\$2,335,112	40.4	\$252,737,719	\$108.23
Claims -----	152,005	2.6	497,865	--
Total—Basic -----	\$2,487,117	43.0	\$252,239,854	\$101.42
Total—Personal Income Tax	\$5,783,662	100.0	\$262,708,585	\$62.77

certain of the information on the federal returns for all those with an adjusted gross income of \$10,000 or less. These cards are matched on a manual basis against the state returns to ascertain if the amount of income agrees, and whether or not a state return was filed. During 1959-60, this program cost the board about \$450,000 but most of the resulting revenues will be collected during 1960-61.

The preliminary examination section makes a mathematical check of the computations on the returns. The claims section handles taxpayer refunds.

Franchise tax general audits refer mainly to those firms whose income is from sources within California, and allocation audits cover firms with income from sources outside of this State.

Franchise Tax Board—Continued

Table 4—Franchise Tax Costs and Net Revenues
per Dollar of Cost, by Program, 1959-60

Program	Costs	Percent of total	Net revenue	Net revenue per dollar of cost
Audit:				
General:				
Desk -----	\$110,373	6.2	\$2,285,628	\$20.71
Field -----	326,881	18.3	2,131,208	6.43
Allocation:				
Desk -----	162,292	9.1	5,862,886	36.13
Field -----	505,495	28.3	6,873,507	13.60
Total—Audit -----	\$1,105,041	61.8	\$17,153,229	\$15.52
Compliance:				
Preliminary Examinations -----	\$66,576	3.7	\$592,321	\$8.90
New Accounts -----	14,874	.8	151,601	10.19
Total—Compliance -----	\$81,450	4.5	\$743,922	\$9.13
Basic:				
Service operations -----	\$499,092	27.9	\$239,721,388	\$480.32
Claims -----	77,448	4.4	—1,753,368	--
Exempt corporations -----	24,900	1.4	--	--
Total—Basic -----	\$601,440	33.7	\$237,968,020	\$395.66
Total—Franchise Tax -----	\$1,787,931	100.0	\$255,865,171	\$349.56

A comparison of Tables 3 and 4 shows that:

1. The Franchise Tax Board spends about the same amount on field audits for both taxes (\$809,000 for personal income tax and \$832,000 for franchise tax) although the franchise tax audits are almost three times as productive.
2. The amount spent on personal income tax desk type audits is 3.3 times as much as spent on similar franchise tax audits, but the franchise audits are 3.5 times as productive.
3. The most profitable personal income tax audits are the "RAR's," while the allocation desk audits are the most profitable for franchise tax.
4. Except for the preliminary examination section, the compliance activities of these two taxes are not comparable.

ANALYSIS

The 1961-62 budget of this agency proposes an increase of \$64,739, or 0.8 percent, over the amount budgeted for the current fiscal year. The only significant program changes contemplated for the budget year are the mechanization of the accounts receivable unit and the addition of 8.3 man years of temporary help in the operations division in Sacramento.

The mechanization of the accounts receivable unit, starting during January of 1961, will require the addition of 8.9 new positions costing \$39,000 and the reduction of 28.8 positions costing \$93,922, with the resulting net saving of 19.9 positions and \$54,922 during 1961-62. *We recommend approval of this change.*

Franchise Tax Board—Continued

The operations division requests 8.3 more positions of temporary help in the Sacramento office, costing \$28,099, to handle the increased volume of income tax returns. *We recommend these positions be approved.*

We recommend elimination of one existing income tax agent position assigned to the special investigations section, which is vacant, \$8,940, budget page 341, line 27.

Our reasons for this recommendation are as follows:

The main activity of these agents in the past has been the preparation of tax assessments against pinball and claw machine operators, book-makers and others engaged in illegal activities. Most of these tax assessments were issued during 1955 and are now being protested before the State Board of Equalization. Some of these protests should be decided in the near future and if the findings of the Franchise Tax Board are upheld it is probable that the affected taxpayers will appeal to the courts. Since the legality of these assessments has not been established, it is our suggestion that they be tested in the courts before embarking upon a new series of extensive investigations, using not only the time of these agents, but also involving considerable auditing expense. By obtaining waivers from the taxpayers and making test assessments on new types of cases, the Franchise Tax Board can protect itself against the statute of limitations without spending considerable time and money on assessments which may prove to be uncollectible.

These agents also investigate and help prepare failure to file and false return cases for criminal prosecution by local district attorneys. From 1951 to 1955, only seven fraud and 43 failure to file cases were prepared. In 33 of these cases the accused taxpayer entered a guilty plea, six cases resulted in conviction, seven were dismissed or acquitted and four cases were pending at the end of the year.

One reason why there have not been more criminal prosecutions, besides the problems involved in detecting violations, is that district attorneys are reluctant to take any case to court unless it involves at least \$1,000 of tax. Since California's tax rates are low compared to federal rates a violation may warrant criminal prosecution under federal law, but not involve enough tax to warrant criminal prosecution by the State.

From 1952 to 1959, the special investigations division had a staff of three income tax agents. During 1960, three additional agents were hired as a result of a budget augmentation. One of these positions has been vacant since October 1960. The federal government has between 160 and 180 income tax agents in California. The Franchise Tax Board states that their agents do not compete with nor duplicate the work of the federal agents. However, considering the number of federal agents already operating in California, the higher federal tax rates, and the fact that California obtains the results of the federal investigations, we have serious reservations as to the need for these state agents.

We accordingly make the following additional recommendations:

- (1) That the Franchise Tax Board submit to the next Legislature a detailed explanation of how it intends to use these agents, the

Franchise Tax Board—Continued

approximate allocation of man years to different types of activities i.e., failure to file, fraud, illegal activities, and why these activities are not being adequately covered by the federal agents.

- (2) That during calendar year 1961, these agents should be required to keep records showing the amount of time devoted to different activities so that their efforts can be evaluated by the next Legislature.

We recommend deletion of travel and automotive operating expenses for the vacant income tax agent position, \$1,690, budget page 341, line 62.

We recommend elimination of the nontravel per diem allowance of \$9 per day, which is given to the managers of the out-of-state Franchise Tax Board offices in New York and Chicago, \$5,000, budget page 342, line 61.

The two out-of-state office managers, who are Californians, receive a special allowance of \$9 per day, including Saturdays, Sundays and holidays, for every day they are not on travel status but are in their respective headquarters in New York or Chicago. When actually traveling, they receive the regular travel allowances. The Franchise Tax Board uses this special allowance as an inducement for members of its staff to accept these out-of-state positions. During 1958-59, the special allowances amounted to \$4,914, and were \$5,436 during 1959-60.

The Auditor General and the Department of Finance have criticized the granting of this special allowance. The Board of Control has proposed that it be terminated effective January 1, 1962.

The manager of the New York office has been at that location since October 1, 1958, while the Chicago office manager has received this special allowance since May 15, 1953.

This type of allowance was formerly granted to the out-of-state office managers for the State Board of Equalization, but discontinued for New York in 1952, and for Chicago in 1955.

We recommend against replacement of two portable typewriters for use by special investigation agents in the field, \$260, budget page 341, line 68.

We believe these agents should be encouraged to use the services of the typists that are available in the field offices rather than doing their own typing. One of these typewriters is for the San Francisco office, where there is one agent, and the other is for the Los Angeles offices where there are three agents.

We recommend against addition of a file cabinet, typewriter stand and chair, for the vacant income tax agent position, \$265, budget page 341, line 68.

We recommend against addition of a portable photocopy machine for the use of the three income tax agents in the Los Angeles office, \$300, budget page 341, line 68.

The Los Angeles office has two nonportable copying machines at present and another is used in the federal building. We doubt that the income tax agents in this office would make sufficient use of this machine to justify its purchase.

Franchise Tax Board—Continued

We recommend against replacement of six standard with six electric typewriters for the Los Angeles regional office. We recommend instead that the standard typewriters be replaced by standard typewriters, with a resulting saving of \$1,362, budget page 343, line 27.

On October 1, 1960, 76 percent of the typist and stenographer positions in the Los Angeles office had electric typewriters. If this budget request is adopted, the proportion will be 92 percent. By contrast, only 29 percent of the typists and stenographers in the San Francisco office have electric typewriters and both offices have similar functions and duties. Most of the typing volume in the regional offices consists of making entries on form letters rather than typing original material.

We recommend elimination of a drinking fountain for the Oakland office, \$183, budget page 343, line 58.

The Oakland office is on the first floor of the new state building, and since the cafeteria and public drinking fountains are readily accessible, we do not believe this item is justified.

We recommend that agency owned car E 256338 be transferred to the Department of Finance pool.

This car was purchased August 4, 1959, and is a "special passenger vehicle" such as are authorized for heads of departments under Section 4104 of the Administrative Manual. This section further states that

"Such vehicles must be used by the position for which justified, otherwise they are to be disposed of or placed in a state pool at the discretion of the Department of Finance."

During the 14-month period from August 4, 1959, to September 30, 1960, the car was completely idle during 205 of the 294 working days during the period, or 69.7 percent of the time.

Excluding the time the car was stationed in Los Angeles, during which it was idle on only 19 of the 61 working days involved, and was driven a total of 7,011 miles, the car was driven only 5,755 miles, or an average of 523 miles a month, and was idle on 186 out of 233 working days or 80 percent of the time.

Entirely aside from the question of the use of a "special passenger vehicle" by other than the executive officer, we believe that a usage pattern, such as the foregoing does not justify an agency owned car.

Recommendations for Changes in Procedure or Further Studies

In the course of our review of the operations of the Franchise Tax Board we noted several areas where we believe that changes in procedure could be made which would result in a more efficient operation, and tend to reduce costs. We also noted several areas where we believe further studies are indicated.

Our recommendation regarding these matters are listed below:

Recommendation No. 1

The administrative appeals procedure in the Franchise Tax Board be revised to reduce the present high case backlog and provide for more expeditious service to the taxpayers.

Franchise Tax Board—Continued

Recommendation No. 2

The Franchise Tax Board should make a thorough study of the feasibility of modifying its 599-FCP compliance programs to eliminate duplications and improve nonsalary and wage income compliance.

Recommendation No. 3

The processing of "annual" personal income tax returns by the drawer audit section be made primarily a clerical function supervised by auditors.

Recommendation No. 4

Field auditors should keep records on the time spent on each assignment.

Recommendation No. 5

The Los Angeles Regional Office should adopt the procedure initiated by the San Francisco office whereby only two instead of three 599-FCP compliance letters are sent to the taxpayer.

Recommendation No. 6

The Organization and Cost Control Division of the Department of Finance should make a study of the collection procedures in the Franchise Tax Board.

Recommendation No. 7

Continuing study be made by the agency and the Department of Finance of the possibilities of further mechanization, including use of electronic data processing equipment.

Further details regarding each recommendation are given in the material which follows:

Recommendation No. 1. The administrative appeals procedure in the Franchise Tax Board be revised to reduce the present high case backlog and provide for more expeditious service to the taxpayers.

The March 1, 1960, inventory of the appeals and review section showed that 1,684 cases were pending. Of these, 662 were so-called workable cases, that is they were ready for processing by this section. The others were awaiting action by another jurisdiction, such as the federal tax court, the State Board of Equalization, etc., before they could be processed. As the following table shows, the number of "workable" 1960 cases has more than doubled since 1959, while the total number of cases has increased by only 30 percent.

Inventory of Appeals and Reviews Cases

<i>Date</i>	<i>Workable cases</i>	<i>Total cases</i>
March 1, 1957 -----	361	1,214
March 1, 1958 -----	350	1,210
March 1, 1959 -----	321	1,295
March 1, 1960 -----	662	1,684

By October 1960, the total numbers of cases pending before this section had increased to 1,931. This upward trend in pending cases

Franchise Tax Board—Continued

probably will continue and result in future budget increases unless the Franchise Tax Board changes its methods of handling administrative appeals.

A sample of appeals cases decided during the first six months of 1960 indicates that from 11 to 12 months normally elapse between the time the Franchise Tax Board notifies a personal income taxpayer of an assessment and when the appeal was decided. The typical time lapse for franchise taxpayers was a little shorter, about eight months.

Most appeals result from the taxpayer disagreeing with or not understanding an audit. When a field audit is completed the normal procedure is for the auditor to explain his findings to the taxpayer. The audit then is sent to the regional office for a technical review and it is also given a policy review at the headquarters office. If the audit indicates a deficiency, the headquarters office sends the taxpayer a notice of proposed assessment. The taxpayer has 60 days to file a written protest and ask for an oral hearing by the appeals and review section. Not all protested personal income tax cases are sent to appeals and review. Since 1955, the Operations Division has screened those cases and sent about 30 percent back to the auditors for processing or completion. All franchise tax protests, however, are sent to appeals and review.

We believe the procedure for handling protests can be improved by making the following changes:

1. Shorten the time period allowed for a taxpayer to file a protest from 60 to 30 days, which will require a change in the law.

California sales taxpayers are allowed only 30 days to petition for an oral hearing. The federal government also allows the taxpayer 30 days to file a written protest for an informal administrative hearing.

2. Establish a new procedure, similar to the Board of Equalization's 10-day letter for sales taxes, whereby a taxpayer can discuss his audit with a field supervisor before an assessment is issued.

This change would serve three purposes. First it would allow the taxpayer to discuss his case with someone with more authority than the field auditor. It is a human characteristic that when a person receives an adverse decision he wants to "blow off steam" to someone in authority, hoping that the decision will be reversed or at least modified. Second, the taxpayer will have more confidence in a supervisor's explanation of the audit. Third, this type of notice will bring a quicker response from those taxpayers that have been slow in supplying the field auditors with requested information.

The Board of Equalization has used the 10-day letter procedure for years with the result that many protests were eliminated at their source.

3. Perform a more thorough screening of both personal income and franchise tax protests before they are sent to the appeals and review section.

Our review of appeals cases decided during the first six months of 1960 indicates that about half of the personal income and about one-

Franchise Tax Board—Continued

third of the franchise tax cases did not belong in this section. Many of these cases required a simple explanation of the law which is the function of the legal section. Others involved routine accounting adjustments that properly should be performed by the Operations Division. We suggest that when the head of the appeals and review section encounters a case of this nature, it should be sent back to the appropriate unit for completion rather than becoming part of his workload.

4. The agency use audit supervisors and members of its legal staff to conduct hearings, when necessary, to reduce the backlog of cases.

This has been done to a limited extent in the past and the experience probably gave them a better understanding of the operations of the board.

Recommendation No. 2. The Franchise Tax Board should make a thorough study of the feasibility of modifying its 599-FCP compliance programs to eliminate duplications and improve nonsalary and wage income compliance.

During 1959-60, these two compliance programs cost \$1,416,000 which was about 19 percent of the board's total costs. These programs have been especially effective in uncovering nonfilers, but both of them are weak in detecting the unreporting of nonsalary and wage incomes. The FCP program, for example, is limited to taxpayers with adjusted gross incomes of \$10,000 or less. Therefore, this program is useful in detecting taxpayers with more than one employer during the year, and those who received small amounts of rent, interests or dividends in addition to their salary.

The basic weaknesses of the 599 program are:

- (1) It does not cover the self-employed, regardless of amount of income, and (2) only about 36 percent of the 599 forms received by the agency are ever matched against tax returns. During 1959, the board received 6.7 million 599 forms but only used 2.5 million. The rest were simply discarded.

The reason for the large number of discards is that the board requires employers and others to submit forms only if the amount of income is above certain limits, i.e., salaries and wages, \$1,500 for single persons and \$3,000 for married couples, \$1,500 for interest, rents and royalties, and \$100 for dividends. However, most employers are inclined to send the board duplicate copies of their federal forms which are based upon substantially lower minimums. A serious weakness of the present 599 program is that if a taxpayer receives, for example, \$10,000 in interest, rent and royalty income from 10 different sources, none of which amounts to over \$1,500, then none of the 599 forms will be matched against his return because individually they are below the minimums prescribed by the board. The same situation prevails for a taxpayer who has had several employers during the year.

In the very near future the board will complete its first cycle of matching 599's and the new federal comparison project cards. When this task is completed, we believe the board should report the results

Franchise Tax Board—Continued

of this program, giving information on the income and occupational characteristics of the taxpayers that were detected by both programs, and those that were detected only by one.

With such information, it should be possible to determine whether it is feasible to place major reliance upon the FCP program for compliance from taxpayers with incomes under \$10,000, and if the 599 program could be used primarily to detect the unreporting of non-salary and wage and all incomes over \$10,000.

Recommendation No. 3. The processing of "annual" personal income tax returns by the Drawer Audit Section be made primarily a clerical function supervised by auditors.

"Annual" returns are those with incomes of less than \$15,000 if entirely from salaries and wages, and \$12,000 if composed partially of nonsalary and wage income. During 1959, about 3 million of these returns were filed. As Chart No. 1 shows, about 31 months will elapse between the time these returns were filed and when they will be given a desk audit. This long time lag not only complicates the processing of these returns because taxpayers have moved or destroyed their records, but also increase collection problems. We believe the board should start processing these returns about one year after they are filed instead of 31 months later. One method of accomplishing this change would be to have most of these returns processed by clerks and any complicated problems then could be handled by a few auditors assigned to supervise this section. In 1961, the board intends to take a step in this direction by having the clerks and comptometer operators in the preliminary examination section give a desk audit to about one million 540-A returns. Making the desk audit of these returns is primarily a clerical function and will allow the auditors now doing this work to concentrate on the more complex returns in the higher income categories.

Recommendation No. 4. Field auditors should keep records on the time spent on each assignment.

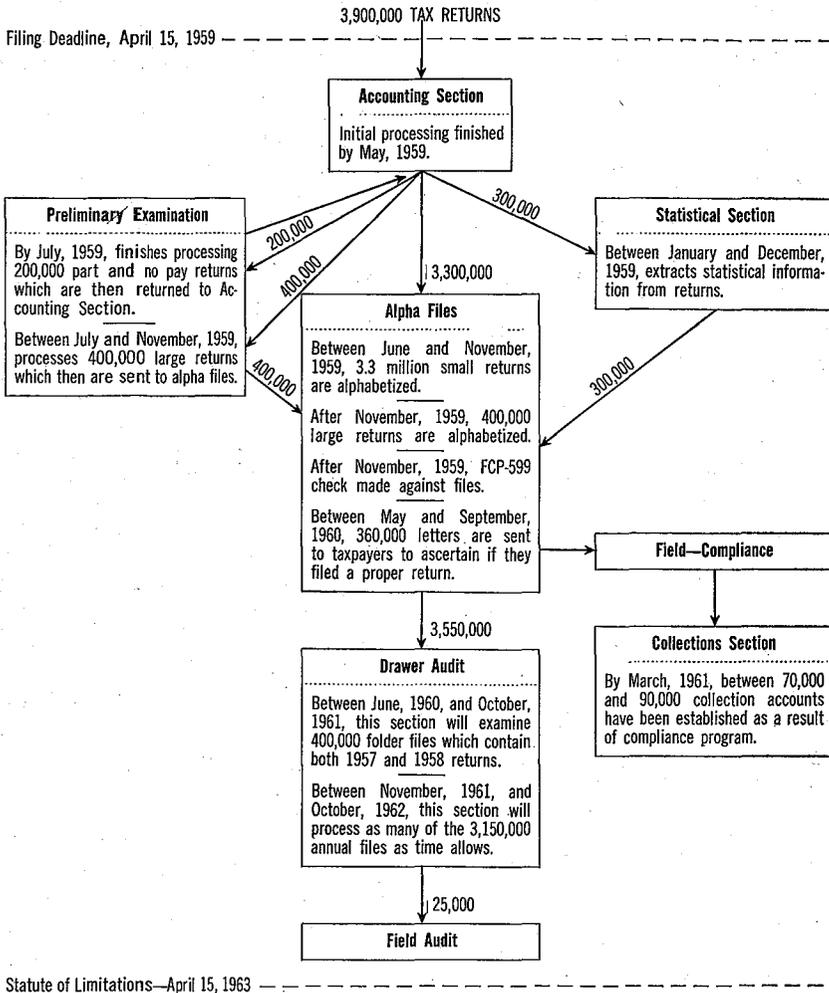
The Audits Division of the Department of Finance made this recommendation in their latest report on the operations of the Franchise Tax Board. These records are valuable management tools and also could be used to compile information on the number and percent of field audits that produce revenue in excess of their costs. The Board of Equalization compiles this type of information for its sales tax audits.

We also suggest that the board have its regional and branch office managers assign priorities to the audits when they are received, rather than waiting until shortly before the expiration of the statute of limitations. By comparing these priorities with the revenue and cost data resulting from the time reports, the board should be able to improve its selection of field audits.

The cost and revenues from all "RAR" audits should be credited to the headquarters section handling these cases unless field auditors are required to spend considerable time making adjustments for differences in our law. Presently some field audits are based upon revenue

Franchise Tax Board—Continued

Chart 1—The processing of 1958 Personal Income Tax Returns



Franchise Tax Board—Continued

agent's reports and this practice gives an inflated picture of the revenue productivity of the field audits program.

Recommendation No. 5—The Los Angeles Regional Office should adopt the procedure initiated by the San Francisco office whereby only two instead of three 599-FCP compliance letters are sent to the taxpayers.

In connection with their 599-FCP compliance programs, the board currently sends up to three letters to the taxpayer. The first letter asking for information is sent by the headquarters office. If no response is received from this letter, the regional office sends the taxpayer a second letter which is a duplication of the first. If the second letter does not elicit a response, the regional office sends the taxpayer a third letter notifying him that unless he supplies the required information the board will issue an arbitrary assessment and turn the case over to collections. The San Francisco office has found that it can obtain about the same results, at less expense, by eliminating the second and using only the third letter. We believe this practice should be followed in the Los Angeles office.

Recommendation No. 6. The Organization and Cost Control Division of the Department of Finance should make a study of the collection procedures in the Franchise Tax Board.

In reviewing the field operations of this agency, we were disturbed by the lack of emphasis given collection activities. Some of the field representatives had an inventory of over 1,000 cases. In some branch offices, auditors or the clerical help were responsible for performing collection work. Also, there did not seem to be adequate supervision by the regional office over the collection work by the branches. Therefore, we recommend that the Department of Finance make a study of these activities, especially at the field level.

Recommendation No. 7. Continuing study be made by the agency and the Department of Finance of the possibilities of further mechanization, including use of electronic data processing equipment.

During the last few years the Department of Employment, the State Controller, and such private industries as banks, insurance companies and public utilities have abandoned their overreliance upon manual methods of processing paperwork. Through mechanization, they have improved the efficiency of their office operations and kept growth within manageable bounds. The Franchise Tax Board expects to receive during 1961-62 about 4.9 million tax returns, over seven million 599 forms, and about three million FCP cards. All of these returns, forms and cards plus a tremendous volume of supporting paperwork will be handled manually. Although the manual processing is performed by clerks, it still is expensive and time consuming. For example, the board spends about \$70,000 a year just to sort and alphabetize the 599 forms. We believe that many of the functions of the agency, especially those relating to personal income tax compliance should be mechanized. Events are taking place outside of California which should induce the agency to move towards mechanization. The federal government, for example, intends to convert the information from income tax returns from conventional punched cards to magnetic

Franchise Tax Board—Continued

tapes in 1962. By 1964 or 1965, the federal government hopes to have an integrated system which will enable it to mechanically compare the contents of a taxpayer's returns for different years. New York State already has mechanized most of its personal income tax procedures. Its information at source program is processed mechanically and in 1959 New York started selecting field audits by mechanical methods. The Franchise Tax Board after 25 years of experience in administering the personal income tax still maintains that the only feasible method of selecting field audits is for auditors to examine all tax returns. We do not agree with this viewpoint.

The Franchise Tax Board is in a position to make significant improvements in its administrative procedures during the next few years. We hope that the necessary actions will be taken at an early date so that when the federal conversion is completed, California will be able to take full advantage of information available from federal sources. In the meantime, we believe the board should study and adopt as many of the new processes being developed by New York State, as are feasible.

STATE TREASURER

ITEM 130 of the Budget Bill

Budget page 344

FOR SUPPORT OF THE STATE TREASURER
FROM THE GENERAL FUND

Amount requested	\$389,589
Contribution to State Employees' Retirement System	22,392
Total	\$412,481
Estimated to be expended in 1960-61 fiscal year	403,863
Increase (2.1 percent)	\$8,618
TOTAL RECOMMENDED REDUCTION	\$35,700

Summary of Recommended Reductions

Los Angeles Office:	Budget		
Salaries and Wages:	Amount	Page	Line
1 Assistant bond officer	\$6,672	345	12
1 Intermediate stenographer-clerk	4,092	345	13
General Expense:			
Rent	3,600	345	22
Communications	1,000	345	25
Equipment	2,239	345	36
1 Bond market specialist	11,400	345	6
1 Intermediate stenographer-clerk	4,092	345	13
Conference Room:			
Alterations	1,200	345	24
Equipment	1,405	345	36
	\$35,700		

GENERAL SUMMARY

The constitutional elective office of State Treasurer performs what may be described generally as custodial or service duties. Control over total state revenues or expenditures are not functions of this office.

State Treasurer—Continued

The principal duties of the Treasurer are the receipt, deposit and disbursement of state moneys, safekeeping of state-owned securities, pledged collateral and personal property held in trust, and servicing the bonded debt of the State. The Treasurer is a member of the Pooled Money Investment Board which determines state policy regarding investment or deposit of surplus state money. He also invests in securities in amounts designated by that board, invests certain other state funds, and handles state bank deposits.

In addition to the amount requested under this budget item, the agency estimates that \$161,000 will be needed under continuing appropriations from various bond funds for expenses in connection with preparing and advertising bonds for sale.

The following table summarizes the expenditures of the Treasurer's office, exclusive of those for preparing and advertising bonds for sale, for the period from 1958-59 through 1961-62:

Category	Actual		Estimated 1960-61	Proposed 1961-62	Change from
	1958-59	1959-60			1960-61
Salaries and wages	\$268,800	\$273,283	\$310,651	\$331,004	\$20,353
Operating Expenses	134,585	164,027	180,216	176,045	-4,171
Equipment	26,274	22,354	28,623	30,250	1,627
Total	\$429,659	\$459,664	\$519,490	\$537,299	\$17,809
Less reimbursements	33,784	116,555	137,112	147,710	10,598
Net Support	\$395,875	\$343,109	\$382,378	\$389,589	\$7,211
Retirement	\$21,293	\$18,901	\$21,485	\$22,892	\$1,407
Total Support	\$417,168	\$362,010	\$403,863	\$412,481	\$8,618

The large increase in reimbursements shown between 1958-59 and 1959-60 is due chiefly to 1959 legislation which permitted charging the state retirement systems for administrative costs related to investing retirement system trust funds.

In view of the fact that continuing equipment requirements of approximately \$20,000 per year will be necessary to provide storage equipment in the Treasurer's vaults to house securities for the expanding investment portfolios, chiefly those of the retirement systems, *we recommend further study of the desirability of providing storage facilities in New York, for at least a part of these securities.*

ANALYSIS

The Treasurer requests two additional positions, an assistant bond officer, Budget page 345, line 12, and an intermediate stenographer-clerk, Budget page 345, line 13, as staff for a proposed new branch office in Los Angeles. The agency justifies this office on the ground that it will serve the dual purpose of servicing bondholders in that area as well as relieving the existing bond servicing staff. It is further urged that providing facilities in Los Angeles where bonds and coupons could be redeemed without cost to the bondholder would improve the State's position as a borrower in the bond market, since about 14 percent of coupon redemptions of the State's own bonds take place in that area.

State Treasurer—Continued

We recommend a reduction of \$17,603 for the proposed Los Angeles office further identified below:

	Amount	Budget	
		Page	Line
Salaries and Wages:			
1 Assistant bond officer-----	\$6,872	345	12
1 Intermediate stenographer-clerk-----	4,092	345	13
General Expense:			
Rent-----	3,600	345	22
Communications-----	1,000	345	25
Equipment-----	2,239	345	36
Total-----	\$17,603		

The cashing of coupons and bonds by the State, as they mature, is an operation which takes place during a very few days in each month, and during the remainder of the month, in order to keep occupied, it would be necessary for the staff to perform work similar to that now being performed by the bond servicing staff in Sacramento. This is a clerical type operation which consists largely in verifying and reconciling and is work which we believe can most efficiently be performed on a centralized basis in Sacramento where all basic records are maintained.

At present, maturing bonds and coupons in the Los Angeles area are cashed through regular banking channels and, in some instances, the banks charge a fee for these services.

Maturing bonds and coupons can be cashed without cost to the holder at three locations at the present time; at the State Treasurer's office in Sacramento, at the First National City Bank in New York, the State's fiscal agent in that city, and at the newly appointed (effective January 1, 1961) State's fiscal agent in Chicago, the First National Bank of Chicago.

We believe that facilities for cashing the State's bonds and coupons in Los Angeles would be desirable, but that the creation of a branch office in that area would serve no useful purpose. It would be a highly inefficient and uneconomical operation. We believe the appointment by the Treasurer of a bank to act as fiscal agent in Los Angeles would be of real benefit, since it would provide facilities for handling such transactions through regular banking channels, similar to those now provided in New York and Chicago.

A new position of bond market specialist was approved by the Legislature for the fiscal year 1960-61. We recommended disapproval of this position at that time based upon the fact that services related to planning, organizing, collecting, and analyzing data on the bond market were already available to the Treasurer. This position had not been filled at January 9, 1961.

We recommend deletion of the bond market specialist position, budget page 345, line 6, \$11,400.

It is evident that rather than depending upon recommendations from this source, the Treasurer has undertaken various measures relative to the bond market, upon advice of others as was suggested. We therefore feel that continuation of this position lacks justification.

State Treasurer—Continued

The budget also requests an additional intermediate stenographer-clerk for increased workload of the administrative staff.

We recommend disapproval of one intermediate stenographer-clerk, budget page 345, line 13, \$4,092.

Both the Treasurer and Deputy Treasurer have secretaries. When the position of Assistant Treasurer was authorized in 1957, a senior stenographer-clerk position was approved as secretary for this position. This senior stenographer-clerk position was reclassified, without legislative review, during fiscal year 1959-60 to that of Administrative Assistant. We are not satisfied that the proposed new clerical position has been adequately justified on a workload basis, particularly if the bond market specialist position is deleted.

The Treasurer requests \$2,605 to remodel room 130 in the State Capitol, and equip it as a conference room. The Treasurer believes that use of either his own office or the Department of Finance Conference room, as is currently the case, is inconvenient and causes confusion and delay.

We recommend deletion of \$2,605 for a conference room, further identified below.

Alterations, Budget page 345, line 24	\$1,200
Equipment, Budget page 345, line 36	\$1,405

We do not believe that sufficient need has been demonstrated to justify this conference room on a workload basis.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

ITEM 131 of the Budget Bill

Budget page 347

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

Amount requested	\$31,416,366
Contribution to State Employees' Retirement System	3,895,079
Total	\$35,311,445
Estimated to be expended in 1960-61 fiscal year	34,913,257
Increase (1.1 percent)	\$398,188
TOTAL RECOMMENDED REDUCTION	\$16,703

Summary of Recommended Reductions

Equipment:	Budget		
	Amount	Page	Line
Administration division	\$2,286	348	37
Field operations	11,444	349	30
Technical services	1,400	350	15
Training division	1,323	350	63
Land and buildings	250	351	11

GENERAL SUMMARY

This agency has as its primary responsibility the enforcement of laws relating to the use of the highways of the State by motor vehicles. The majority of these laws are in the Vehicle Code. The objective of this enforcement action is to insure the safe, orderly and expeditious movement of all types of traffic over the highways of the State.