

BOARD OF CONTROL

ITEM 135 of the Budget Bill

Budget page 446

FOR SUPPORT OF THE BOARD OF CONTROL
FROM THE GENERAL FUND

Amount requested	\$27,899
Allocated from Tort Liability Item	8,218
Total	\$36,117
Estimated to be expended in 1964-65 fiscal year	34,584
Increase (4.4 percent)	\$1,533
TOTAL RECOMMENDED REDUCTION	None

PROGRAM PLANS AND BUDGET

The Board of Control, which consists of the Controller, the Director of the Department of General Services and one public member appointed by the Governor, reviews claims against the state for which no funds are available or for which no settlement provisions are provided by law. Claims approved by the board and by the Governor are included in the budget and subject to legislative approval. The board has other responsibilities, such as approving tax refunds, and makes merit awards, formulates rules for use of state automobiles, travel allowances and miscellaneous other matters.

For 1965-66, the board is not proposing any substantive changes in its program. The current authorized staff consists of a secretary and 2.1 clerical positions. One additional clerical position is requested for 1965-66 because of increased workload expected to result from tort liability claims. Under legislation enacted in 1963, tort liability claims must be filed with and denied by the board as a prior condition to bringing suit against the state. In addition to its own small staff, the board depends upon the Department of General Services for technical assistance. In past years, the cost of this assistance has been about \$35,000 which is included in the General Services budget.

REVIEW OF AGENCY ACCOMPLISHMENTS—1963-64

The board's activities in 1963-64 were essentially the same as proposed for 1965-66. The board's budget proposal for 1963-64, which was approved as submitted by the Legislature, was based on an estimated increase in the number of claims filed of 27 percent, from 1,120 in 1962-63 to 1,425 in 1963-64. These estimates overstated the workload since the actual number of claims filed in 1962-63 was only 991 and in 1963-64, it was 1,164, or an increase of 17 percent. The authorized budget for the year was \$26,018 and, in addition, an allocation of \$1,266 was received from the emergency fund because of unexpected expenses related to tort liability claims. Total expenditures were \$26,780, substantially as budgeted.

ANALYSIS AND RECOMMENDATIONS

The total proposed expenditures of the board for 1965-66, \$36,117, exceed the amount requested under Item 135, by \$8,218. This amount will be allocated from the tort liability appropriation, Item 280, to meet the board's costs in processing tort liability claims.

Board of Control—Continued

The board is requesting one clerical position for increased workload resulting from the 1963 tort liability legislation. This position was established administratively in 1964-65 and financed by an allocation of \$7,023 from the tort liability item. In 1965-66, it is proposed to again finance the position from the allocation from the tort liability item.

We recommend approval as budgeted.

POLICY OPTIONS

As one of its miscellaneous responsibilities, the board must approve certain tax refunds for amounts over \$250 made by the Board of Equalization and Franchise Tax Board. It has been suggested at various times in the past that the requirement for board approval of these refunds serves no purpose and should be eliminated. If the requirement was removed, both the Board of Control and the tax administration agencies would be relieved of clerical workload. The requirement is of dubious value since the board has never been known to refuse approval. Under other tax programs, where the number and amount of refunds are greater, the requirement does not exist. In past analyses we have recommended removal of the approval requirement and we renew the recommendation.

STATE CONTROLLER

ITEM 136 of the Budget Bill

Budget page 447

**FOR SUPPORT OF THE STATE CONTROLLER
FROM THE GENERAL FUND**

Amount requested	\$4,776,235
Estimated to be expended in 1964-65 fiscal year	4,792,052
Decrease (0.3 percent)	<u>\$15,817</u>
TOTAL RECOMMENDED REDUCTION	\$20,635

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page Line</i>	
From amount requested to maintain existing level of service:			
1. Eliminate 0.75 man-years temporary help	\$3,150	448	57
2. Reduce official advertising	3,375	448	64
3. Reduce equipment	9,970	450	48
4. Eliminate one man-year temporary help	4,140	453	38

PROGRAM PLANS AND BUDGET

The State Controller has two diverse areas of responsibility: those arising from his membership on 18 state boards or commissions, and as the head of a 583-man agency which conducts 4 major programs with 15 identifiable functions. Comments on these agency responsibilities will be the principal topic of this analysis. However, in the policy option section, comments will be made about inheritance tax appraisers, and information which recently became available concerning their gross and net incomes will be presented. We will also discuss two proposals for abolishing these patronage positions and improving the quality of inheritance tax administration.

State Controller—Continued

The subject of a proposed Department of Revenue, encompassing all major state taxes including inheritance and gift taxes, will be discussed in the policy option section of our analysis of the Board of Equalization's budget, which is Item 140.

Approximately 50 percent of this agency's manpower and budget are devoted to the program of accounting for and disbursing state funds (Table 1). Next in importance is the tax collection program

Table 1
Distribution of the Controller's Staff and Budget by
Programs and Functions

Major programs	Function	1965-66		
		Man-years	Budget	Percent
1. Administration	-----	32.5	\$378,435	6.4
2. Accounting and disbursing of state funds				
(a) claim audits	-----	38.5	351,374	
(b) field audits	-----	33.2	314,811	
(c) fund accounting	-----	37.5	354,483	
(d) payroll disbursements	-----	122.0	1,165,318	
(e) warrants	-----	52.0	499,430	
(f) financial analysis	-----	9.2	117,605	
(g) unclaimed property	-----	10.2	117,536	
Subtotal	-----	302.6	\$2,920,557	49.5
3. Tax collection and refunds				
(a) inheritance tax	-----	103.0	\$1,075,790	
(b) gift tax	-----	15.0	160,751	
(c) gas tax refunds	-----	59.2	542,732	
(d) other tax collections	-----	16.0	144,478	
Subtotal	-----	193.2	\$1,923,751	32.6
4. Assistance to local governments				
(a) annual reports	-----	19.9	\$275,487	
(b) gas tax audits	-----	9.9	117,759	
(c) uniform accounting	-----	6.3	82,905	
(d) tax-deeded lands	-----	19.3	199,720	
Subtotal	-----	55.4	\$675,871	11.5
Total	-----	583.7	\$5,898,614	100.0

which includes the function of refunding the taxes on gasoline not used on the highways. About 55 positions are engaged in a program of rendering various types of assistance to local governments.

This agency and all four major programs are financed mainly from the General Fund (81 percent). In fact, 13 out of the 15 functions receive their main support from this fund. The remaining two functions, gas tax refunds and gas tax audits, are financed from the Motor Vehicle Fuel Fund which provides 13.7 percent of the agency's financing. The State School Building Aid Fund (2.9 percent), and the Motor Vehicle Transportation Tax Fund (2.4 percent) provide the remaining support.

The only significant changes besides workload proposed by this agency in the budget year are:

State Controller—Continued

1. The unclaimed property function will be expanded as the result of 300 parcels of escheated type property being advertised at a cost of \$13,500.

2. During the latter part of the current fiscal year, the agency proposes to consolidate its office space in Sacramento from six to three locations, with a resulting space enrichment of about 8 percent, which will be used mainly to alleviate the overcrowded conditions in the disbursement division.

3. The disbursement division (which conducts the payroll disbursement and warrant functions) in past years contracted for the purchase of over \$2 million in EDP equipment with the payments to be spread over a nine-year period (Table 2). The first and major phase of the repayment cycle was completed during the current fiscal year. As a result, this division's budget will be reduced by \$256,580 in the budget year, and an additional \$48,492 in 1966-67 to reflect the completion of the second phase. The timing of these repayments which are financed entirely from the General Fund, tends to distort year-to-year comparisons in this division's and the agency's budgetary totals because the payments are not prorated according to the useful life of this equipment. This differential in equipment repayments is the main reason why this agency's General Fund budget shows a decrease in the budget year compared to the current fiscal year, rather than any curtailment in its regular programs.

Comments will now be made on the changes, if any, that are proposed for each of the agency's programs during the budget year.

1. *Administration.* No change from the current level of services is contemplated. Only minor additions of clerical help have been added to this program during recent years, otherwise the staffing pattern has remained constant.

2. *Accounting and disbursing of state funds.* (a) The first phase of this program is the claim audit function which consists of passing on the legality and validity of expenditures before disbursement of funds from the State Treasury. During the budget year, the agency estimates that 176,086 claim schedules will be audited, which is about 2 percent more than the workload in the current fiscal year. No change in staffing is requested.

(b) Field audits are another type of claim function, only they relate to the examination of local agency records regarding the expenditure of state and federal funds under 13 different subvention programs. In the budget year, the agency anticipates it will handle 896 workload units with a staff of 30 positions (does not include division supervisory personnel). The following table shows that this pattern has existed during the previous three years.

	<i>Workload units</i>	<i>Staff</i>
1962-63 -----	884	30
1963-64 -----	888	30
1964-65 -----	893	30
1965-66 -----	896	30

Table 2

Repayment Cycle of EDP Equipment Purchased by the Disbursement Division

Fiscal year	7070 computer ¹			Meyers-Geddes equipment ²			7074 computer ³			Totals
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
1960-61	\$146,706	---	\$146,706	---	---	---	---	---	---	\$146,706
1961-62	220,294	\$20,783	241,077	\$67,000	---	\$67,000	---	---	---	308,077
1962-63	212,567	29,377	241,944	110,096	\$9,904	120,000	---	---	---	361,944
1963-64	221,797	19,157	240,954	107,975	12,025	120,000	\$74,487	---	\$74,487	435,441
1964-65	176,673	8,494	185,167	112,834	7,166	120,000	81,660	\$12,245	93,905	399,072
Subtotal	\$978,037	\$77,811	\$1,055,848	\$397,905	\$29,095	\$427,000	\$156,147	\$12,245	\$168,392	\$1,651,240
1965-66	---	---	---	46,404	2,088	48,492	79,434	14,566	94,000	142,492
1966-67	---	---	---	---	---	---	82,871	11,129	94,000	94,000
1967-68	---	---	---	---	---	---	86,457	7,543	94,000	94,000
1968-69	---	---	---	---	---	---	87,868	3,802	91,670	91,670
Totals	\$978,037	\$77,811	\$1,055,848	\$444,309	\$31,183	\$475,492	\$492,778	\$49,284	\$542,062	\$2,073,402

¹ Includes a 1401 computer and was paid off in July of 1964.

² Added a second 1401 computer and additional tape drives for the 7070 computer.

³ Converted the 7070 computer to a 7074 system and added a new printer for the 1401.

State Controller—Continued

(c) Fund accounting has one of the characteristics of claim audits in that part of its function is to examine all remittances covering deposits into the State Treasury to determine the legality of the receipt of money and its proper disposition. However, the main part of this function is to maintain the accounts for all funds of state agencies, showing the receipts, expenditures and balances, if any. In the budget year, this function will handle an estimated 2,327,994 workload items which is an increase of 3.2 percent over the current year. No change in staffing is requested.

(d) and (e) Payroll transactions are one part of the disbursement phase of this program. In the budget year two programmer positions will be eliminated to reflect the decrease in workload resulting from the completion of the conversion to the 7074 EDP system. Three clerical positions will be added to the payroll unit on a workload basis. The agency estimates it will handle 1,675,344 payroll and position transactions in the budget year.

The purchase of the 7074 computer system in 1963-64 allowed the agency to operate its EDP unit on a two- rather than four-shift basis. This new equipment also enables the agency to handle increases in normal workload, and makes it feasible for it to add such new programs as personal income tax withholding or semimonthly payrolls. The number of other warrant disbursements by category for the budget year are:

General (vendor) disbursements	1,231,295
Veterans' educational assistance	71,000
Motor vehicle fuel tax refunds.....	66,000
Retirement roll payments	776,837
Unemployment compensation disability refunds.....	273,444
 Total	 2,418,576

These disbursements are about 4.8 percent above the current year's volume. Another aspect of this category is the EDP services this division has provided other units and agencies. This activity has been declining during the last few years as more agencies obtain their own equipment. However, the current level of service should continue in the immediate future.

(f) The major part of the financial analysis function is the preparation of the Controller's annual report and related documents. We estimate these publications will cost in excess of \$55,000 in the budget year. The staff devoted to this entire function is the same as that for the current year.

(g) An estimated 1,640 safe deposit boxes will be screened in the budget year under the unclaimed property function. This is 28 percent less than the workload for the current year. The workload associated with the other aspects of this function will also decline slightly. The only part of this function which will expand relates to the advertising of 300 parcels of escheated type property, which is expensive, but not very time consuming.

State Controller—Continued

3. *Tax collection and refund.* (a) The inheritance tax function dominates this program. During the budget year an estimated 31,605 taxable returns will be received, which is seven percent above the volume for the current year. However, workload estimates in this area traditionally have been subject to a wide margin of error.

The agency is requesting nine new positions on a workload basis: two attorneys, three file clerks, two clerks to type consents and releases of property, one clerk for the examiners, and another clerk for the headquarters accounting unit.

(b) Gift tax returns are estimated at 9,786 for the budget year which is also seven percent above the current level. Some of the new positions requested for inheritance tax work, especially the file clerks, will also be used in this activity.

(c) An estimated 3,000 gasoline tax field audits will be made in the budget year by 20 positions. This is a workload increase of 7 percent. The total number of claims anticipated for the budget year is 70,000, which is the same level that has existed during the previous three years.

The agency also proposes to continue one man-year of temporary help which was authorized for a special project in the current fiscal year. There is no workload justification for this continuance.

(d) Most of the remaining tax collection activity relates to the motor vehicle transportation (truck) tax. Both the workload and staff of this function has steadily declined since 1958 when the tax rate was reduced. The agency proposes to delete another position in the budget year to reflect this trend.

4. *Assistance to local governments.* (a) No change is contemplated in the level of service regarding the preparation of financial reports for transactions of cities, counties, school districts, streets and roads, and special districts. In the current year, 19.9 man-years were devoted to this function.

(b) Gas tax audits under the Collier-Unruh Act (1963) will require about 9.9 man-years in the budget year. The agency anticipates a workload of 2,500 projects. Since this is a new program, it will probably take another year of experience before accurate workload and staffing requirements are known.

(c) The county portion of the uniform accounting function will decline from 0.93 man-years in the actual year to 0.37 man-years in the budget year as more emphasis is devoted to special districts. The latter activity with 3.6 man-years in the budget year is still in the development stage and it will take a year or two to obtain measurable results.

(d) The level of service regarding the supervision of tax-deeded and delinquent properties will remain constant in the budget year.

REVIEW OF AGENCY ACCOMPLISHMENTS

1. *Administration.* This program consists of the Controller and 14.5 positions which provide him and the agency with staff support. No details of workload are available. There are also 17 other positions in a departmental accounting unit which also handles personnel matters

State Controller—Continued

and the workload is closely geared to the number of authorized positions and the amount of turnover. The original estimate of positions for this program in 1963-64 coincides with the actual and remains at the same level for the current year.

2. *Accounting and disbursing of state funds.* (a) The workload statistics for claim audits in 1963-64 are not on the same basis as the original estimates. Now more attention is given to the number of claim schedules rather than the number of claims. The following table shows that this difference in measurement has a significant impact on judging workload.

	Claim Audits			
	Schedules		Claims	
	Number	Per Auditor	Number	Per Auditor
1962-63	167,260	10,454	2,181,030	136,314
1963-64	169,248	9,956	2,951,711	173,630
1964-65	172,633	10,155	3,040,260	178,839
1965-66	176,086	10,358	3,131,470	184,204
Increase over base year	5.3%	-.9%	43.6%	35.1%

(b) To meet changing priorities there traditionally have been internal shifts of staff between different types of audits in the field audit function. The following table shows most of the audits where noticeable shifts in manpower were made in 1963-64.

	Field Audits, 1963-64			
	Man-Years		Workload Units	
	Estimate	Actual	Estimate	Actual
Local water projects	.50	.09	7	0
Federal disaster assistance	0	2.00	0	67
Community mental health	1.15	1.80	21	21
Juvenile camps	1.75	.81	62	8
Internal audits	5.00	3.99	36	14
All others	17.60	16.90	836	778
Total	26.00	25.65	962	888

Twenty-six man-years of direct field audit time are allocated for both the current and the budget year. The agency intends to devote more emphasis to community mental health and juvenile camps during the current year, and less manpower to federal disaster assistance. These plans may be changed by the December 1964 floods.

(c) The next table shows that the manpower devoted to different activities in the fund accounting function generally corresponded to the original estimates even though workload was underestimated on the average by 10.3 percent. This function has 35.75 man-years allocated for the current and budget years, while total workload units are estimated at 2,255,460 for 1964-65.

State Controller—Continued

	Fund Accounting, 1963-64				Percent Change
	Man-Years		Workload Units		
	Estimate	Actual	Estimate	Actual	
Fund accounting -----	16.00	16.21	51,520	62,252	20.8
Revenue certifications ----	4.50	4.07	48,225	54,668	13.4
Claim processing -----	2.67	3.04	161,000	158,414	-1.6
Transfer posting -----	2.00	1.98	675,000	717,318	6.3
Agency trust accounts ----	1.33	1.30	1,072,260	1,204,797	12.4
Supervision, clerical and temporary help ---	9.00	8.13	-	-	-
Total -----	35.50	34.73	2,008,005	2,179,449	10.3%

Average

(d) The total number of payroll and position transactions in 1963-64 was 1 percent above the original estimate. The following table shows, however, that the workload was overestimated in San Francisco and Los Angeles.

Payroll and Position Transactions, 1963-64

	Estimate	Actual	Percent Change
Sacramento—position -----	47,548	40,204	-15.4
—payroll -----	711,868	791,608	11.2
San Francisco -----	316,234	296,958	- 6.1
Los Angeles -----	406,314	367,624	- 9.5
Total, all offices -----	1,481,964	1,496,394	1.0

In the current year, the total number of transactions is estimated at 1,592,524 or an increase of 6.4 percent above the last actual year.

(e) The volume of other warrant disbursements in 1963-64 coincided almost exactly to the original estimate. The fastest growing component of this function is retirement roll payments. Total warrant disbursements for the current fiscal year are estimated at 2,307,377 which is 4.8 percent above the last actual year.

Number of Other Warrant Disbursements, 1963-64

	Estimate	Actual	Percent Change
General (vendor) disbursements -----	1,205,877	1,138,402	-5.6
Veterans' educational assistance -----	72,000	71,323	-0.9
Motor vehicle fuel tax refunds -----	65,000	65,941	1.4
Retirement roll payments -----	621,939	677,536	8.9
Unemployment compensation disability refunds ----	240,472	248,022	3.1
Total -----	2,205,288	2,201,224	-0.2

(f) Workload data are not available for the financial analysis and reports function, but there are statistics of manpower by activity. The following table summarizes these data.

State Controller—Continued

Activity	Financial Analysis and Reports, 1963-64	
	Man-years	
	Estimate	Actual
Annual reports	3.01	3.47
Highway user taxes	1.19	.62
Judges retirement system	1.21	.74
All other	2.86	3.25
Total	8.27	8.08

Time spent on the annual reports is increasing because part of the operation is being converted to EDP. Staff for highway user taxes declined because the collection of grade crossing reimbursements was transferred to the Highway Patrol. Manpower for judges retirement system fluctuates from year to year. In the current fiscal year, 8.64 man-years are allocated for this entire function.

(g) The enactment of the unclaimed property act in 1959 made the Controller the custodian of a variety of abandoned assets. As part of this responsibility, the contents of over 47,000 unclaimed safe deposit boxes were inventoried with the aid of 16 man-years of temporary help during 1961-62 and 1962-63. The Controller also held six auctions during 1962-63 and 1963-64 to dispose of tangible property in these boxes which had commercial value. About 6,000 lots of property were auctioned and they brought \$134,134 in net receipts. The backlog of work associated with this program now has been eliminated, and future activity should be at a reduced and declining level.

The following table shows the man-years and workload units for this function.

Activity	Unclaimed Property, 1963-64		Workload Units	
	Man-Years		Estimate	
	Estimate	Actual	Estimate	Actual
Processing reports	4.47	4.07	18,000	11,764
Screening safe deposit boxes	.55	.08	2,000	263
Compliance	2.00	0	-	-
Processing claims	1.78	1.46	580	772
All others	1.20	2.17	-	-
Total	10.00	7.78	20,580	12,804

Posting the amounts received from auctions on the owner account cards resulted in more time being spent in processing reports than the change in workload would apparently justify. Less time was spent in screening safe deposit boxes because a lag developed between the completion of the old workload and the receipt of the currently reported boxes. The compliance program was not implemented because of litigation. The "all other" category increased because more time was devoted to maintaining a new system of index files, and the amount allocated to supervision also increased. In the current year, 8.74 man-years are allocated for the function as workload in safe deposit boxes and index files increases.

3. *Tax collection and refund.* (a) Since there is no method of predicting how many persons in various wealth categories will die in any particular year, the workload estimates for the inheritance tax func-

State Controller—Continued

tion traditionally have had a wide margin or error. The following tables compare these data for the last actual year.

Inheritance Tax Work Load, 1963-64

	<i>Estimate</i>	<i>Actual</i>	<i>Percent change</i>
Inheritance tax reports—taxable	30,165	27,605	—8.5
No tax reports.....	22,297	18,526	—16.9
Consents to transfer property.....	74,254	71,274	—4.0
Releases of liens.....	18,634	19,079	2.4

Only once during the last four years has the estimate of taxable inheritance tax reports, which is the main workload index of this function, been within 5 percent of the actual amount. The agency handles less than half of the consents to transfer, the remainder are issued by the county treasurers and banks. Releases of lien are issued by the agency and the inheritance tax appraisers. All of the above statistics relate only to the agency's workload.

Approximately 92 man-years were originally budgeted for this function in 1963-64, but the actual staff amounted to 94.5 man-years. The additional positions were established administratively to alleviate backlogs in clerical work. In the current year, 95.5 positions will be allocated to inheritance tax work.

(b) The volume of gift tax returns was estimated at 8,615 for 1963-64, while the actual number was 8,548, or a difference of less than 1 percent. The staff devoted to this function was approximately 14.1 man-years in 1963-64, and will be about 14.5 man-years in the current year with the number of returns estimated at 9,146.

During 1963-64, the agency started a new compliance activity of matching state and federal gift tax returns. About one-half of a man-year was devoted to this task which produced \$114,821 in additional revenue. During the first half of this fiscal year, \$386,012 in additional revenue was collected by this compliance activity through the expenditure of about 0.75 man-years of effort. The agency does not expect that the program will continue at this high level of productivity.

(c) The following changes have been made in gas tax refunds during the last two years:

1. The taxpayer supplies information on the volume of refundable gasoline and its price, while the EDP system computes the amount of the claim. This change has reduced the number of clerical errors (adjustments) the office staff has to handle.
2. Additional field auditors have been assigned to this function. These positions were obtained administratively by transferring personnel from tax collection work.
3. Most field audits now cover a three-year period, rather than auditing each claim which typically covers only one year.
4. A smaller number of field audits are being made, but they are directed towards the larger claims and this has increased the amount of audit recovery.
5. The agency has been plagued with a high turnover of audit personnel (25 percent annually), but the reclassification made in April of 1964 should solve this problem.

State Controller—Continued

The original workload estimates in the following table were made before many of the above changes went into effect. As a result, they vary considerably from the actual results.

Gas Tax Refunds, 1963-64		
	Estimate	Actual
Total number of claims-----	71,000	69,821
Amount refunded-----	\$15,356,843	\$14,656,782
Number of claim adjustments:		
Office-----	18,500	10,518
Field-----	2,299	1,768
Number of field audits-----	3,800	2,550
Audit recovery:		
Office-----	\$310,000	\$320,439
Field-----	414,494	639,898
Total audit recovery-----	\$724,494	\$960,337
Staff:		
Office-----	27.0	27.7
Field-----	28.5	31.5
Total-----	55.5	59.2

(d) As was mentioned previously, the truck tax workload and staff have been declining since 1958 when the tax rate was reduced. The following table shows that the other parts of this tax collection function have remained stable and coincide with the original staffing estimates.

Staff for Other Tax Collections, 1963-64		
	Man-years	
	Estimate	Actual
Truck tax		
Headquarters-----	9.0	10.5
Field-----	10.5	5.5
Subtotal-----	19.5	16.0
Motor vehicle fuel (gas) tax-----	0.5	0.5
Insurance tax-----	1.0	1.0
Petroleum and gas tax-----	0.5	0.5
Total-----	21.5	18.0

4. *Assistance to Local Governments.* (a) During 1963-64, the agency spent approximately 18.9 man-years preparing the various financial transaction reports of local governments. This time was allocated among the various types of reports, as follows:

	Man-years
Streets and roads-----	8.0
Special districts, including irrigation and schools-----	7.0
City and county reports-----	2.5
Supervision and clerical support-----	1.4
Total-----	18.9

One additional position was added for the current year to conduct a compliance program for cities.

The printing costs of these reports was originally budgeted at \$47,890 for 1963-64, while the actual expense was \$50,230. The increase was

State Controller—Continued

mainly attributable to the expansion of the county report in order to list expenditures on a functional and activity basis. This change was made at the suggestion of the "Advisory Committee to the State Controller on Financial Reports," and it expanded the size of the report from 59 to 163 pages.

(b) During 1963-64, gas tax audits were made in connection with the Collier-Burns Act of 1947, and the manpower assigned to this function was part of the street and roads report mentioned above.

(c) One man-year of staff was allocated in 1963-64 to help counties establish uniform accounting systems. Ninety-three percent of this position's time was spent on this function, while the remainder was devoted to the new program of uniform accounting and reporting for special districts.

(d) The supervision of tax-delinquent and deeded property had 20.3 positions budgeted and 19.9 actual man-years during 1963-64. The Legislature eliminated one of these positions for the current year. The headquarters workload of this function has increased slightly over the years as more lists of delinquent (tax sales) properties are received. The number of properties tax-deeded to the state approximated 3,500 annually between 1959-60 and 1962-63, but this amount jumped to 4,490 in 1963-64 primarily because San Bernardino County is engaged in a program of cleaning up its inventory of tax-deeded properties. This county has hired about three people to work on this project. A large part of the workload of this function, especially the field portion, is flexible and depends upon what level of service the agency desires to render to the local county tax collectors.

ANALYSIS AND RECOMMENDATIONS

Accounting Division

Eight permanent positions and 0.75 man-years of temporary help are budgeted for the unclaimed property function in the current year. The following table shows that workload estimates for the budget year are declining but no adjustment has been made in staffing to reflect this trend.

Workload	Unclaimed Property Workload Estimates	
	1964-65	1965-66
New accounts established.....	11,000	10,800
Number of names published.....	5,200	5,000
Number of safe deposit boxes reported.....	1,700	1,700
Number of boxes inventoried.....	2,273	1,640
Number of claims paid.....	670	670

To avoid an increase in the level of service in the unclaimed property function, we recommend that 0.75 man-years of temporary help (\$3,150) be eliminated, budget page 448, line 57.

The agency originally estimated that 300 parcels of escheated type property would be available for advertising during 1965-66, at a cost of \$45 per parcel or a total of \$13,500. Information now available indicates that 225 parcels would be a more realistic estimate.

We recommend that the official advertising expense be reduced by \$3,375 to reflect this change in workload, budget page 448, line 64.

State Controller—Continued

Disbursements Division

The agency is requesting three new intermediate account clerks (\$13,032) for the payroll unit, budget page 450, line 27. This staff increase corresponds to 8.1 percent over the actual year while workload will increase by 11.9 percent.

We recommend approval of these positions.

The equipment budget of this division indicates that the 1965-66 payment on the 7074 computer system is \$89,404. This is a clerical error. The amount should be \$79,434, or a reduction of \$9,970.

We recommend that equipment budget of the disbursement division be reduced by \$9,970, budget page 450, line 48.

Inheritance and Gift Tax Division

The agency is requesting the following nine positions on a workload basis.

Number		Salary	Page	Line
2	Junior counsel -----	\$15,996	451	40, 43
3	Intermediate clerks -----	13,032	451	38, 41, 44
1	Intermediate account clerk ----	4,398	451	37
1	Intermediate typist clerk -----	4,398	451	45
2	Temporary help -----	9,262	451	46
9	Totals -----	\$47,086		

The increase in the number of taxpayer hearings, and the attention the attorneys have to give the growing number of high-valued estates, justifies the request for additional legal positions. The three (file) clerks are justified on a workload basis if the estimates approximate the actual volume. The intermediate typist and account clerk positions also are justified on a workload basis.

The two new temporary help positions will be used to type consents to transfer property and releases of liens. Consents relate only to personal property and they are issued by the county treasurers, banks and this division. Releases relate only to real property and they are issued by this division and inheritance tax appraisers. The agency is currently studying the processing of these consents and releases to determine which ones are needed, and how their methods of handling them can be improved. The workload in both categories experienced a substantial increase in 1963-64, and the estimates call for a continued increase in the future. We have doubts about the usefulness of many of these consents and releases; therefore, *we recommend that the two temporary help positions be approved for one year only, budget page 451, line 46, and during this interval the agency should complete its study and present the findings to the next Legislature.*

We recommend that the other positions also be approved.

Tax Collection and Refund Division

One man-year of temporary help was added to the gas tax refund section in the current year to handle a one-time workload peak resulting from the change in the gasoline tax rate. This unique workload situation now has passed. However, the agency proposes to retain the

State Controller—Continued

position to cover any personnel contingencies such as illness which might cause a backlog in their processing of claims. At the present time, 71 percent of the claims received at the headquarters office, which do not require correspondence or field audit, are paid within three days of their receipt, and 81 percent are paid within four days. Since these claims are normally filed annually, this is a high level of service which should not be enriched to provide for a contingency which may not occur.

We recommend that one man-year of temporary help (\$4,140) be eliminated, budget page 453, line 38.

POLICY OPTIONS**1. Inheritance Tax Administration**

As a significant policy option available to the Legislature, we repeat a recommendation with respect to inheritance tax administration which we have made on numerous occasions.

There appear to be two alternatives to the present system of inheritance tax administration, either of which would result in a net financial gain to the state as well as better administration of the tax, by substituting professionally trained personnel for the present system of patronage appointed inheritance tax appraisers, while at the same time preserving the desirable feature of a single appraisal for both tax and probate purposes.

The first proposal (A) is our version of a self-assessment method. The second proposal (B) would replace the existing appraisers with civil service employees. Following our discussion of these proposals, together with estimates of their financial effects, we list the main defects of the present patronage appraiser system.

A. Self-Assessed Method

This version of a self-assessment method can be adopted with a minimum of changes in the existing inheritance tax and probate processes. It would not affect the existing delinquency dates, the discount period or rate, the statutory attorney or executor fees, the status or jurisdiction of the probate courts, and most other features of these two processes.

The essence of this proposal is:

1. Eliminate the patronage inheritance tax appraisers.
2. Eliminate the county treasurers from participating in the administration of this tax.
3. Provide that the executor or administrator for the estate (in actual practice the probate attorney) shall have the responsibility for preparing the estate's inventory (same as present), value the assets (instead of suggested values), compute the tax (new function) and submit the tax return to the Inheritance and Gift Tax Division for examination and audit.
4. Retain the procedure whereby the probate courts have final jurisdiction over setting the tax, deciding questions of law and valuation, and serving as an appeal body in any disputes among the estate, the heirs or the Inheritance and Gift Tax Division.

State Controller—Continued

5. Have the taxes paid directly to the state rather than to the county treasurer.
6. Have the valuations and processes for inheritance tax purposes serve also for probate purposes. This is just the reverse of existing procedure.

Under this plan the county treasurers would no longer inventory the contents of safe deposit boxes. We suggest this task be assigned to bank officials, who are present when these boxes are opened, and who might reasonably be expected to perform the service as a part of their obligation to their customer.

The financial aspects of this proposal are that the state would experience gross savings of over \$1,160,000 per year by abolishing commissions paid to county treasurers, gift and inheritance tax fees paid to appraisers, and by receiving inheritance tax receipts at an earlier date.

The components of these savings are as follows:

<i>Source</i>	<i>Amount</i>
County treasurer commissions -----	\$670,000
Gift tax appraisal fees -----	20,000
Inheritance tax appraisal fees -----	170,000
Interest value of earlier receipt of taxes -----	300,000
Total -----	\$1,160,000

From these gross savings, the state would have to deduct the cost of policing the self-assessed returns, and to give consents to transfer property which are now handled by the county treasurers. No reliable estimates of this additional cost are available at this time, but they probably would range between \$500,000 and \$750,000 per year. Therefore the net savings to the state from a self-assessed method would probably range between \$400,000 and \$650,000 per year. If the existing probate appraisal fees were continued in effect and transferred to the General Fund, the state would gain an additional \$3 million per year. Otherwise, the estates would save this amount which would be, in effect, a tax reduction of \$3 million.

B. Civil Service Appraisers

This proposal coincides with AB 127 of the 1964 First Extraordinary Session and it provides that all inheritance tax appraisers would be full-time state civil service personnel, compensated solely on a salary basis. Existing probate appraisal fees would be deposited in the General Fund as compensation to the state for making the appraisals. The existing requirement that at least one appraiser shall be appointed in each county would be eliminated. Inheritance tax fees (Section 14772 of the Revenue and Taxation Code) would also be eliminated.

The state would gain about \$3.6 million per year in gross revenues from this proposal, offset in part by an estimated additional administrative cost of \$1 million for the new civil service appraisers and related staff. Therefore, the net savings would approximate \$2.6 million per year.

State Controller—Continued

C. Defects of the Present Patronage Appraiser System

1. *Inheritance tax appraisers are not required to have any specific educational background or training in accounting and property appraising which are the two fields which should be prerequisites for this job.*

Experience in only one of the fields mentioned above does not qualify a person to adequately handle the job because the appraiser is called upon to value all types of assets in an estate. The state's interests are jeopardized, for example, if an appraiser has a background only in real property appraising but has to value a complicated closely held business interest which is an accounting task.

The Controller's Office estimates the appraisal workload, both taxable and nontaxable cases, for 1964-65 will be as follows by type of asset.

	Parcels or items	Value	
		(Millions)	Percent
Realty or interest in realty	86,948	\$1,088.3	38.4
Tangible personal property	54,514	30.0	1.0
Intangible personal property	479,952	1,716.0	60.6
Total	621,414	\$2,834.3	100.0

From the above statistics, one would expect that most of the inheritance tax appraisers would be auditors because intangible personal property accounts for 60 percent of the total value, and this is mainly an accounting workload. However, Table 3 shows that only seven out of the 140 appraisers had backgrounds related to this field, i.e., three CPA's, two public accountants, and two bookkeeper or accountants.

Table 3
Inheritance Tax Appraisers' Other Occupations, as Reported to State Controller by the Appraisers, Calendar Year 1963

Other Occupation	Number
Attorney	53
Real estate	32
Reported as none	17
Insurance	9
Appraiser	7
CPA	3
Public accountant	2
Bookkeeper or accountant	2
Social planning consultant	1
Planning consultant	1
Rancher	1
Ranch manager	1
Cattle rancher	1
Fruit shipper	1
Cement business	1
Title company president	1
Public relations counsel	1
Investments	1
Hotel owner	1
Civil and structural engineer	1
Business consultant	1
Businessman	1
Not reported	1
Total	140

State Controller—Continued

2. *New appraisers receive practically no training in appraisal methods and techniques.*

In 1959, when there was almost a complete turnover in the membership on the appraisal panel, the Controller's Office conducted two part-time training schools for new panel members. However, not all of the new appraisers enrolled in these classes, an even smaller number attended all the classes, and the subject matter consisted almost exclusively of report preparation rather than appraisal methods and techniques.

3. *Appraisers are exempt from the normal administrative controls of a state tax agency because as referees of the court they are independent agents.*

This independence can result in the ludicrous situation of an appraiser continuing to handle a \$55 million estate two years after being fired for incompetency by the State Controller.

4. *The continuity and any proficiency that members of the appraiser panel acquire through experience can be destroyed by a change in state controllers.*

In 1959 there was an almost complete turnover in the membership of the appraiser panel. The resulting lack of experienced appraisers placed an undue burden on estates and also jeopardized inheritance tax revenues.

5. *The administration of inheritance taxes is not uniform throughout California.*

Uniformity would exist only if appraisers were trained to a common standard, and tax cases were supervised and reviewed on a statewide basis. Neither condition exists at the present time.

6. *The fee method of compensating appraisers is antiquated; it is not related to the amount of work required, and it results in excessive compensation for certain appraisers.*

In small counties, with their limited workload, the free method does not provide sufficient compensation to obtain the best qualified candidates for inheritance tax appraisers. In 1963, about one-third of the appraisers handled less than 200 cases (both tax and no tax) and their net incomes averaged about \$3,100.

Another inequity in the existing system is that the appraiser receives the same compensation for valuing an estate consisting entirely of listed securities and cash, that he receives for valuing one with partnership, closely held business or other financial interests which should require intensive investigation.

Table 4 shows the amounts that inheritance tax appraisers reported to the Controller as their gross incomes, expenses and net incomes for 1962. This type of information was released for the first time in July of 1964. Previously, only information on net incomes had been released. These gross income figures are not complete because some appraisers who earned income during the year, but subsequently left the panel,

Table 4

Comparisons of California Inheritance Tax Appraisers Gross Incomes, Expenses and Net Incomes,
by Gross Income Groups, Calendar Year 1962

A. In total amounts

Gross income bracket	Number of appraisers	Gross income	Expenses				Total	Net income
			Employees	Auto	Office	Other		
1. \$50,000 to \$60,000 -----	13	\$702,952	\$276,552	\$46,522	\$85,224	\$27,993	\$436,291	\$266,671
2. 40,000 to 50,000 -----	16	719,562	246,646	42,180	80,820	27,231	396,885	320,684
3. 30,000 to 40,000 -----	16	538,158	197,442	31,492	71,539	14,656	315,129	223,032
4. 20,000 to 30,000 -----	21	511,717	133,697	33,777	52,253	27,607	247,334	264,294
5. 10,000 to 20,000 -----	30	464,311	104,024	32,463	60,026	10,466	206,978	257,201
6. 0 to 10,000 -----	42	179,064	14,893	17,894	15,189	2,487	50,463	131,055
Total -----	188	\$3,115,764	\$973,254	\$204,328	\$365,051	\$110,440	\$1,653,080	\$1,462,937

B. Average per appraiser

1. \$50,000 to \$60,000 -----	13	\$54,073	\$21,273	\$3,579	\$6,556	\$2,156	\$33,561	\$20,513
2. 40,000 to 50,000 -----	16	44,973	15,415	2,636	5,052	1,702	24,805	20,043
3. 30,000 to 40,000 -----	16	33,635	12,340	1,968	4,471	916	19,696	13,940
4. 20,000 to 30,000 -----	21	24,368	6,367	1,608	2,488	1,315	11,778	12,585
5. 10,000 to 20,000 -----	30	15,477	3,468	1,082	2,001	349	6,899	8,573
6. 0 to 10,000 -----	42	4,262	355	426	362	59	1,201	3,120
Total -----	188	\$22,578	\$7,053	\$1,481	\$2,645	\$800	\$11,979	\$10,601

State Controller—Continued

did not bother to file reports. Also these figures are strictly what the appraisers report to the Controller, and as far as we know, no verification is made concerning their accuracy.

This table shows that 29 appraisers, mainly those in the metropolitan counties, averaged about \$20,000 (their figures) in net income per year. This is very generous pay for what essentially is a part-time job. One of the oddities of this situation is that 23 appraisers reported more net income in 1963 than the State Controller received in salary.

For 1963, the gross incomes of appraisers were reported at \$3,331,000, expenses at \$1,740,000, and net incomes at \$1,591,000, which is 8.7 percent above the previous year.

7. The Board of Equalization estimates that the state is losing between \$500,000 and \$1,000,000 per year in inheritance tax revenue under the existing appraiser system.

This statement was made on page 56 of the board's December 2, 1964, report on a Department of Revenue.

We have held a similar conclusion. Page 299 of our 1961-62 analysis states ". . . it appears to us that the present system tends to place a premium on undervaluation rather than on accurate valuation of the estates by inheritance tax appraisers, and that the activities of the appraisers are not subject to adequate supervision or review."

In discussing the role of inheritance tax appraisers, representatives of the Controller's Office have stressed their impartiality, while private probate attorneys have stressed the ability of the present appraisers to negotiate valuations and therefore contend that the present system is best from the viewpoint of their clients.

2. Escheated Property

Section 1415 of the Code of Civil Procedure provides for two methods of handling the personal property of missing heirs which is under \$1,000 in value.

- A. For items under \$300, the Controller is required to prepare a list of such properties which is displayed in his offices in Sacramento, San Francisco and Los Angeles.

The Controller also is required to publish a *notice* in a general circulation newspaper in the three counties where the offices are located—indicating that the lists are available for public inspection. The Controller is *not* required to publish each item on these lists.

The last publication of these notices occurred 1959-60 and the cost was \$388.

- B. For items between \$300 and \$1,000, the Controller is required to publish *each item* on the list in the general circulation newspaper in the county where the property came from.

The last publication of these lists occurred in 1959-60 and they contained 92 estates having a total value of \$46,281. Since then only \$1,211 of this amount has been claimed. The publication costs were \$3,417.

State Controller—Continued

The Controller estimates that 225 accounts with a total value of \$128,000 will be available for publication during 1965-66. The publication costs are estimated at \$10,125.

Escheated type property is held by the State Treasurer for five years before the above notices or lists can be published, and then another five years must elapse before such property can be permanently escheated to the state.

We suggest that Section 1415 of the Code of Civil Procedure be amended to provide that all properties under \$1,000 in value be handled in the manner now prescribed for those under \$300.

3. Tax-deeded Lands Division

In our 1962-63 analysis, pp. 267 to 275, and in the 1963-64 analysis, pp. 311 to 318, we discussed the activities of the five field offices of this division, and we recommended that they be abolished because: 1) the benefits of this program accrued only to a few counties, 2) the property management programs did not justify their costs, and 3) it would be more economical for local governments to handle these functions.

Our position on this subject has not changed.

STATE CONTROLLER

ITEM 137 of the Budget Bill

Budget page 447

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

Amount requested	\$140,923
Estimated to be expended in 1964-65 fiscal year	137,635
<hr/>	
Increase (2.4 percent)	\$3,288
TOTAL RECOMMENDED REDUCTION	None

This appropriation is for the cost of collecting the Motor Vehicle Transportation (truck) Tax, the details which are included under Item 136.

We recommend approval.

STATE CONTROLLER

ITEM 138 of the Budget Bill

Budget page 447

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

Amount requested	\$808,466
Estimated to be expended in 1964-65 fiscal year	789,344
<hr/>	
Increase (2.4 percent)	\$19,122
TOTAL RECOMMENDED REDUCTION	None

This appropriation is to cover the costs of administering the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 136.

We recommend approval.

Equalization

Items 139-140

STATE CONTROLLER

ITEM 139 of the Budget Bill

Budget page 447

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

Amount requested	\$172,990
Estimated to be expended in 1964-65 fiscal year	169,774
Increase (1.9 percent)	\$3,216

TOTAL RECOMMENDED REDUCTION None

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid Program. Operation of these activities are included under Item 136.

We recommend approval.

BOARD OF EQUALIZATION

ITEM 140 of the Budget Bill

Budget page 456

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

Amount requested	\$17,114,915
Estimated to be expended in 1964-65 fiscal year	16,775,671
Increase (2.0 percent)	\$339,244

TOTAL RECOMMENDED REDUCTION \$224,480

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
From amount requested to maintain existing level of service:			
Delete vacant beverage and cigarette tax administrator position	\$12,696	458	25
Delete 23 field auditor positions	211,784	458	25

PROGRAM PLANS AND BUDGET

The board is composed of four elected members from areas known as equalization districts, and a fifth ex officio member, the State Controller. Section 9 of Article XIII of the Constitution provides that the "... Legislature shall have power to redistrict the state into four districts as nearly equal in population as practical . . ." There has been one re-districting since the board was created in 1879, and that occurred in 1923 when the board had a staff of six and a budget of \$37,000. From the data in Table 1 it is obvious that there are wide disparities in population among the four present districts. Any reapportionment strictly along population lines would result in the splitting of Los Angeles County, with 37 percent of the state's population, between two districts.

65-66

Board of Equalization—Continued

Table 1
Estimated Population of the Board of Equalization
Districts, July 1, 1964

Equalization District Number	General area	Number of counties	Population	
			Number	Percent
1	Central coastal counties, including San Francisco, San Mateo and Santa Clara.....	7	2,571,200	14.1
2	Central counties, including Alameda, Contra Costa and Sacramento.....	18	3,706,700	20.3
3	Northern counties, including Marin, Sonoma, Napa, Solano and Yolo.....	25	1,373,100	7.6
4	Southern counties, including Los Angeles, San Bernardino and San Diego.....	8	10,583,000	58.0
	Total	58	18,234,000	100.0

While the board establishes overall policy, each member investigates the administration, enforcement and operation of the tax programs within the district from which he is elected.

The board has two general areas of responsibility: (1) those relating to the administration or participation in the administration of the taxes shown in Table 2 below, and (2) its constitutional obligation to provide equalization of locally assessed property, and the valuation of public utility properties.

Table 2
Taxes Administered by the Board of Equalization
(millions)

Administers		Participates in administration	
Tax	1963-64 revenue	Tax	1963-64 revenue
State retail sales	\$877.1	Motor vehicle fuel	\$424.0
Local retail sales and use.....	286.9	Transportation	15.2
Cigarette	71.8	Insurance	107.2
Alcoholic beverage	61.4		
Use fuel	26.2	Total	\$546.4
Private car	1.8		
Total	\$1,325.2		

A distribution of the board's staff for 1965-66 is shown in Table 3. A composite picture of the total support of this agency is given in the following table.

Program	Source of support 1965-66					Total
	General Fund	M.V. transpor- tation tax fund	M.V. fuel fund	Reimburse- ments		
Administration ..	\$3,579,505	\$282,088	\$268,362	\$25,000		\$4,154,955
Business taxes ---	11,662,956	758,826	729,267	4,749,816		17,900,865
Property taxes ---	1,872,454	-	-	10,000		1,882,454
Total	\$17,114,915	\$1,040,914	\$997,629	\$4,784,816		\$23,938,274
Percent	71.5	4.3	4.2	20.0		100.0

The highway user tax funds in the above table support the administration of the use fuel, gasoline and truck taxes. The property tax reimbursements represent a payment for past timber appraisal service to counties. This program is no longer in existence.

Board of Equalization—Continued

Table 3
Distribution of the Board's Staff by Major Programs, 1965-66

<i>Programs</i>	<i>Proposed positions</i>
1. Administration:	
a. Executive -----	21
b. Staff services -----	59
c. Administrative services -----	225
Subtotal -----	305
2. Business Taxes:	
a. Auditing -----	916
b. Compliance -----	959
c. DMV charges -----	0
Subtotal -----	1,875
3. Property Taxes:	
a. Intercounty equalization -----	61.4
b. Valuation of public utilities -----	65.3
c. Assistance to assessors -----	33.7
Subtotal -----	160.4
Total -----	2,340.4

1. Administration

a. The executive unit consists of the board members, their deputies and secretaries, the executive secretary, and the new tax service specialist which was added by the last Legislature, but filled only in January of 1965.

b. Staff services consists of the following technical units which report directly to the executive secretary: legal (33 positions), internal audit (5), personnel (12), and administrative analyst (9). About half of the legal staff's time is spent on hearings, appeals, petitions, and claims for refund. Included in this activity are about five man-years devoted to Franchise Tax Board appeals. This work cost about \$75,000 in 1963-64, when 223 cases were completed. One additional position was added administratively to the internal auditing unit in the current year. This change was made to broaden the scope of the workload to include headquarters operations and the property tax units, rather than limiting their activity, which was the practice in the past, to business tax district offices. The Auditor General had been critical of the former practice. The agency is requesting the continuance of the new position in the budget year.

c. Administrative services consist of a group of units which provide staff support for the entire agency. Included in this category are a supervisory section (6 positions), the fiscal office (29), the statistical unit (8), the EDP unit (98), general services (71.5), and 12.5 man-years of temporary and intermittent help plus overtime. The EDP unit installed a 1410 computer in November 1964. This unit is requesting four new positions, 3.5 of which will be obtained from within the agency, to convert sales tax security, accounts receivable, and highway tax records to this equipment. The other half of a position, which will be an addition to the total staff, is requested on a regular workload

Board of Equalization—Continued

basis. General services is providing 1.5 of the new positions which will be obtained internally. The other two will be transferred from business taxes. The agency also is proposing to abolish four other clerical positions in business taxes to pay for the increased rental cost of this equipment. Intermittent help is being increased by one man-year on a workload basis.

2. Business taxes

a. Audit positions are not assigned to a specific tax program, but instead they work on all programs on a functional basis. Workload information is not available at this time on how the audit manpower will be distributed in the budget year. In 1963-64, the manpower was divided as follows, by taxes.

Tax	Man-Years		Total	Number of audits
	Headquarters	Field		
Sales -----	71.7	760.5	832.2	35,613
Highway -----	9.7	45.7	55.4	2,295
Beverage and cigarette -----	3.5	5.2	8.7	114
Total -----	84.9	811.4	896.3	38,022

The man-years refer to the audit, compliance and clerical positions that worked in this program. During recent years there has been a trend towards devoting more manpower to sales tax audits, and less to the other taxes. This trend will probably continue in the budget year.

b. Compliance activity includes the registering of new taxpayers, changing the records when necessary to indicate a different address, ownership or type of account, closing out accounts, processing returns, collecting delinquent taxes, and rendering advisory service to the taxpayers. The agency does not have information on the distribution of man-hours among the above functions at the present time. However, a new time reporting system was started on January 1, 1965, which should develop such information in the future. The next table shows how the compliance staff was distributed in the last actual year.

Tax	Man-Years		Total
	Headquarters	Field	
Sales -----	223.6	564.6	788.2
Highway -----	38.6	88.7	127.3
Beverage and cigarette -----	17.5	2.2	19.7
Total -----	279.7	655.5	935.2

. During recent years, the total compliance staff has remained about the same, but there has been a noticeable shift away from headquarters operations to field activity as some of the processes were decentralized.

Also, more emphasis has been devoted to sales tax activity and less to highway taxes. These trends will probably continue in the budget year.

c. In 1963, the Legislature enacted Chapter 1858 which imposed the retail use tax on domestic occasional (nondealer) sales of automobiles. However, the first occasional sale by a seller in a 12-month period is tax

Board of Equalization—Continued

exempt. The Department of Motor Vehicles administers this tax, but the cost is reimbursed by the Board of Equalization. Both the original estimates of revenue and costs of this program proved to be understated. Revenue for 1963-64 was estimated at \$1,875,000, but the actual receipts were \$4,253,000. The following tabulation compares the cost estimates.

Cost of the Auto Use Tax Program

<i>Year</i>	<i>Original estimate</i>	<i>Actual or revised estimate</i>	<i>Increase</i>
1963-64 -----	\$429,779	\$478,598	\$48,819
1964-65 -----	488,518	622,561	134,043

The board had to receive an allocation from the Emergency Fund to cover the increased costs in the current year. The estimated cost of this program, as computed by the Department of Motor Vehicles, is \$657,172 for the budget year. The board believes that if the one car exemption is eliminated, this should not only produce additional revenue, but also reduce administrative costs. The Department of Motor Vehicles indicates that costs would increase slightly if the exemption were eliminated.

3. Property taxes

a. Intercounty equalization consists of two phases: (1) the surveys made by the staff to determine the ratio of locally assessed tangible property to full cash value, and (2) any action the board may take to equalize these assessments among the counties by raising or lowering the assessment roll in one or more counties. Our budgetary comments will be confined to phase one.

By law, this agency is required to make appraisal surveys in each of the 58 counties at least once every three years. On the average, 300 assessment surveys are selected at random from the local roll of a county and these are used to determine the assessment level of the county. In the budget year, 6,157 assessment surveys will be made in 19 counties which will require an estimated 85,076 hours of direct field staff time or 47.7 man-years. Available manpower from existing positions is only 45.6 man-years. The agency proposes to overcome this deficit by requesting one additional appraiser plus a new clerical position who would assume some of the office duties now handled by the appraisers. The workload of this function has increased in recent years because the county assessors and superintendents of schools are becoming more aware of the impact that equalization ratios have on the distribution of state aid to schools. This awareness has resulted in more time being devoted to conferences with the assessors on the assessment surveys and more time required for field review of these appraisals.

b. The valuation unit assesses privately owned public utility and railroad properties. It also assesses and collects the tax on "private cars" which are railroad cars used in California but not owned by the railroad companies.

Board of Equalization—Continued

The workload of this function is divided into the following four categories.

<i>Activity</i>	<i>Man-years</i>
1. Valuation and apportionment of state assessed property-----	36.8
2. Maintenance of the tax rate or "code" area system-----	15.0
3. Private car assessment and collection-----	4.0
4. Administration, clerical and training-----	6.2
Total-----	62.0

The valuation of state-assessed property has continuously increased during recent years as public utilities have added additional properties. The total original cost of all these properties amounted to about \$18.5 billion in calendar year 1963 and it increased to about \$19.5 billion in 1964.

The "code" area system consists of maintaining maps of the entire state showing almost 19,000 geographic areas of uniform total tax rates created by 5,440 revenue districts. This is one of the fastest growing workload areas of this unit. An additional 0.4 man-years of overtime help is requested in the budget year to meet a deadline which has been advanced one month because of a change in the timing of city annexation filings.

c. Service to the assessors falls into three categories: (1) publication of materials such as the assessor's handbook which has statewide interest and benefit, (2) training conferences and schools which supplement the activities of the local assessors who have the primary responsibility in this field, and (3) special assistance which consists of helping individual assessors on particular problems. Most of this unit's manpower is allocated to the publication activity with the other two categories receiving about the same amount of support.

The plans of this unit for the budget year can be drastically changed if the board and the Legislature decide to have this unit assist the north county assessors in reassessing property which was damaged by the December 1964 floods. Additional comments on this problem are given in the next section of this analysis.

REVIEW OF AGENCY ACCOMPLISHMENTS

Information for comparing workload standards, staffing and accomplishments is not available for most of the programs and functions of this agency. Field auditing and intercounty equalization have such information, but they are the exceptions. A more typical situation is the assistance to county assessors which has manpower data by type of activity, but only partial information on workload and accomplishments. Most of the service activities have very little information along these lines. To correct this situation, the agency has started a new time reporting system which should develop workload and staffing data, but an additional effort will have to be made to obtain information to measure accomplishments.

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1. Administration

a. The estimated and actual manpower for the executive unit coincided in 1963-64.

b. Staff services had 56 budgeted positions in 1963-64 and 55.4 actual man-years. Three positions, however, were added to this function during the year by either abolishing positions in other programs, or by transferring from another unit. Page 327 of our 1964-65 analysis indicates that one junior counsel was added to the legal unit, and an associate personnel analyst was added to the personnel unit, both of which were substitutes for abolished positions. The personnel unit also received an additional clerical position which was transferred from general services. In the current year, 59 positions are budgeted for this function.

c. Administrative services had 218 budgeted positions in 1963-64 and 209.6 actual man-years. Positions in general services have declined as more of their workload is transferred to the EDP unit, which has gained personnel. The budget cut by the 1964 Legislature because of excess vacancies, took 1.5 clerical positions from this function. However, 6.1 positions were added on a workload basis, therefore the total budgeted positions for the current year are 221.5.

2. Business Taxes

a. The working audit staff (not including a normal allowance for vacant positions) of the board consists of about 776 positions. Five of these positions work in the cigarette and beverage tax unit in the headquarters office, another 61 are in the headquarters audit supervision and control unit, and the remaining 710 positions are located in the board's 61 field offices. The board keeps detailed records on the hours worked by these field auditors. This information is presented in Table 4, which will differ slightly from other tables because: (1) only auditor hours are included in this table, whereas some clerical and compliance

Table 4
Analysis of Time Worked by Field Auditors
1963-64

<i>By tax</i>	<i>Man-years</i>			
	<i>Auditing</i>	<i>Compliance</i>	<i>Total</i>	<i>Percent</i>
Sales -----	653.8	10.9	664.7	93.5
Gasoline -----	7.3	0.4	7.7	1.1
Use fuel -----	12.0	0.7	12.7	1.8
Transportation -----	19.2	0.9	20.1	2.8
Beverage and cigarette -----	4.4	0.9	5.3	0.8
Total -----	696.7	13.8	710.5	100.0
<i>By activity</i>				
Supervision -----	116.6	4.6	121.2	17.1
Audit review -----	24.4	--	24.4	3.4
Direct field work -----	484.8	6.8	491.6	69.2
Audit selection -----	22.4	--	22.4	3.1
Training -----	20.0	1.1	21.1	3.0
General -----	28.5	1.3	29.8	4.2
Total -----	696.7	13.8	710.5	100.0

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time associated with auditing was included in other tables, and (2) this data relates only to the hours worked rather than to the hours reported in connection with audits submitted to headquarters.

Sixteen more field audit man-years were worked (because of less vacancies) in 1963-64 than in the previous year but direct field time increased by only 5.6 man-years. During the same period, supervision increased by 4.9 man-years.

Table 5 analyzes in more detail the major portion (sales tax audits only) of the direct field work shown in the previous table. This information shows how the manpower was allocated by type of audit and how the actual work in 1963-64 compares to the quotas. From the table it is evident that:

(1) The medium productive audits received the largest share of the in-state manpower and in 1963-64, most of the surplus manpower from other audits was transferred to this category.

(2) Closeout audits have used about 40 man-years in both 1962-63 and 1963-64. If this is any indication of a normal workload, then the amount budgeted for the current year is excessive.

(3) More manpower is being allocated to the out-of-state audits in the current year, especially the most productive group, even though the quota for 1963-64 was not realized.

Table 5
Comparison of Sales Tax Field Audit Quotas and Actual Work

1. In-state only

Type of audit	Man-years				
	1962-63 Actual	1963-64 Quota	1963-64 Actual	1963-64 Difference	1964-65 Quota
Most productive (a)-----	156.0	171.3	164.8	-6.5	169.0
Medium productive (b)-----	202.3	209.6	226.1	16.5	203.3
Least productive (c)-----	34.2	38.9	36.0	-2.9	41.6
Closeouts, etc. (d)-----	40.7	50.0	40.5	-9.5	49.7
Total -----	433.2	469.8	467.4	-2.4	463.6

2. Out-of-state

Type of Audit	1962-63 Actual	1963-64 Quota	1963-64 Actual	1963-64 Difference	1964-65 Quota
Most productive -----	26.9	30.3	24.2	-6.1	32.5
Medium productive -----	9.8	11.5	13.3	1.8	11.3
Least productive -----	1.7	1.6	1.9	0.3	2.0
Closeouts, etc. -----	5.0	5.5	5.1	-0.4	5.5
Total -----	43.4	48.9	44.5	-4.4	51.3

3. Totals -----

(a) cells 1 to 8, (b) cells 9 to 11, (c) cells 12 to 16, (d) cells 17, 18 and FBO's.

Table 6 compares the results of these sales tax audits for the last two actual years. The net revenue from the in-state audits, which accounts for 91 percent of the total field staff, dropped in 1963-64 while costs increased, which caused an 11.8 percent reduction in the ratio of net revenue to per dollar of costs. By contrast, the out-of-state audits in

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1963-64 produce the greatest amount of net revenue since these offices were established in the middle 1940's, as shown in Table 8.

Table 6
Comparison of the Sales Tax Field Audit Program,
1962-63 and 1963-64

A. <i>In-state only</i>	1962-63	1963-64	Difference	
			Amount	Percent
Deficiencies -----	\$17,245,671	\$16,949,092	-\$296,579	-1.7
Refunds -----	-2,004,543	-2,166,573	162,030	8.1
Cancellations and uncollectibles...	-2,691,291	-2,849,743	188,452	5.9
Net revenue -----	\$12,549,837	\$11,932,776	-\$617,063	-4.9
Audit hours -----	722,928	771,435	48,507	6.7
Audit costs -----	\$8,221,885	\$8,832,659	\$610,779	7.4
Revenue per dollar of cost.....	\$1.53	\$1.35	-\$0.18	-11.8
B. <i>Out-of-state</i>	1962-63	1963-64	Difference	
Deficiencies -----	\$3,089,651	\$4,960,260	\$1,870,609	60.5
Refunds -----	-198,161	-114,652	-83,509	-42.1
Cancellations and uncollectibles...	-435,593	-659,860	224,267	51.5
Net revenue -----	\$2,455,897	\$4,185,748	\$1,729,851	70.4
Audit hours -----	71,666	73,592	1,926	2.7
Audit costs -----	\$876,475	\$906,653	\$30,178	3.4
Revenue per dollar of cost.....	\$2.80	\$4.62	\$1.82	65.0
C. <i>All locations</i>	1962-63	1963-64	Difference	
Deficiencies -----	\$20,335,322	\$21,909,352	\$1,574,030	7.7
Refunds -----	-2,202,704	-2,281,225	78,521	3.6
Cancellations and uncollectibles...	-3,126,884	-3,509,603	382,719	12.2
Net revenue -----	\$15,005,734	\$16,118,524	\$1,112,790	7.4
Audit hours -----	794,594	845,027	50,433	6.3
Audit costs -----	\$9,098,360	\$9,739,312	\$640,952	7.0
Revenue per dollar of cost.....	\$1.65	\$1.65	--	--

b. The total compliance field staff for all business taxes increased from 636.6 man-years in 1962-63 to 655.5 man-years in 1963-64 or the equivalent of 3 percent. During the same period, the number of business tax outlets increased by 2.8 percent but the total permit activity, which is a better workload indicator, increased by 7.4 percent. As one would expect, permit activity increases were mainly confined to the rapidly growing areas of the state such as Van Nuys, Santa Barbara, Santa Ana and San Jose. All of these offices had activity increases in excess of 10 percent. However, one of the problems of this agency is the reluctance to transfer positions between districts in order to solve workload changes internally.

Table 7 shows that the agency generally overestimated workload in 1963-64. Its revised estimates for the current year generally are between 2 and 3 percent higher than the last actual figures.

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Table 7
Comparison of the Estimated and Actual Types of Compliance Activity, 1963-64

	Estimated	Actual	Percentage difference
<i>Tax returns and reports received</i>			
Sales tax	1,420,000	1,398,980	-1.5
Highway taxes	266,800	263,045	-1.3
Beverage and cigarette taxes	16,900	16,132	-4.5
Total	1,703,500	1,678,157	-1.5
<i>Delinquent accounts (tax returns)</i>			
Sales tax	111,500	85,760	-23.1
Highway taxes	50,300	46,677	-7.2
Beverage and cigarette taxes	170	177	4.1
Total	161,970	132,614	-18.1
<i>Taxpayers cited for hearings</i>			
Sales tax	45,700	39,620	-13.3
Highway taxes	13,500	9,719	-28.0
Total	59,200	49,399	-16.7
<i>Revocation notices served</i>			
Sales tax	14,000	12,792	-8.6
Highway taxes	3,500	3,456	-1.3
Total	17,500	16,248	-7.2

c. In the first section of this analysis, we mentioned that the revenues and costs of the new automobile use tax program were underestimated for 1963-64.

3. Property taxes

a. The intercounty equalization function had 57.1 positions budgeted for 1963-64 and 56.1 actual man-years. However, the actual man-years do not include about 1,445 hours of appraisal time which was borrowed from assistance to assessors in order for this unit to complete its workload. The following table compares the estimated and actual number of appraisals and hours for the last actual year.

Intercounty Equalization, 1963-64

Type of property	Estimated		Actual	
	Number of appraisals	Hours	Number of appraisals	Hours
Secured	4,945	74,475	4,972	79,914
Unsecured	921	7,166	693	5,566
Total	5,866	81,641	5,665	85,480

The actual hours for secured property increased because more time had to be allocated for conferences with the county assessors regarding these appraisals. Besides borrowing from another unit, this function made up the difference between budgeted and actual appraisal hours by devoting some of its supervision time to this activity.

b. The valuation of public utilities function had 64.4 positions budgeted in 1963-64 and 55.5 actual man-years. The vacancies were

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primarily in the drafting aid and junior appraiser classes. The former work on the tax code area maps while the latter are assigned to the valuation of state-assessed property.

During the current year, 62.4 positions are budgeted for this function.

c. The assistance to county assessors had 31.7 budgeted positions and 30.2 actual man-years in 1963-64. The next table shows how its technical manpower was allocated and actually used during 1963-64.

Assistance to County Assessors, 1963-64
(Man-hours)

Activity	Estimated	Actual
Administration -----	6,848	8,429
Publications -----	13,008	10,077
Training -----	9,408	9,019
Special assistance -----	10,840	11,864
Total -----	40,104	39,389

During the current year, the agency proposed to spend about 40 percent more time on publications, make a slight increase in training and reduce the other two activities so that the total hours remain the same. However, the December 1964 floods may completely disrupt the plans of this unit. The Board of Equalization has proposed that up to 13 of the technical positions in this unit be loaned if necessary to the flood-damaged counties in order to help them reappraise the damaged or destroyed property. It is the present thinking of the board and other parties concerned that the state would bear the cost of the reappraisal assistance. The most severely damaged counties are Del Norte, Humboldt and Siskiyou. Assistance also may be requested by Trinity and Mendocino Counties.

There is precedence for this type of reappraisal assistance. After the 1955 floods, the board used 12 temporary help positions for this type of activity during 1955-56 at a cost of \$98,000. The 1956-57 Budget, item 120.1, appropriated an additional \$100,000 for this work. These amounts may understate the total cost of this program because information is not available on what portion of the permanent staff also participated in this project.

If the board undertakes this reappraisal assistance, the cost probably will be very significant because: (1) the damage is extensive, (2) it covers a wide geographic area, and (3) the afflicted counties have small appraiser staffs and therefore are unable to carry the major share of this work.

This program should receive legislative review before any commitments are made to the counties regarding state reappraisal assistance.

ANALYSIS AND RECOMMENDATIONS

In the previous sections we have commented on the following proposed new positions:

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Proposed New Positions, 1965-66

	Number	Amount	Budget	
			Page	Line
<i>Administration</i>				
Key punch operator -----	2	\$9,627	457	35
Senior tab machine operator -----	1	5,832	457	37
Programmer I -----	1	7,080	457	38
Supervising tax auditor I -----	1	12,695	457	33
Intermittent help -----	1	6,000	457	39
<i>Property Taxes</i>				
Associate real property appraiser -----	1	9,036	459	50
Junior-intermediate stenographer -----	1	4,140	459	51
Overtime -----	0.4	2,500	459	53
Total -----	8.4	\$56,910		

We recommend approval of the above positions on a workload basis.

Beverage and Cigarette Tax Administrator

On June 30, 1964 the incumbent beverage and cigarette tax administrator (\$12,696) retired from state service. This position had administered a headquarters unit consisting of five auditors and 16 clerical positions. Subsequent to this retirement, the following changes have been made in this unit.

1. The beverage and cigarette tax unit was abolished as a separate entity and transferred to the business tax headquarters office section to become a subdivision of that unit.
2. The former deputy beverage and cigarette tax administrator, a supervising tax auditor I (\$870-1,058), was placed in charge of this new subunit.
3. The field auditing functions of this subunit were transferred to the principal tax auditor, who supervises all other business tax audits.
4. At the Auditor General's suggestion, the board is conducting a complete systems study of this subunit.

The beverage and cigarette tax administrator position is still vacant. The board proposes to use this position as a staff expert (no line responsibilities) on these taxes. These staff duties, the board states, would include liaison with industry, trade, taxpayer groups, legislative research and other like duties. The board also indicates that the position might be used for similar work on sales and use taxes.

We find no workload justification for the continuance of this position along the lines indicated by the board. The number of taxpayers involved is rather small and they are a cohesive group with their own trade associations. Also, most of them have been in business for many years and are familiar with the tax laws and regulations. Any work that is required regarding these taxes can be handled on a parttime basis by someone who has knowledge of this field, such as one of the assistants to the principal tax auditor.

We recommend that the vacant beverage and cigarette tax administrator position (\$12,696) be abolished, budget page 458, line 25.

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Sales Tax Field Audits

We believe that the Board of Equalization is allocating an excessive amount of field audit manpower to what we term the medium productive sales tax audits. This conclusion is based upon the information in the next six tables which show:

1. During 1963-64, the in-state audit program, which accounts for 91 percent of the sales tax field audit staff, produced the lowest ratio of net revenue to per dollar of cost of any of the 14 years listed in Table 8.
2. Total audit revenue (Table 8) in 1963-64 stayed at the same ratio as the previous year only because: (a) the out-of-state program was the most productive in its history, and (b) the board changed its cost accounting system whereby about \$248,000 which formerly had been considered as auditing costs was now shifted to the compliance program. Using the old method of allocation, the 1963-64 ratios would be \$1.31 for the in-state program, and \$1.61 for the total activity.
3. There has been a steady decline (Table 10) in the productivity of this program among the in-state districts. In 1963-64 two of the districts (San Diego and Santa Rosa) incurred more costs than they produced in revenue, and two others (San Francisco and Fresno) were barely productive.
4. One of the reasons for this decline in productivity is that about half of the in-state audit manpower (Table 11) is devoted to the medium productive audits which produced only \$1.12 in revenue per dollar of costs. These audits are at best only marginal. The board states that this group contains many accounts which will result in productive audits, but it also admits that they are intermixed with from three to five times as many that will not produce enough misplaced tax (deficiencies plus refunds) to pay for the time expended.
5. Table 12 shows that these medium productive audits resulted in net losses in three of the districts, and two more were barely above the break-even point. Another interesting aspect of this table is that the two districts which devoted the largest percentage of their staff to these audits, both incurred net losses.
6. Table 13 shows that 41 percent of the eligible accounts in the medium productive group, in-state, were audited during the last three-year audit cycle. This is a very high audit coverage for this type of account.

In the past, the board has justified new audit positions on the basis that they would produce significant amounts of additional net revenue. This argument also works in reverse. From the information presented in the previous tables, it is obvious to us that the increases in the cost of auditing have made the present auditing level unproductive. *Therefore, we recommend a 10 percent reduction in the manpower devoted to the in-state medium productive audits. This is equivalent (Table 11) to 23 auditor positions at \$211,784, budget page 458, line 25.*

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Table 8
Summary of Sales Tax Audit Results, by Years 1950-51 to 1963-64

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	\$7,683,786	\$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	
1960-61	785,284	436.3	7,823,788	9.96	12,581,935	1.61	
1961-62	747,953	415.5	8,036,707	10.74	12,828,290	1.60	
1962-63	722,928	401.6	8,221,885	11.38	12,549,837	1.53	
1963-64	771,435	428.6	8,832,659	11.44	11,932,776	1.35	
Totals	11,268,547	447.2	\$90,087,128	\$7.99	\$142,400,353	\$1.58	
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	
1960-61	51,655	28.7	559,424	10.83	2,498,601	4.47	
1961-62	76,385	42.4	856,276	11.21	2,981,778	3.48	
1962-63	71,666	39.8	876,475	12.23	2,455,897	2.80	
1963-64	73,592	40.9	906,653	12.32	4,185,748	4.62	
Totals	635,958	25.2	\$6,570,021	\$10.33	\$23,003,908	\$3.50	
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	
1960-61	836,939	465.0	8,383,212	10.02	15,080,536	1.80	
1961-62	824,338	458.0	8,892,983	10.79	15,810,068	1.78	
1962-63	794,594	441.4	9,098,360	11.45	15,005,734	1.65	
1963-64	845,027	469.5	9,739,312	11.52	16,118,524	1.65	
Totals	11,904,505	472.4	\$96,657,149	\$8.12	\$165,404,261	\$1.71	

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Table 9
Sales Tax Field Audit Revenue and Costs by District, 1963-64

	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
Los Angeles			
Hollywood -----	\$1,236,080	\$785,109	\$1.57
Inglewood -----	459,565	416,387	1.10
Van Nuys -----	523,378	427,706	1.22
Downey -----	983,325	594,265	1.65
Long Beach -----	594,933	379,068	1.57
Pasadena -----	1,085,808	538,606	2.02
West Los Angeles -----	686,635	369,468	1.86
Santa Barbara -----	322,585	191,690	1.68
Subtotal, Los Angeles -----	\$5,892,309	\$3,699,924 *	\$1.59
San Francisco -----	1,082,966	1,035,662	1.05
Oakland -----	1,037,026	742,198	1.40
Fresno -----	492,340	436,827	1.13
San Bernardino -----	1,129,777	701,615	1.61
San Diego -----	401,941	715,653	.56
San Jose -----	631,438	495,993	1.27
Sacramento -----	589,857	463,507	1.27
Santa Rosa -----	305,284	311,610	.98
Marysville -----	369,838	229,670	1.61
Total in-state -----	\$11,932,776	\$8,832,659	\$1.35
Out-of-state -----	4,185,748	906,653	4.62
Total, all locations -----	\$16,118,524	\$9,739,312	\$1.65

* Costs for subdistricts do not add to total because of rounding.

Table 10
Net Revenue per Dollar of Cost From the Sales
Tax Field Audit Program

<i>District</i>	<i>1959-60</i>	<i>1960-61</i>	<i>1961-62</i>	<i>1962-63</i>	<i>1963-64</i>
Los Angeles -----	\$1.97	\$1.81	\$1.90	\$1.82	\$1.59
San Bernardino -----	1.71	1.52	1.40	1.77	1.61
Marysville -----	1.57	1.53	1.34	1.71	1.61
San Francisco -----	1.52	1.33	1.30	1.39	1.05
San Jose -----	.99	1.99	1.35	1.26	1.27
Oakland -----	1.39	1.15	1.80	1.22	1.40
Santa Rosa -----	1.69	1.17	1.19	1.16	.98
Sacramento -----	1.37	1.15	1.49	1.15	1.27
San Diego -----	2.19	2.16	1.03	.95	.56
Fresno -----	1.19	1.21	1.08	.95	1.13
Total in-state -----	\$1.68	\$1.61	\$1.60	\$1.53	\$1.35
Out-of-state -----	3.20	4.47	3.48	2.80	4.62
Total -----	\$1.78	\$1.80	\$1.78	\$1.65	\$1.65

Board of Equalization—Continued

Table 11
Analysis of Sales Tax Field Audits, by
Type of Audit, 1963-64

1. In-state Only

Type of audit	Number of audits	Audit man-years	Audit cost	Net revenue	Revenue per dollar of cost
Most productive ^a ---	4,413	167.4	\$3,066,115	\$4,208,208	\$1.37
Medium productive ^b ---	17,380	229.6	4,206,054	4,708,020	1.12
Least productive ^c ---	3,631	36.6	670,031	606,269	.90
Close-outs, etc. ^d ---	8,384	48.6	890,718	2,410,179	2.71
Total -----	33,808	482.2	\$8,832,918	\$11,932,776	\$1.35

2. Out-of-state

Type of audit	Number of audits	Audit man-years	Audit cost	Net revenue	Revenue per dollar of cost
Most productive ----	481	24.6	\$484,484	\$2,117,393	\$4.37
Medium productive --	786	13.5	266,235	723,150	2.72
Least productive ---	134	1.9	37,970	291,337	7.69
Close-outs, etc. ----	404	6.0	117,964	1,053,368	8.93
Total -----	1,805	46.0	\$906,653	\$4,185,748	\$4.62

^a Cells 1 to 3.^b Cells 9 to 11.^c Cells 12 to 16.^d Cells 17, 18 and FBO.

The man-years information in Tables 11 and 12 consists of the hours worked on the audit cases which were submitted to the headquarters office during 1963-64, which does not always coincide with the hours worked during that year. Reaudit time was also included in these figures, and this is the main reason why they exceed the amounts in Table 5.

Table 12
Net Revenue and Costs by Districts of the Medium
Productive Sales Tax Audits, 1963-64

District	Audit staff		Net revenue	Cost	Revenue per dollar of cost
	Man-years	Percent of total staff			
Los Angeles -----	98.7	45.7	\$1,963,328	\$1,668,854	\$1.18
San Francisco -----	27.7	47.6	535,303	485,282	1.10
Oakland -----	21.3	54.6	473,328	399,529	1.19
Fresno -----	13.7	61.2	248,455	260,712	.95
San Bernardino -----	18.5	49.0	382,688	339,733	1.13
San Diego -----	14.5	38.6	284,775	273,045	1.04
San Jose -----	13.9	51.8	234,729	248,532	.94
Santa Rosa -----	9.3	61.8	164,375	190,918	.86
Sacramento -----	10.5	51.4	240,501	234,137	1.03
Marysville -----	6.5	51.5	180,038	116,281	1.55
Total in-state -----	229.6	48.4	\$4,708,020	\$4,217,023	\$1.12

Board of Equalization—Continued

Table 13
 Comparison of the Number of Eligible Sales Tax Accounts and the Number Audited During the Three-Year Period, 1961-62 to 1963-64

<i>Type of audit</i>	<i>Number of eligible accounts</i>	<i>Number of field audits</i>	<i>Percent of eligible list audited</i>
1. In-State Only			
Most productive -----	15,633	13,418	86
Medium productive -----	119,902	48,631	41
Least productive -----	129,949	10,928	8
Total -----	265,484	72,977	27
2. Out-of-State			
Most productive -----	2,071	1,435	69
Medium productive -----	4,186	1,731	41
Least productive -----	2,041	2,158	21
Total -----	8,298	5,324	64

POLICY OPTIONS

1. *A Department of Revenue.* During 1964 both the Commission on California State Government Organization and Economy and the Assembly Interim Committee on Government Organization held extensive hearings on the proposal to create a consolidated Department of Revenue.

The major accomplishment of these hearings was that for the first time all major state tax officials, such as the State Controller, the Chairman of the Board of Equalization, the Director of Finance and the Executive Officer of the Franchise Tax Board, agreed that a consolidated Department of Revenue was desirable, would result in better tax administration and would be more economical.

The only remaining areas of disagreement are :

- a. What type of appointee or unit should head the new agency ;
- b. What changes should be made in the status of inheritance tax appraisers and,
- c. What type of an appeals board, if any, should be established.

Our remaining comments will examine these areas of disagreement.

a. *Agency head.* The Controller's first choice is for a department headed by a three-member commission consisting of himself as permanent chairman, the Director of Finance and the State Treasurer. As an alternative, the Controller would support the Board of Equalization's proposal, whereby it would become the Department of Revenue by absorbing the tax functions now handled by the Controller's Office and the Franchise Tax Board.

The Director of Finance indicated personal preference for a Department of Revenue headed by a director appointed by and responsible to the Governor. The Executive Officer of the Franchise Tax Board concurred with this proposal. This also has been our position for many years.

The main issue, therefore, resolves itself into the question of whether the department shall be headed by a single director or a plural body

Board of Equalization—Continued

consisting primarily of elected officials. We favor the first alternative because:

(1) Plural bodies are not the best instruments for administrative or executive responsibility. They tend to move slowly, and when there is a need for immediate action, all too often they are unable to respond. Also the conflicting positions of individual members can neutralize the effectiveness of the body. However, their greatest weakness is that individual members can evade responsibility by blaming other members for the body's apparent shortcomings or failure to act. By this technique, every member absolves himself to the frustration of any public effort to place responsibility.

(2) The Executive Officer of the Franchise Tax Board has stated, "It is a political reality that the people of the state hold the Governor and no one else *responsible* for proper tax administration whether he actually has *authority* over tax administration or not." This point is strong justification for having a director appointed by the Governor.

(3) The Board of Equalization has certain organizational characteristics which make it undesirable as a centralized Department of Revenue. For example, the artificial equalization district lines divide economic areas, make for needless duplication of facilities and personnel, and impose rigidities which impede shifts in manpower to meet changes in workload and population. The board does not have uniformity in administration because each member influences the standards within his district. The key civil service staff of this agency has a confused chain of command because they must satisfy the four board members, the four deputies, the State Controller and their regular civil service supervisor. Rarely are all of these persons moving in the same direction at the same time.

(4) The contention has been made that only elected officials should head a tax agency. We do not agree with this position. The responsibility of a tax agency consists solely of administering laws enacted by the Legislature. It is not a policy-making group. The work is mainly technical in nature, and requires a competent staff of trained personnel. There is no more justification for having tax officials elected than there is for electing the Director of Mental Hygiene or the Director of Agriculture.

b. *Inheritance tax appraisers.* This is mainly a qualification issue rather than an organizational question. If trained personnel were installed in these positions, inheritance tax administration would be improved no matter where it was located organizationally. The best arrangement, however, would be in a Department of Revenue, because then the tax could be administered on a uniform basis, it could receive the assistance and support of other technical positions in the agency, when needed, and have the use of their branch office facilities. Our suggestions for improving the present system are discussed under Item 136.

Board of Equalization—Continued

c. *Appeals board.* Most of the discussion on this issue has been over the mechanics of a law change versus a constitutional amendment, rather than the merits or demerits of an independent appeals board appointed by the Governor (our suggestion). The Board of Equalization is a constitutional body and, its property, alcoholic beverage and insurance tax functions can be changed only by a constitutional amendment. Those in favor of the immediate establishment of a Department of Revenue are inclined to favor the Board of Equalization as the tax appeals body because this would only require a statutory change. Others are inclined to make a complete change, but this would probably delay the establishment of the Department of Revenue. Therefore, this issue is mainly one of timing.

2. *Valuation of state-assessed properties.* In 1963-64 state assessments of public utility and railroad properties amounted to \$4.3 billion, which was 12.4 percent of the local property tax base, and which produced about \$335 million in local tax revenues. The Board of Equalization bears the entire cost of these assessments which amounted to about \$725,000 from the General Fund in 1963-64. Local governments receive all the revenues from these assessments but bear none of the costs. The suggestion has been made in the past that local governments should reimburse the state for the cost of these assessments. Local governments have argued against this proposal by contending that when the "private car" tax was adopted in 1937, it was designed to compensate the state for all of the property tax services it rendered free of charge to local governments. We have been unable to find any documentation which supports the contention of local governments.

BOARD OF EQUALIZATION

ITEM 141 of the Budget Bill

Budget page 456

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

Amount requested	\$1,040,914
Estimated to be expended in 1964-65 fiscal year	1,040,914

Increase	None
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TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts motor vehicle transportation license tax on for-hire truck operators. This appropriation is to cover the board's costs of administering this tax, the details of which are included under Item 140.

We recommend approval as budgeted.

Board of Equalization—Continued

BOARD OF EQUALIZATION

ITEM 142 of the Budget Bill

Budget page 456

**FOR SUPPORT OF THE BOARD OF EQUALIZATION
FROM THE MOTOR VEHICLE FUEL FUND**

Amount requested	\$997,629
Estimated to be expended in 1964-65 fiscal year.....	997,629
Increase	None
TOTAL RECOMMENDED REDUCTION.....	None

ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the motor vehicle fuel (gasoline) tax. The board assesses and collects the use fuel (diesel) tax. This appropriation is to cover the board's costs of administering these two taxes, the details of which are included under Item 140.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 143 of the Budget Bill

Budget page 462

**FOR SUPPORT OF THE DEPARTMENT OF FINANCE
FROM THE GENERAL FUND**

Amount requested	\$3,177,936
Estimated to be expended in 1964-65 fiscal year	3,095,255
Increase (2.7 percent)	\$82,681
Increase to improve level of service.....	\$28,270
TOTAL RECOMMENDED REDUCTION.....	\$336,833

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page</i>	<i>Line</i>
From amount requested to maintain existing level of service			
1. Planning Office—10 positions	\$77,201	465	5
2. Economic Development Agency	231,362	466	19
From amount requested for new or improved services			
1. Executive Office—1 deputy director and 1 related secretary	\$28,270	463	66

PROGRAM PLANS AND BUDGET

1. Executive Office. The Executive Office of the Department of Finance provides administrative direction and coordination for the Department of Finance, which in turn exercises overall supervision over the financial matters of the state. Among other things, the department is charged with the preparation, justification and presentation of the Governor's Budget. Because of the department's considerable fiscal responsibility, corollary policy responsibility and the director's membership on numerous boards and commissions, the impact of Department of Finance decisions is far reaching. Properly speaking, the Executive Office does not represent an independent program, but because of data limitations there is no realistic manner in which to identify

Department of Finance—Continued

costs section by section. Therefore, for the purposes of this budget, the Executive Office will be treated as a separate program.

The proposed budget for the Executive Office for 1965-66 fiscal year is as follows:

Authorized positions -----	13
New positions -----	1
Total expenditures -----	\$248,509

Within the Executive Office, and under the direct supervision of the director, are three deputy directors, one assistant director, and their related supporting staff. One deputy director position expires at the end of this fiscal year and is being requested as a new position for 1965-66.

One deputy director is headquartered in Washington, D.C., and is charged with representing the State of California before the federal government in those areas of concern to the state.

The second authorized deputy director position is charged with supervising the activities of the Office of Planning and the Economic Development Agency. The administration of the Audits and Budgets Divisions of the Department of Finance is the responsibility of the assistant director.

The proposed new deputy director would replace the position now budgeted to end in June 1965.

2. Audits Division. The Audits Division of the Department of Finance conducts biennial post audits of every state agency, district and county fairs and supervises the examinations of records of all school districts. This audit procedure is primarily a financial audit, designed to ascertain and report on any unsound, irregular or illegal expenditures. In this capacity they also make suggestions and recommendations relating to the improvement of accounting procedures.

For the budget year 1965-66, however, the Audits Division proposes to shift four man-years of audit time from "financial" auditing to program and performance review in the field for the Budget Division. The budget request for fiscal year 1965-66 follows:

	<i>Positions</i>	<i>Amount</i>
Total expenditures -----	115.5	\$1,214,026

3. Budget Division. The Budget Division of the Department of Finance prepares and administers the Governor's Budget as well as continuously reviewing agency expenditures to determine conformance with budget provisions and actual need for moneys previously appropriated. Each state agency submits proposed statements of expenditure and revenue, and the Budget Division appraises these in light of sound fiscal policy and the policies of the various agencies are articulated by the Governor and the Director of Finance. Population, economic, and revenue research and corollary data projection is conducted by one unit of the Budget Division.

	<i>Positions</i>	<i>Amount</i>
Total expenditure -----	99	\$1,110,236

Department of Finance—Continued

4. Office of Planning. The Office of Planning is charged with the preparation, maintenance and periodic revision of a comprehensive state development plan, the coordination of public works programs undertaken by various jurisdictions, and giving planning assistance to various planning jurisdictions throughout the state. For the 1965-66 fiscal year, no new positions or increases in the level of service are requested.

	<i>Positions</i>	<i>Amount</i>
Total expenditure -----	36	\$991,702

Of the total money budgeted for fiscal year 1965-66, \$630,944 will be supplied by the federal government as part of its matching contribution. The amount of the appropriation requested from the General Fund is \$360,758.

The two organizational subdivisions within the Office of Planning indicate program structure; they are the Advance Planning Section and the Local Planning Section.

a. Advance Planning. The Advance Planning Section is responsible for the preparation of the overall State Development Plan. This plan is to be based on studies of physical, social, economic and governmental factors, conditions and trends. Its objective is the coordinated physical development of the state and the articulation of state policy regarding future growth and development.

b. Local Planning Section. The Local Planning Section as opposed to Advance Planning administers and coordinates current planning at the level of local jurisdictions. Under the terms of Section 701 of the Housing Act of 1954, federal funds may be made available on a matching basis to qualified local agencies under the general supervision and direction of the Local Planning Section.

5. Program and Policy Office. The function of this office is to evaluate state programs and policies, and to act as a consultative staff to the Governor's Office, his cabinet, agency administrators and the Director of Finance.

	<i>Positions</i>	<i>Amount</i>
Total expenditures -----	10	\$128,045

6. Economic Development Agency. The function of this section is to promote California products domestically and abroad and to encourage the development and expansion of California industry, business and commerce. This section provides a business information center and is charged with the preparation of periodic reports for the Legislature and the Governor.

	<i>Positions</i>	<i>Amount</i>
Total expenditures -----	14	\$231,362

REVIEW OF AGENCY ACCOMPLISHMENTS

1. Executive Office. During the first quarter of the 1963-64 fiscal year all service functions previously performed by the Department of Finance were transferred to the newly created Department of General

Department of Finance—Continued

Services. The service functions included the Administrative Service Office, Buildings and Grounds Division, Communications Division, Local Allocation Division, Organization and Cost Control Division, Commission on California State Government Organization and Economy, Property Acquisition Service, Purchasing Division, Office of Administrative Procedure and State Building Standards Commission. In addition the Fairs and Exposition Division was transferred to the Department of Agriculture.

The Executive Office, which had formerly provided overall administration and direction for service as well as control functions presided over the separation of functions and reoriented itself toward its new exclusively control function.

The amount budgeted for the Executive Office in 1963-64 as estimated in the 1964-65 budget document was:

<i>Positions</i>	<i>Amount</i>
12	\$280,223

and the actual amount expended as reported in the 1965-66 budget presentation was

<i>Positions</i>	<i>Amount</i>
9.6	\$281,533

In the absence of time reporting by program, evaluation criteria beyond judgment cannot be realistically arrived at for the Executive Office.

Two field representative positions were added in the Executive Office for 1964-65 to implement the provisions of Chapter 129, Statutes of 1964, First Extraordinary Session which authorizes the Director of Finance to assist local agencies to obtain federal assistance in financing housing for certain types of workers.

This program is to be continued through 1965-66.

2. Audits Division. The amount budgeted for the Audits Division in 1963-64 as estimated in the 1964-65 budget document was:

<i>Positions</i>	<i>Amount</i>
115.5	\$1,064,527

and the actual amount expended as reported in the 1965-66 budget presentation was:

<i>Positions</i>	<i>Amount</i>
111.9	\$1,120,455

The Audits Division reported its auditing workload for 1963-64 as follows, by hours per activity:

<i>Activity</i>	<i>Hours proposed</i>	<i>Actual 1963-64</i>	
	<i>1963-64</i>	<i>Hours</i>	<i>Man-years</i>
Regular state agency audits.....	140,296	142,153	77.9
Special audits and investigations.....	36,000	26,352	14.4
Assistance to other agencies.....	4,360	8,117	4.5
Reimbursable services.....	11,880	8,601	4.7
Staff functions.....	10,220	9,706	5.3
Clerical (unreimbursed).....	10,500	10,527	5.8
Total workload.....	213,256	205,456	112.6

Department of Finance—Continued

This type of workload information, however, does not indicate the level of service, and the extent and range of the audit cannot properly be assessed.

It should also be noted that the position of Chief of the Audits Division has been vacant since January 19, 1962, despite the fact that a civil service eligible list from which the position could have been filled was established on December 12, 1962. In the interim the assistant chief has been acting as chief of the division, without a comparable increase in salary and without the help of a division chief. Such a situation is neither conducive to good management nor coordination of the various audit operations.

3. Budget Division. The Budget Division in fulfilling its main function of preparation, presentation and administration of the budget in 1963-64 prepared and submitted in the 1964-65 budget three sample program budgets. The three sample budgets were for Fish and Game, Motor Vehicles and the Youth Authority. These program budgets represent the initial stages of transition to a full program budget presentation for all state agencies. The major objective in this method is to avoid the minutiae and detail of line item budgeting while providing a vehicle for more realistic assessment of level of service and cost by program. Thus, theoretically it will be possible to judge with some precision the relationship between cost and return in state operations.

In the 1964-65 fiscal year the Budget Division has prepared 12 to 15 program budgets for review, which will be published as part of the 1965-66 budget. At the present time and in the near future, program budget presentations will serve to complement the conventional line item budget, but the future development of program budgeting is still largely an open question and will hinge upon the requirements of legislative review.

Certain other changes in budget presentation have been developed in the current year by the Budget Division. These include a separate capital outlay budget, a separate document on local fairs, elimination of the budget appendix and improvements in the presentation of certain agency budgets including General Services and Corrections. Continuing improvements are contemplated for future budgets, such as the full integration of the General Services and Service Revolving Fund budgets.

During the current year there has been greater participation by senior staff members on committees and study groups of interagency or statewide scope. There are currently 30 to 40 special studies in progress such as those concerned with the Department of Justice teletype net, junior college construction, and state operated telephone facilities with particular reference to economical use of leased lines. Examples of statewide committees being served on are the Loan Fund Advisory Committee for the Blind, the Whale Rock Study Commission and the Interagency Staff Working Committee on Water Quality.

4. Office of Planning. The function of the Office of Planning, as embodied in its own statement of purpose in its only general circula-

Department of Finance—Continued

tion report (Progress Report, May 1963), is to produce a development plan which

“... is a process for furnishing executive and legislative decision makers at the state level with a reliable, consistent, and comprehensive body of information about statewide and regional development trends, problems, and potentials. This information can then be used by the Governor and the Legislature in identifying and describing the areas of state responsibility in the overall development process, and in framing appropriate policies and programs for state action in these areas...”

On the basis of public presentations, the state development plan is, indeed, a “process”; nowhere is there a “reliable, consistent and comprehensive body of information . . . [for use by] . . . the Governor and the Legislature . . . identifying and describing areas of state responsibility and framing appropriate policies and programs . . .”

The “development plan” for which three new positions were requested and granted in 1960–61 (Budget page 317, line 70) was finally initiated in 1963, under the provision of a federal planning grant provided during 1962–63. Phase I of the development plan, as reported in the May Progress Report, was to be completed by October 1963 and serve as a basis for Phase II, which in turn was to be completed by December 1964. Thus far, however, neither phase has been completed. Thus federal funds have been made available, largely for various consultants, in the approximate amount of \$1,128,551 for 1963–64 and 1964–65. The results of these studies remain unintegrated and essentially unworkable; at least in terms of the Office of Planning’s own conception of a “plan.”

Thus, in terms of the Advance Planning Section, there are no tangible accomplishments, and no available information elaborating upon any intangible accomplishments. By the same token, the Local Planning Section has provided our office with no statement of accomplishments, and there exists no other public statement of accomplishments. In light of these deficiencies in performances, it is of interest to note the relationship between authorized positions and filled positions for 1963–64.

<i>Authorized</i>	<i>Filled</i>	<i>Vacant</i>
29	22.5	6.5

This difference was due to the following vacancies by man-year:

.4	Associate planner
4.2	Assistant planner
.3	Delineator
0.3	Junior trainee level
1.3	Clerical positions
<hr/>	
6.5	

An examination of the current year reveals an even more significant vacancy factor. With 36 authorized positions only 26 are currently filled. The vacancies by man-year are indicated by the following:

2	Senior planner
6	Assistant planner
1	Economic analyst trainee
1	Intermediate stenographer

Department of Finance—Continued

It should also be pointed out that at this time the report on the status of the state development plan, required by Section 65015.9 of the Government Code, is overdue and has not yet been submitted to the Legislature.

From the foregoing it should be apparent that the State Office of Planning has not only been unable to provide a state development plan, it has been unable to plan for its own operations.

5. Program and Policy Office. Due to the lack of detailed workload information and the fact that this office is in part an outgrowth of the transition from a single Department of Finance when the Department of General Services was created, a systematic review of office accomplishments is not practical.

Several sample activities, however, are indicative of the range of concern of this office. The Program and Policy Office reports that it was instrumental in developing and initiating program budgeting, an activity now conducted by the Budget Division. Last year three program budgets were presented and 15 program budgets are planned for this year.

In November 1964 a report was completed on "The Management Study of Automatic Data Processing" which contained findings and a statement of policy resulting from a 10-month study in which the staff of this unit played a major part.

This office has also been responsible for negotiating and planning with various aerospace concerns in regard to the Governor's proposed program of utilizing the analytic and management potential in other ways of existing industries affected or to be affected by changes in the level of federal expenditures in those areas.

This office is also responsible for assisting in the development and preparation of the Governor's legislative program.

6. Economic Development Agency. There is no workload information or staffing standards for the Economic Development Agency, so precise evaluation of accomplishments or level of service is not possible for either the 1963-64 fiscal year or the current year. This is also the case for the budget year; needless to say the lack of standards and accomplishments means that legislative review must be based largely on intangibles and nonobjective criteria.

Nevertheless, certain of the activities of this agency are representative. One of the primary functions of the Economic Development Agency is handling requests for information from out-of-state firms who express an interest in locating in California. Although records detailing the number of such requests are not kept, the agency reports that typical procedure includes a letter of response and the inclusion of pertinent publications, such as *California Principal Business Taxes* and *California Profit Opportunities*. It should be pointed out in regard to *California Profit Opportunities*, which was brought out in 1964, that the decision to publish it is reported as being based in part on the printing plant's estimate of cost which was projected as \$9,925. The actual amount billed the agency was \$21,216.26 or 113.8 percent more than the estimate. This discrepancy is explained by the Office of State

Department of Finance—Continued

Printing as being due to a substantial difference between the book originally estimated and the finished product as changed and enlarged by the Economic Development Agency during production. Responsibility for cost notwithstanding, the publication is distributed free to industrial concerns evidencing an interest in California, and its price for general circulation is \$5 or about \$2 less than its actual cost. The Economic Development Agency provides no standards by which to measure the impact or effectiveness of this or other promotional material. It should also be pointed out that the cost of this publication alone exceeded the total printing budget of the agency by \$5,016.26 or 30.9 percent.

In the event that more than casual interest is displayed by parties thinking of locating in California, followup contact is made to provide more detailed information. The agency reports, however, that as a policy and practical matter public credit is not taken for locating specific industries in California due to the complex and amorphous nature of such transactions.

As well as handling inquiries from out-of-state firms seeking plant location and marketing information, the Economic Development Agency produces yearly the *California Statistical Abstract* and provides a number of services, among them being some of the following: (1) assistance to cities and counties with problems pertaining to the attraction or expansion of industry, (2) acts as a central source of California economic data, and (3) coordinate special or area studies or projects. Again, we have been provided with no information which would permit an evaluation of the degree to which these services are being performed.

ANALYSIS AND RECOMMENDATIONS

In our 1964-65 analysis on page 338 we recommended the deletion of one of the three existing deputy director positions. The Legislature, while not accepting this recommendation, placed a termination date of June 30, 1965 on the position which had the effect of requiring budgetary justification for continuation of the position beyond that date. The budget proposes to continue the position, the justification being that it "...has among its primary responsibilities legislative representations and coordination with other state agencies on matters of policy."

We recommend elimination of one deputy director, budget page 463, line 66, \$23,097, and one related existing clerical position, budget page 463, line 64, \$5,173.

Our reason for this recommendation is the same now as it was a year ago, namely that when the Department of Finance was reduced from an agency with a staff of approximately 3,000 to one with a staff of approximately 300 by transfer of service functions to the Department of General Services the need for the additional deputy position no longer existed. Before the transfer the third deputy had been in charge of the service activities transferred to the Department of General Services, and to continue the position after the transfer constituted an unwarranted increase in the level of service.

Department of Finance—Continued

We believe that the two remaining deputy positions plus the assistant director constitute sufficient top management staff for a department of this size.

2. Audits Division. As indicated under Review of Agency Accomplishments on the Audits Division, the available workload information for this division does not indicate level of service. It should also be pointed out that the Auditor General and our office have historically been critical of the level of service provided by the Audits Division. The essence of this criticism has been summed up in the Auditor General's report of December 1962, in which he stated that the Audits Division is "generally doing more detailed auditing than is necessary to verify the validity of the financial statements." Unfortunately it is not possible at this time to put a precise price tag on various possible levels of service.

In light of the foregoing and the fact that the Audits Division proposes a shift in emphasis from fiscal to management auditing to conform to the demands of program budgeting, we believe that it is incumbent upon this division to develop standards, procedures and reporting techniques that will permit legislative review of level of service. *Accordingly, we recommend that the Audits Division prepare staffing standards, workload information and reporting procedures which will provide the basis for assessing the costs of various levels of service permitting adequate legislative review.*

3. Budget Division. *We recommend approval as budgeted.*

4. Planning Office. *We recommend the elimination of one senior planner, five assistant planners, one junior economic trainee and three secretarial positions, budget page 465, line 5, \$77,201.*

As previously indicated on the Office of Planning, an inordinately high vacancy factor has characterized this office in both 1963-64 and the current year. The technical positions recommended for elimination are at present unfilled, and the authorized secretarial positions represent a disproportionately high ratio to filled positions. Furthermore it appears that internal controls and planning are seriously deficient and are the causes of the repeated failure of this office to meet deadlines.

The one progress report prepared by the Planning Office was so inaccurate in the projection of deadlines that it can only be hoped that this does not reflect the caliber of the total planning operation. It is the opinion of our office that the least that can be expected of the Planning Office is that it plan for itself. This it appears not to have done. Consequently we recommend a substantial reduction in the number of authorized positions, pending an acceptable showing of goals, standards and procedures. *To that end, we recommend that the Office of Planning provide a comprehensive, workable statement of its goals and objectives, a statement of progress to date, and objective staffing standards and workload information to permit legislative review of this program.*

Department of Finance—Continued

5. Program and Policy Office. *We recommend approval as budgeted.*
6. Economic Development Agency. *We recommend the elimination of this agency, budget page 466, line 19, \$231,362.*

As noted earlier, there are no standards with which to measure the effectiveness of this agency. Although we recognize that a promotional office within state government is in certain circumstances justified, we believe that it is incumbent upon such an office to provide a realistic basis upon which to measure accomplishments. We need only note that promotion is "the act of furthering growth or development"; as presently and historically constituted this agency has provided no grounds for measurement of such growth or development. Accordingly, we have no sound basis for recommending its continuance.

POLICY OPTIONS**Possible Curtailment of Division of Audits Activities**

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 language quoted is based on former Political Code Section 658, added by Chapter 251, Statutes of 1927, the act which created the Department of Finance.

The original act required that the examinations be made "at least once in each year" but this was changed to "at least once every two years" by Chapter 662, Statutes of 1955, the same year in which legislation creating the Joint Legislative Audit Committee and the Office of Auditor General was enacted (Chapter 1699, Statutes of 1955).

We believe that the development of modern systems of internal control and the creation of the Office of Auditor General has made such a mandatory requirement unnecessary and that its continuance in the law has a tendency to generate unnecessary workload. We would recommend that the section be amended to permit (not require) the Director of Finance to make such examinations as he deems necessary.

The Division of Audits spent 66.6 percent of its total time during 1962-63 and 69.2 percent during 1963-64 on regular state agency audits pursuant to the requirements of Section 13294 which in terms of cost amounted to approximately \$704,000 and \$930,000 respectively.

We believe that if the code section were to be amended and the extent and scope of these audits were to be reevaluated in terms of need in the light of such an amendment, a substantial saving in costs might result.

We suggest that if the section is amended it would be appropriate for the Auditor General to make such a review.

DEPARTMENT OF FINANCE

ITEM 144 of the Budget Bill

Budget page 462

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

Amount requested -----	\$115,000
Estimated to be expended in 1964-65 fiscal year -----	111,684
	<hr/>
Increase (3.0 percent) -----	\$3,316
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS AND RECOMMENDATIONS

This Item is for the cost of auditing district and county fairs as mentioned under Item 143.

We recommend approval as budgeted.

Department of Finance

CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 145 of the Budget Bill

Budget page 472

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

Amount requested -----	\$2,940,796
Estimated to be expended in 1964-65 fiscal year -----	2,913,656
	<hr/>
Increase (0.9 percent) -----	\$27,140
	<hr/>
Increase to improve level of service -----	\$18,000

TOTAL RECOMMENDED REDUCTION ----- \$18,000

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
From amount requested for new or improved services:			
Reduce advertising -----	\$18,000	475	36

PROGRAM PLANS AND BUDGET

The California State Fair and Exposition is authorized by Article 1, Sections 70 through 77, of the Agricultural Code. Funds for operation of the fair are provided from three sources: (1) a continuing appropriation of \$265,000 from the Fair and Exposition Fund (diversion of General Fund revenues) pursuant to Section 19622 of the Business and Professions Code; (2) operating revenues deposited in the State Fair Fund and appropriated by this item; and (3) an augmentation from the General Fund appropriated by Item No. 146. The fair's total proposed budget from all three sources is \$2,940,796, which is an increase of \$27,140 or 0.9 percent over estimated expenditures for the current year. The General Fund portion is \$391,951, which is \$1,549 or 0.4 percent higher than estimated General Fund expenditures in the current year. A breakdown of the proposed budget follows.

<i>Program</i>	<i>Budget</i>	<i>Positions</i>
Administration -----	\$226,088	14.2
Fall Fair -----	1,772,188	128.7
Spring Fair -----	27,155	1.1
Spring Quarter Horse Meet -----	415,600	18.7
Buildings and Grounds -----	452,013	39.5
Public Service Activities -----	47,752	10.0
	<hr/>	<hr/>
Total -----	\$2,940,796	212.2

California State Fair and Exposition—Continued

In most respects, the fair's proposed budget is in line with current levels of expenditures and reflects an effort to keep costs for maintenance of the present fair site at a minimum. The major change in the budget is the elimination of the horse show for 1965-66 to avoid further losses through its operation. The show was held for the first time in June, 1964, at a cost of \$83,036, which was supposed to be fully covered by revenues. However, a deficit of \$30,273 occurred because actual revenues were only \$52,763. The show is authorized for the current year at an estimated cost of \$82,024 but, in view of last year's revenue experience, the current-year revenue estimate has been reduced to \$53,000 in the Governor's Budget. Thus, it appears that the operating experience of the horse show has substantiated our comment last year that caution would need to be exercised by the fair management to prevent deficits from arising if revenue estimates were too optimistic.

Before discussing budget-year programs and expenditures, it is appropriate to comment on other aspects of the State Fair's current operations which recently have been modified in an effort to reduce the current-year operating deficit. Following the 1964 Fall Fair, which incurred a revenue loss of \$93,752 below the amount budgeted, the decision was made to reduce current-year spending by \$192,500 below the authorized level and to lower current-year revenue estimates by \$230,090. This action suggests that the fair management might be formulating its revenue estimates somewhat more realistically than it has in the past, but an overall deficit of \$75,322 still is expected in the current year.

The \$27,140 increase in the proposed budget is actually understated by approximately \$82,000, which is the cost of the horse show budgeted in the current year but omitted in the budget year. This \$82,000 (plus the requested increase of \$27,140) has been applied to other programs of the fair, thereby completely offsetting the saving which otherwise would have resulted from elimination of the horse show. Thus, the fair's budget actually increases by \$109,140 in 1965-66, since the horse show money is being spent on other activities.

Fall Fair

Most of the budget-year increases are in the Fall Fair, which is budgeted at \$94,104 over estimated current expenditures. Generally, this increase represents costs of maintaining existing levels of service and necessary expenses for repairing and painting buildings and other facilities to make the fair attractive and safe. In some instances, increased costs are attributed to a resumption of previously authorized levels of service which have been lowered in the current year in an effort to reduce the year-end deficit.

Provision is made in the budget-year to remodel the Hall of Flowers at a cost of \$6,000, and improved decorations for the County Building have been budgeted at \$4,970. The racing program increases by \$10,845 to cover higher costs of temporary help and rental of a water truck to replace a state truck that is no longer serviceable.

California State Fair and Exposition—Continued

An increase of \$21,150 in advertising results in a total advertising cost of \$61,150 in the budget year. For the past several years the fair has spent approximately \$40,000 for this purpose, with most of the money being expended in the Sacramento and San Francisco Bay areas. About \$3,150 of the proposed increase represents higher advertising costs, but the balance of \$18,000 is requested to provide additional advertising coverage.

The night show, which has consistently operated at a deficit in past years, is discontinued in the budget year in order to place more emphasis on the rodeo and to concentrate night entertainment in the horse show arena. The grandstand will be used for a free fireworks show in the evening.

Spring Fair and Quarter Horse Meet

The Spring Fair and Quarter Horse Meet includes an industrial art show for high school students, a showing of the State Fair's art collection, a textile show, cattle and horse shows and sales, and 21 days of quarter horse racing. The proposed budget for the total program is \$442,755, which represents \$415,600 for the quarter horse meet and \$27,155 for the Spring Fair. Both programs are budgeted at current levels, but costs of the quarter horse meet increase by \$5,140 to cover higher salary costs and minor increases in operating expenses. Estimated revenues from these programs for 1965-66 are \$502,800, which may be overly optimistic in view of past operating experience.

In fiscal year 1963-64, expenditures for the Spring Fair and Quarter Horse Meet totaled \$430,909, but revenues of only \$297,835 resulted in a loss of \$216,503. Revenues had been estimated at \$514,338. On the basis of this experience, the fair's management has reduced its current-year authorized budget for the quarter horse meet to be held this spring from \$498,735 to \$410,460, which is the expenditure level of last year's meet, and the spring fair budget has been lowered from \$34,203 to \$27,155. In addition, current-year revenue estimates for these two programs have been reduced from \$514,338 to \$385,200. This action probably represents a more accurate appraisal of the revenue potential of the Spring Fair and Quarter Horse Meet than was made last year, but we note that revenue estimates for these programs are increased substantially for the budget year to \$502,800. Hence, if a deficit occurs, the fair's management may be forced to compensate for it, as it has done this year, by cutting costs in other programs.

Buildings and Grounds

The buildings and grounds function maintains and polices the fair-grounds and arranges facilities for all activities that are conducted there. The proposed budget for this function is \$452,013, which is an increase of \$6,037 over estimated expenditures for the current year. Most of the net increases are for services related to the Fall Fair. Reimbursements totaling \$70,369 for services to the Fall Fair, the Spring Fair and Quarter Horse Meet, and other activities are included in this program.

California State Fair and Exposition—Continued

Public Services Activities

The public services activity program represents the effort and cost of providing fair facilities for public activities such as livestock sales, conventions, dances, and auto races. This program is budgeted at \$47,752, which is more than offset by estimated revenues of \$80,000. Revenues consistently have exceeded the costs of this program.

REVIEW OF AGENCY ACCOMPLISHMENTS

As indicated in the previous discussion, the State Fair has encountered considerable difficulty in the current year as a result of overestimating revenues. Part of the problem lies in the fair's funding arrangement, which requires that revenue forecasts be used in making budgetary decisions. Consequently, it is extremely important that the fair's management estimate revenues as carefully as possible. Although program reductions have been made in the current year, a year-end deficit of \$75,322 still is expected.

ANALYSIS AND RECOMMENDATIONS

We have serious reservations that the proposed \$21,150 increase in advertising expenditures will have any measurable effect on fair attendance in 1966. In recent years, approximately \$40,000 annually has been spent on advertising, but fair attendance has fluctuated considerably, probably as a result of weather and economic conditions which have greater impact on fair attendance than advertising appeals. A portion of the increased advertising costs is for farming and trade journals which have not carried fair advertisements in the past. The fair management indicates that publicity in these journals would inform agricultural people about livestock shows and other fair events in which they have special interest. However, it seems unlikely that this kind of advertising would increase attendance, since the people to whom it is directed generally are already interested in attending the fair either as participants in agricultural activities or as spectators. Included in the advertising expenditure is the sum of \$3,150 to cover increased costs of the current advertising level. *Therefore, to maintain the currently authorized advertising level, we recommend a reduction of \$18,000 in proposed advertising expenditures. In other respects, approval of the budget is recommended.*

POLICY OPTION

Since the Spring Fair and Quarter Horse Meet incurred a deficit of \$133,074 in 1963-64 and the Governor's Budget indicates an estimated deficit of \$52,415 for this program in the current year, the Legislature might consider eliminating this activity for 1965-66 if the actual current-year deficit equals or exceeds that of 1963-64. Revenue information on which this decision could be made will be available this spring.

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

ITEM 146 of the Budget Bill

Budget page 472

**FOR AUGMENTATION OF THE STATE FAIR FUND
FROM THE GENERAL FUND**

Amount requested	\$391,951
Estimated to be expended in 1964-65 fiscal year	390,402
<hr/>	
Increase (0.4 percent)	\$1,549
TOTAL RECOMMENDED REDUCTION	\$18,000

ANALYSIS AND RECOMMENDATIONS

The 1959 Legislature amended the statutes to provide that deficiency allocations to the State Fair Fund should be made from the General Fund as provided by this item. Additional General Fund money for a loan to the State Fair Fund was authorized by the 1964 Legislature which provided the sum of \$150,000 in Item 144.1 of the 1964 Budget Act for "... augmentation of the State Fair Fund, to be allocated by the Director of Finance, provided, that the amounts to be expended . . . shall be repaid under such terms and conditions as may be prescribed by the Director of Finance." To date, none of this money has been loaned to the State Fair Fund.

A detailed analysis of the State Fair's budget is presented in the preceding item. *Pursuant to a recommendation made in that analysis, we recommend a reduction of \$18,000 in this item.*

**Department of Finance
STATE LANDS DIVISION**

ITEMS 147 and 148 of the Budget Bill

Budget page 480

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

Amount requested	\$1,181,583
Estimated to be expended in 1964-65 fiscal year	1,269,218
<hr/>	
Decrease (6.9 percent)	\$87,635
TOTAL RECOMMENDED REDUCTION	\$6,120

Summary of Recommended Reductions

	Amount	Page	Line
From amount requested to maintain existing level of service:			
1 oil gauger	\$6,120	481	71

PROGRAM PLANS AND BUDGET

The State Lands Division of the Department of Finance provides staff support to the State Lands Commission and administers and implements the policies established by the Legislature and State Lands Commission. The commission is composed of the Lt. Governor, the Director of Finance and the Controller. The division's primary concern and the principal revenue producing area, is the leasing and overseeing of public lands for the extraction of oil and gas. The division is concerned entirely with the management of public lands belonging to the state

State Lands Division—Continued

consisting of school lands, swamp and overflowed lands, tide and submerged lands, lands underlying navigable rivers and lakes and other sovereign lands comprising approximately 8.5 million acres. The scope of the division's operations may be seen in a comparative statement of total revenues and the fact that such revenues will increase as the East Wilmington Field begins production:

1963-64	1964-65	1965-66
\$63,353,260	\$71,315,500	\$58,517,200

It is expected that net returns to the state from the East Wilmington Field alone will amount to \$1.7 billion over the life of the field. There is also some expectation that other substantial finds will be made in the future; such finds would mean the continuation and probable expansion of the responsibilities now assumed by the division.

The division also reports that land sales, which have been under a moratorium since May 1960, will begin again in 1965. Due to increasing land values it is estimated that such sales will produce revenue in the amount of \$500,000 in 1964-65 and \$900,000 in 1965-66.

The case *United States v. State of California No. 5 Original* is at this writing before the United States Supreme Court. This case relates to the location of offshore boundaries under the paramount jurisdiction of the United States and lands owned by the state for such purposes as receipt of revenues from the extraction and sale of minerals. The outcome of this case could have a significant effect on state revenues from future possible development of offshore oil reserves.

The budget is presented in two parts, administration and *United States v. California* court case. The latter is shown separately for the current and budget years, but part of the expenditures can be separately identified for 1963-64, as summarized below:

	1963-64	1964-65	1965-66
Administration:			
Personal services -----	\$1,088,568	\$1,210,659	\$1,195,245
Operating expenses -----	189,833	245,103	228,023
Equipment -----	10,243	6,649	14,559
Total -----	\$1,288,644	\$1,462,411	\$1,437,827
Less reimbursements ----	273,609	503,204	472,216
Net -----	\$1,015,035	\$959,207	\$965,611
<i>United States v. California:</i>			
Attorney General Services	\$281,966	\$269,998	\$175,000
All other -----	-	40,013	40,972
Total -----	\$281,966	\$310,011	\$215,972
Grand Total -----	\$1,297,001	\$1,269,218	\$1,181,583

Although no detailed cost estimates are available as to the various activities carried on by the State Lands Division, the distribution of the staff, by operating units, as proposed for 1964-65, and as shown in Table 1, is indicative of the general nature and extent of these activities.

State Lands Division—Continued

Table 1—Proposed Staff, by Operating Units, 1965-66

Operating Unit	Personnel		Total
	Technical	Clerical	
1. Executive -----	3	1	4
2. Legal -----	3	-	3
3. Administrative Services -----	8	18	26
4. Audits -----	10	-	10
5. Civil Engineering -----	14	-	14
6. Mineral Resources -----	52	3	55
7. Commercial and Recreational Leasing ---	6	-	6
8. Land Sales and Records -----	7	6	13
9. Special Projects -----	4.1	-	4.1
10. Miscellaneous -----	4.4	-	4.4
11. Overtime -----	1.3	-	1.3
12. <i>United States v. California</i> -----	4	-	4
Total -----	116.8	28	144.8

The major activities of each of the first eight units listed in Table 1 are as follows:

1. *Executive.* This provides administrative direction for the agency. The executive officer is also chairman of the Colorado River Boundary Commission.

2. *Legal.* Provides legal services to other staff functions.

3. *Administrative Services.* Provides business management services, including stenographic services, to other staff functions.

4. *Audits.* Audits all phase of operations including royalties from oil and gas and review of internal operations.

5. *Civil Engineering.* Mapping of sovereign lands of the state, both coastal and inland and surveying, monumenting, mapping and recording of areas of tide and submerged lands granted to political subdivisions of the state.

6. *Mineral Resources.* Planning, development and administration of the production of oil and gas and other minerals from lands under jurisdiction of the commission.

7. *Commercial and Recreational Leasing.* Issuance of commercial leases, easements, rights-of-way and recreational permits and related activities.

8. *Land Sales and Records.* Processing of applications for leasing school lands for grazing and for the purchase of state-owned public lands (including school and swamp and overflowed lands) and federal lands.

It should also be noted that Chapter 138, Statutes of 1964, First Extraordinary Session imposes new duties upon the Division of State Lands in connection with the administration of the Long Beach Tidelands. The extent of these responsibilities, in terms of additional costs, is not known at this time, although a preliminary estimate places them at about \$350,000 per year. The commission, however, proposes to engage consultants to provide a thorough study of the means to imple-

State Lands Division—Continued

ment the responsibilities now incumbent upon them. To that end the commission has approved the initial expenditure of \$100,000 which is to be totally reimbursed from oil revenues. This information is not included in the current budget presentation.

REVIEW OF AGENCY ACCOMPLISHMENTS

The State Lands Division's budget in 1963-64 included expenditures of \$1,066,755, inclusive of reimbursements, and personal services of 117.2 positions. Revenues in the amount of \$50,033,453 were received, approximately \$48,000,000 of which were from oil royalties and bid bonuses.

Chapter 1398, Statutes of 1963, amended the Long Beach oil revenue distribution formula and provided that the administration of the act be reimbursed from gross royalties. The effect of this has been to reduce the net General Fund appropriation for 1963-64 and subsequent years.

In September 1963 the State Lands Commission lifted the moratorium on the sale of state school lands which had been operative since May 24, 1960, and adopted comprehensive policy and procedural changes for the administration of these lands. The division reports that certain of these lands will be offered for sale early in 1965.

The case of the *United States v. Anchor Oil et al.*, in which the United States brought suit against the City of Long Beach, the State of California and various oil producers for allegedly irreparable damage to the Long Beach Naval Shipyard for an amount of \$70,000,000 was settled by stipulatory agreement. The state's share of this cost amounted to \$1,200,000 which was withheld from oil royalties in 1963-64.

During the 1963 Legislative Session, 10 statutes providing for grants of tide and submerged lands to political subdivisions of the state were passed. The granting statutes require that substantial improvements be made within a 10-year period, and it is the duty of the division to monitor such improvements.

ANALYSIS AND RECOMMENDATIONS

In our last analysis we recommended that all expenses relating to *United States v. California* be separately identified to facilitate the evaluation and review of this case as well as to guarantee its prompt termination at the time of settlement. This has been done in the current budget presentation and *we recommend its continuance in the future.*

An additional oil gauger position is requested for Santa Barbara on the ground that it is needed to measure the increasing oil production in that area.

We recommend elimination of one oil gauger, budget page 481, line 71, \$6,120.

Our reason for this recommendation is that the budget justification indicates the following workload data for the existing staff of 18 at the two locations where oil gaugers are used:

	Huntington Beach	Santa Barbara
Estimated number of gauging points 1965-66-----	299	231
Existing number of oil gaugers-----	10	8
Gauging points per oil gauger-----	29.9	28.9

State Lands Division—Continued

In view of the similarity of the number of gauging points per gauger at these two locations there is nothing to indicate the need for reducing the number per gauger at Santa Barbara by adding an additional position.

FRANCHISE TAX BOARD

ITEM 149 of the Budget Bill

Budget page 482

FOR SUPPORT OF THE FRANCHISE TAX BOARD
FROM THE GENERAL FUND

Amount requested	\$11,385,082
Estimated to be expended in 1964-65 fiscal year	10,998,057
Increase (3.5 percent)	\$387,025
TOTAL RECOMMENDED REDUCTION.....	\$61,252

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
From amount requested to maintain existing level of service:			
1. Delete 4 Auditor I positions	\$24,480	484	40
2. Delete 7 Senior Clerk positions	34,272	485	8
3. Reduce in-state travel	2,500	485	20

PROGRAM PLANS AND BUDGET

The Franchise Tax Board, which consists of the Controller, the Director of Finance and the Chairman of the Board of Equalization, administers the state's personal income and bank and corporation tax laws. These taxes provide about one-third of all revenues into the General Fund. The board's method of administration is highly dependent on voluntary compliance and self-assessment by taxpayers. The programs described below consist of activities designed to assist taxpayers in voluntary compliance, audits to assure that compliance actually exists and enforcement procedures to detect and eliminate instances of noncompliance.

The proposed budget for 1965-66 is not presented on a program basis nor is the current organizational structure of the board entirely compatible with program costing. The board is now developing a program format and cost allocation standards and its next budget should include cost data for each program. More than most agencies, however, the board compiles cost and revenue data on various units and it is possible to identify much of the cost for past years on a program basis. This information is included below under 1963-64 program performance and accomplishment.

The board is organized into two divisions. The Administration Division, which includes the executive offices and various staff sections, is budgeted at \$2,606,725 and 339 positions for 1965-66. The Operations Division, which includes all audit units and offices in New York and Chicago, is proposed for \$5,556,631 and 698 positions in 1965-66. The investigations unit is technically a division but consists of a staff of only seven positions and is budgeted as part of the Administration Division. Regional offices, which are under the jurisdiction of the Operations Division, are located in San Francisco, with a proposed staff of

Franchise Tax Board—Continued

129 and a budget of \$1,244,210, and Los Angeles, with a proposed staff of 225 and a budget of \$1,977,516. The two regional offices maintain a total of 12 branch offices at various locations. For 1965-66, the proposed total budget for the board is \$11,385,082 and includes 1,392 positions.

The board's three programs are:

1. Taxpayer Service.
2. Self-assessment Compliance.
3. Enforcement.

While the workload of each program is different, there are basic statistics which have validity as measures of overall board activity. Two of these are:

Table 1
Returns Filed and Net Revenues Received, 1959-60 to 1963-64

<i>Fiscal year</i>	<i>Total returns filed</i>	<i>Percent increase</i>	<i>Total net revenues received</i>	<i>Percent increase</i>
1959-60 -----	4,446,705	--	\$518,573,756	--
1960-61 -----	4,675,894	5.1	538,531,237	3.8
1961-62 -----	4,847,252	3.7	622,864,644	15.7
1962-63 -----	4,974,885	2.6	596,121,568	-4.3
1963-64 -----	5,159,028	3.7	683,512,193	14.7

For 1965-66 all requested increases in staff, totaling 56.7, are presented by the board as required by workload or new legislation. It is also proposed to abolish 48.4 positions, so that net increase over 1964-65 is 8.3 positions. The breakdown of the number of positions authorized for each program in 1964-65 and proposed increases are shown below. A number of organizational units in the Administration Division are not clearly identified with any one of the programs, including the statistical, legal and personnel sections. The costs and man-years of these sections are allocated among the other units for past years and an estimated allocation is included for 1964-65 and 1965-66 in the following tables.

Table 2
Positions Authorized in 1964-65 and Proposed for 1965-66 by Program

	<i>Authorized positions 1964-65</i>	<i>Net proposed changes 1965-66</i>
Taxpayer Service -----	549	27.2
Self-assessment Compliance -----	452	18.5
Enforcement -----	382	-37.4
Total -----	1,383	8.3

The programs and 1965-66 proposals are:

A. *Taxpayer Service.* The objective of this program is maximum understanding of the self-assessment provisions of the income tax laws by individuals and corporate entities and initial processing of self-assessed returns and revenues as they are filed. The component activities are:

1. Public Information. The board makes a systematic effort to inform the public of the requirements of the income tax laws and to

Franchise Tax Board—Continued

facilitate timely filing of accurate returns. A position of tax service specialist in the Administration Division has as its primary duty the dissemination of instructions and information in language understandable to the general taxpayer. Personnel in field offices assist the public in filing returns. Information materials are made available at banks and other distribution points. TV, radio, press and other media are used during the filing period. No substantive changes in the activity are planned for 1965-66.

2. Distribution of Returns. Using names and addresses supplied by the Internal Revenue Service, the Operations Division mails return forms and instruction booklets to California taxpayers. The personnel requirements of this activity are nominal since most steps are performed by data processing and mechanical equipment. In 1965-66 it is planned to give special emphasis to use of the short form 540A rather than form 540, since this form is more adaptable to electronic data processing. It is estimated 5,120,000 mailings will be made in 1964-65 and about 5,314,500 in 1965-66.

3. Receiving and Initial Processing of Returns and Revenues. In terms of manpower and cost, this activity is the major element in the taxpayer service program. The cashiering unit of the accounting section, Administration Division, receives all incoming mail, including returns. Remittances are separated from returns and expeditiously deposited. Returns and other mail are sorted into various categories preliminary to delivery to units in the Operations Division for use in the self-assessment compliance program. In 1965-66 it is estimated that 5,313,000 personal income tax and 128,000 bank and corporation tax returns will be received. As a result of new legislation, for the first time about 125,000 corporation estimates will be received in 1965-66.

For 1964-65 the cashiering unit is utilizing 17 permanent positions and about 51 man-years of temporary help. For 1965-66, the activities will be basically the same as in other recent years, and requested increases in personnel include 9 positions for workload resulting from law changes and 2.9 for increases in the number of returns filed.

4. Claims. Claims for refunds, credits or abatements by taxpayers are processed by the claims section in the operations division. The board estimates that about 17,100 formal personal income tax claims will be received in 1965-66, an increase of 33 percent from 1963-64, and that other types of claims will increase proportionately. In 1964-65 this unit has 25 positions. For 1965-66 2 additional positions are requested for workload resulting from new legislation and 4.3 positions for continuing workload.

5. Protest Activity. Protests by taxpayers on assessments and other decisions under the compliance and enforcement programs are screened by the specialist section in the operations division. After screening, protests are routed to auditors or are sent to the appeals and review section in the administration division for processing. The appeals and review section holds hearings with taxpayers and makes recommenda-

Franchise Tax Board—Continued

tions for disposition of protests. Routine protests from taxpayers in the Los Angeles and San Francisco regions are handled by an auditor in those offices who acts as a hearing and review officer. Because of the number of units involved in this activity, no position count is available. One-third of a man-year of additional help is requested for the specialist section in the operations division on a workload basis.

B. *Self-Assessment Compliance.* To assure compliance with the income tax and bank and corporation tax laws, the board carries on an extensive program of auditing self-assessed returns in the headquarters office in Sacramento, in the regional offices in San Francisco and Los Angeles, at the two out-of-state offices and in the field throughout the state.

1. *Office Audits.* It is the goal of the board to give the returns of all taxpayers at least a desk scan over a two-year period to verify compliance with the law and to select cases for more detailed examination. For the various types of self-assessed returns, a simplified description of the audit procedures follows:

Form 540A. This is the punched card "short form" which may be used, with some exceptions, by personal income taxpayers reporting income of less than \$15,000. Certain information is prepunched into the card, including the taxpayer's name, and when filed the completed returns are mechanically alphabetized. During 1965-66, the primary audit section in the division of operations will be reviewing form 540A returns for the 1964 income year.

Form 540. This is the standard personal income tax "long form." As these forms are filed, they are separated into those reporting incomes under a specified amount and all those over this amount. The returns reporting the lower incomes are alphabetized by year and sent to the drawer audit section to become the "annual file." Returns reporting the larger incomes are given a mathematical verification by the primary audit section, alphabetized and also sent to the drawer audit section where they are filed in a folder with other year returns of individual taxpayers and become the "folder file."

In the drawer audit section, annual and folder returns are given different handling. The section is now examining the annual file drawers for the 1961 income year, and in 1965-66 will be auditing the 1962 income year. In the folder file, Form 540 returns for individual taxpayers for several years are in one folder and two year's returns are audited at the same time. The 1961 and 1962 returns in individual folders are now being audited, a process to be completed late in 1965. Thereafter, the returns for 1963 and 1964 will be audited. It takes something less than 24 months to complete the folder file audit of returns for two years and full attention is given to the annual file drawers during the remaining months.

Bank and corporation returns are initially processed by the primary audit section, alphabetized by year and routed to one of two corporation audit units: The general audit section processes returns which do not involve the allocation of income between California and other states;

Franchise Tax Board—Continued

the allocation section processes returns which do involve income allocation. Both units are now examining returns for 1961 and 1962 and the allocation section also is processing returns for prior years. In 1965-66 for both units the workload will be returns for 1963 and 1964 as well as some from earlier years.

Other small units in the operations division process special classes of returns, such as those from tax-exempt corporations, and trusts and estates, and make audits based upon information supplied by the Internal Revenue Service.

The staffing pattern in the various audit sections proposed for 1965-66 and planned changes in activity are described below.

Primary Audit. This unit has a workload peak related to the filing period but makes very little use of temporary positions since the nature of the activity requires experienced help and the review of 540A returns is performed in the off-peak period. In 1965-66, it is expected 1,100,000 540A returns will be scanned. For 1965-66 the equivalent of three positions are requested on a workload basis to process an estimated 43,014 correspondence items and 50,800 assessments based on federal audit information. About 42 positions are currently authorized.

Drawer Audit. For 1965-66 the board proposes that 3.51 auditor positions now used for auditing annual file drawers be transferred to other sections as a result of adjusting audit coverage goals. Current staff is about 80 positions. It is planned to examine 3,539,681 returns in 1965-66, of which 3,246,098 will be from the annual drawers and 293,583 from folder drawers.

Revenue Agents Reports. The board receives copies of federal audits from the Internal Revenue Service which are compared with state returns and otherwise used to assure compliance with state income tax laws. This activity is primarily a desk audit operation carried on in the primary audit section but also results in field audit activity. About 30 man-years are now being used and no change in the level of activity is proposed for 1965-66.

General Audit Section. This unit has a staff of about 13 positions to audit and process bank returns which do not involve income allocation. The budget proposal for 1965-66 includes 3.5 new positions requested as required by workload. It is estimated that the 1965-66 workload will be 99,553 bank and corporation returns.

Allocation Audit. This unit uses about 17 positions to process corporate returns which require an allocation of income between California and other states. For 1965-66, 2.2 additional man-years are requested on a workload basis to audit an estimated 15,494 corporate returns.

For its total office audit activity, the board is using about 214 man-years in 1964-65 and it is proposed to add a total of 17.2 positions in 1965-66. In addition to the above sections, several other units render various services to the audit process. The major activities in terms of staff are units providing clerical services which have about 158 positions in 1964-65. These units rely heavily on temporary help to meet workload peaks related to the filing cycle and would be augmented by 2.5 man-years of temporary help in 1965-66 on a workload basis. For the smaller,

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specialized audit sections the board is requesting a total of 2.5 man-years of additional help for 1965-66 on a workload basis.

2. *Field Audit.* The board maintains auditors at all 12 branch offices located throughout the state, has auditors in the two regional offices and stations auditing staffs in New York and Chicago. These positions audit taxpayer records, both on cases selected by the headquarters office audit process and upon local initiative. Auditors stationed in New York and Chicago are primarily concerned with corporate taxpayers having offices and records outside of California. Field Audit personnel also work with taxpayer representatives, the Internal Revenue Service and assist in the taxpayer service and enforcement programs. Branch managers of the 12 field offices are all auditors. In 1964-65 there are 92 auditors in the Los Angeles region and 54 in the San Francisco region. There are 19 auditor positions in both Chicago and New York. No increase in staff is proposed for the field auditing activity for 1965-66.

C. *Enforcement.* This program is designed to insure that returns are filed by all persons and corporations obligated by law to do so and that all taxes due are collected. A major part of the effort is devoted to locating instances of failure to file, assessing any taxes due and collecting these taxes. Auditing and investigation activities seek to verify that returns filed are accurate and that no fraud or other law violations occur. Responsibility for this program is primarily with various sections in the Operations Division and with the Investigations Division. The EDP section in the Division of Administration provides major support. For 1965-66 the board proposes to continue the program unchanged and increases requested in positions and other costs are presented on a workload basis.

The component activities of this program are:

1. 599—FCP Program. Under the 599 portion of this activity, California employers, and payers of certain other types of income, are required to report all such payments to the board. Under the Federal Comparison Project (FCP), the board receives information from the Internal Revenue Service on California residents filing federal income tax returns. The information from these two sources is matched against state returns to determine if all those required to do so filed California returns and if amounts reported are accurate.

The federal return information is on magnetic tape and is matched by use of EDP techniques while California employers have the option of supplying 599 reports on tape and are expected to do so increasingly in the future, permitting mechanical match on this part of the activity as well. Reports by California employers not on tape are now matched manually but, starting in 1965-66, the board is proposing to convert most of this nontape data to mechanical match so that almost the entire matching process will be done by EDP in 1965-66.

When the 599-FCP activity develops instances of apparent noncompliance the board initiates action to bring about payment. After initial

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mailings of notices by headquarters, the information is distributed to the two regional offices and thereafter the activity is performed at the field level. If the taxpayer does not file an accurate, timely fully paid return the matter becomes part of the collection activity. The 599-FCP activity is largely a clerical and data processing function and, since early 1964, conversion to EDP has permitted major savings in personnel costs. For 1965-66 further conversion to EDP is expected to reduce personnel costs by about \$169,000 and 44.4 temporary positions will be abolished. Proposed costs for 1965-66 are \$140,260 for EDP processing and \$157,276 for manual processing, a total of \$297,536.

2. Residency and Withholding. This activity has as one objective the location of individuals who claim residency in another state but are actually California residents for tax purposes. The second objective is to identify situations where it may be advisable to withhold income to protect a tax liability. The level of activity is responsive to particular situations and is primarily carried on by the field staff who investigate residency status and determine where it is appropriate to withhold income. The number of man-years to be used for this activity in 1965-66 is not susceptible to prediction, but on the basis of past years' experience will be about 10, all in the field.

3. Collections. Collection accounts are created in a variety of ways including instances where taxpayers file a timely return but fail to include full payment, and identification of a tax liability through the 599-FCP activity which results in an arbitrary assessment.

To clear collection accounts a series of actions are taken by the Sacramento headquarters. If these steps fail to close the account it goes to a field office which carries out systematic procedures, including personal contacts, designed to exhaust all possible means of collection. Increasingly, the EDP unit in the Administration Division has provided a major service, substantially reducing headquarters clerical needs and speeding up the process. In 1964-65 the statewide collection activities of the Operations Division require about 230 positions. For 1965-66 seven additional clerical positions are proposed for the Los Angeles region as justified by workload.

4. Investigations. The investigation activity is synonymous with the workload of the Investigations Division and consists of four classes of investigations: false returns, failure to file, illegal activity and miscellaneous investigations. About 70 percent of the effort is directed to cases involving failure to file, about 20 percent to false returns cases and the balance to all other activities. Investigations are carried on in close cooperation with field audit activities. It is planned to continue the present level of activities through 1965-66 and no increase in the current staff of seven positions is requested.

REVIEW OF AGENCY ACCOMPLISHMENTS, 1963-64

The accomplishments of the board's programs in 1963-64 are possibly best measured by revenues produced. The revenues, and costs, for each

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activity are allocated to programs on the basis of existing budget units in Table No. 3 below. Subsequent tables show details.

Table 3
Estimated Costs, Revenues and Man-Years by Program, 1963-64

Program	Cost	Revenues	Man-Years
Taxpayer Service	\$3,930,532	\$642,442,302	515
Self-Assessment Compliance.....	4,437,057	34,093,949	443
Enforcement	2,251,257	6,975,942	373
Totals	\$10,618,846	\$683,512,193	1,331

The performance and accomplishments were:

A. *Taxpayer Service.* As the goal of this program is to assist taxpayers in complying with the self-assessment provisions of the law, the extent of voluntary compliance provides an indirect measure of accomplishment. In 1963-64 the revenues as a result of self-assessment not including board assessments and other changes, were about \$642,442,302. Expenditures were substantially as authorized. The accomplishments of specific activities in 1963-64 were:

1. *Public Information.* In 1963-64 this activity was not carried on in an organized manner but consisted of a generalized effort to place spot announcements on TV and radio and press releases, public contacts at regional and branch office counters and by field personnel. An administrative review of the board's operations by an outside consultant completed in December 1962, recommended that the board expand its public information program. Subsequently, the board was authorized a public information position in its budget for 1964-65. This position is now filled and functioning. No cost data are available but expenditures in 1963-64 were probably nominal.

2. *Distribution of Returns.* In December of 1963, the board mailed out 4,712,000 personal income tax forms. This is largely a mechanical operation and for 1963-64 the board used less than two temporary help positions.

3. *Receiving and Processing of Returns and Revenues.* In its 1963-64 budget request, the board estimated it would require about 49 man-years of temporary plus 11 permanent positions, or 60 man-years total, for this activity to process an estimated 5,210,000 returns which would be received. The actual number of returns received was 5,159,028 and about 57 man-years were used.

4. *Claims.* For the year 1963-64 about 25 positions were used to process 14,885 claims for refund, about two-thirds of which were for personal income tax. Refund claims allowed totaled \$7,025,409 of which 87.3 percent was for bank and corporate taxes and the balance for personal income taxes.

5. *Protest Activity.* The appeals and review unit, which is responsible for only a portion of the protest activity, processed 554 cases in 1964 involving \$12,792,183. The unit used five legal and two clerical positions

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for 1963-64 and had total operating costs of \$135,906. Much of the appeals and review activity is carried on by the specialist section and auditors primarily engaged in compliance activities and the protest activities costs of these positions are not available. Various audit activities cancelled assessments for personal income and corporate taxes totalling \$14,508,020 and abated taxes in the amount of \$8,729,521.

B. *Self-Assessment Compliance.* The board has maintained comprehensive workload and cost revenue statistics on its various compliance activities for several years, and 1963-64 accomplishments for most activities can be measured in specific terms. Expenditures in 1963-64 were substantially as authorized. Workload, cost and revenues for the various activities were as follows:

1. Office Audits. Revenues and costs for units directly participating in headquarters office audits are summarized in Table 4 below.

Table 4
Cost and Revenues, Headquarters Office Audits, 1963-64

Unit	Net Revenues	Cost	Net Revenue Per Dollar Cost
<i>Personal Income Tax</i>			
Primary Audit.....	\$ 1,261,510	\$ 402,260	\$ 3.14
Drawer Audit.....	3,463,082	756,202	4.58
Revenue Agents Reports.....	3,245,513	256,415	12.66
Total, Personal Income Tax.....	\$ 7,970,105	\$1,414,877	\$ 5.63
<i>Bank and Corporation Tax</i>			
Exempt Corporations.....	—	\$ 43,533	—
General Audit.....	\$9,163,358	130,397	\$70.27
Allocation Audit.....	441,195	158,129	2.79
Primary Audit.....	958,827	80,439	11.92
New Accounts.....	221,707	16,596	13.36
Total Bank and Corporation Tax.....	\$10,785,087	\$ 429,094	\$25.13
<i>Other</i>			
Specialist Section.....	\$ 331,399	\$ 131,398	\$ 2.52
Total Office Audits.....	\$19,086,591	\$1,975,369	\$ 9.66

The accomplishments of the units in 1963-64 were:

Primary Audit. In 1963-64 this unit's compliance activity consisted of initial processing of certain types of returns preliminary to more extensive audits by other units, reviewing form 540A returns, and certain other functions. In fulfilling the first of these responsibilities, the unit processed 123,885 personal income tax and 10,664 bank and corporate tax items which involved a change. In scanning 540A returns during 1963-64, returns for the 1962 income year were the workload and about 1,011,600 were reviewed. Of the total returns processed, about 33,000 resulted in a tax change. About 39 man-years were required. This section also includes the Revenue Agents Report activities described below.

Revenue Agents Reports. Under this activity, the Primary Audit Section, using information received from the Internal Revenue Service,

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audited 34,806 returns, making assessments which resulted in revenues of \$3,245,513. Costs were \$256,413 and about 29 man-years were used.

Drawer Audit. In 1963-64 the Drawer Audit Section processed 3,120,006 returns of which 66,257 resulted in a change in the tax liability. At the start of the year, the audit of folder file drawers for 1959 and 1960 was in progress and, during the year, auditing of 1961 and 1962 returns was started. On the annual file drawers, at the start of the year, the unit was working on 1959 and 1960 returns and by the end of 1963-64 auditing of both of these years was closed out and review of 1961 returns was in progress. In 1963-64 this unit utilized 87 man-years, including six senior clerks authorized new that year to work on the less complex returns in the annual file drawers.

General Audit. This section was the leading revenue producer per dollar of cost, as is shown in Table 4, of all audit sections in 1963-64. The unit processed 97,685 returns during the year, working on bank and corporate returns which did not involve income allocation, primarily for the income years 1961 and 1962. As a result of these audits, 26,810 tax changes were made. The unit required 14 man-years in 1963-64 to process this workload.

Allocation Audit. In 1963-64 this unit, which audits returns of corporations with income involving other states, processed 14,353 returns. Tax changes were made on 2,824 as a result of this processing. During the year, the section used 15 man-years.

2. **Field Audits.** The field audit activity does not have specific audit coverage goals, as does the office audit activity, since field audits are made on the basis of office audits and the initiative of the regional office and field level. Revenue and cost comparisons for 1963-64 are shown below:

Table 5
Cost and Revenues, Field Audits, 1963-64

<i>Unit</i>	<i>Net revenues</i>	<i>Cost</i>	<i>Net revenue per dollar cost</i>
Personal income tax			
Sacramento field	\$345,060	\$55,562	\$6.21
Los Angeles region	2,071,229	493,028	4.20
San Francisco region	1,209,009	426,274	2.83
Total Personal Income Tax	\$3,625,298	\$974,864	\$3.72
Bank and corporation tax			
General Audit			
Sacramento field	59,211	22,516	2.63
Los Angeles region	2,160,178	334,587	6.46
San Francisco region	1,290,420	211,242	6.11
Allocation Audit			
Sacramento field	114,187	1,711	66.72
Los Angeles region	573,128	150,984	3.83
San Francisco region	521,344	103,783	5.02
New York office	3,609,062	256,214	14.09
Chicago office	3,049,530	309,862	9.84
Total Bank and Corporation Tax	\$11,382,060	\$1,390,899	\$8.18
Total Field Audit	\$15,007,358	\$2,365,763	\$6.34

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C. *Enforcement.* The accomplishments of the various activities comprising the enforcement program in 1963-64 are described below. Revenue and cost comparisons are not a valid measure of the effectiveness of some of these activities because of their diverse nature and because the revenues they produce, such as delinquent tax collections, are often credited to activities in the self-assessment compliance program. The 1963-64 program costs were substantially as authorized.

1. 599-FCP Program. In 1963-64, the 599-FCP cycle was completed on schedule. The magnetic tapes supplied by the Internal Revenue Service included 3,584,259 names and 8,891,294 information units were received under the 599 program. The pertinent data on accomplishments and performances is shown below.

Table 6
Performance and Accomplishments, 599-FCP Activity, 1963-64

<i>Location of activity</i>	<i>Cost</i>	<i>Revenues</i>
Headquarters -----	\$235,435	\$673,974
Los Angeles -----	1,326,459	4,335,225
San Francisco -----	605,718	1,860,625
Total -----	\$2,167,612	\$6,869,824

2. Residency and Withholding. This activity required 10 man-years in 1963-64, all in the field, and had a cost of \$50,278. Revenues attributed to the activity were \$106,118.

3. Collections. Late in 1963-64, much of the headquarters' collection activity was converted to a data processing operation and field procedures were changed to conform to the new system. This change had the effect of substantially increasing branch office account inventories because of a one-time surge in the flow of accounts in the field. The conversion to EDP processing appears to have been successful and, while branches were burdened with heavier inventories, new cases were received much sooner than before and other information, such as Department of Employment data on the employment status of delinquents, became available on an automatic basis, making overall collection process more effective. As is discussed under the section on Analysis and Recommendations, below, the Los Angeles region has encountered some difficulty in absorbing the one-time increase in collections accounts. For 1963-64, the collections' activity directly utilized 175 man-years, and a total of \$14,279,819 in delinquent taxes was collected.

4. Investigations. The investigations activity utilized eight man-years and costs were \$111,898, all related to personal income tax laws. In 1963, the Investigations Division devoted 70 percent of available time to failure to file cases, 19 percent to false return cases, 2 percent to illegal activities investigations and the balance of 9 percent to miscellaneous matters. During the year, there were 17 prosecutions for violation of the income tax laws, all of which resulted in conviction or were pending at year's end. Fines imposed totaled \$9,000 and tax deficiencies collected amounted to \$34,742. Investigations personnel participated in other actions which resulted in tax revenues of \$500,772.

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ANALYSIS AND RECOMMENDATIONS

A. Administration Division

A total of 40.9 new positions are requested for the Administration Division of which 13.7 would be financed by abolishing existing temporary help positions. Nine of the new positions are requested for new workload resulting from a law change and 31.9 are requested to meet workload increases in existing activities. The breakdown by organizational unit of these positions is shown below:

*Positions Requested for New Workload
Resulting From Legislation*

Accounting Section-----	1	Bookkeeping Machine Operator
	4	Intermediate Clerk
	4	Temporary Help

Positions Requested for Workload Increases

Executive-----	1	Intermediate Stenographer
Data Processing Section-----	7	Programmer
	2	Key Punch Supervisor I
	4	Key Punch Operator
	2	Tab Machine Operator
	3	Junior-Intermediate Clerk
	1	Junior-Intermediate Stenographer
	9	Temporary Help
Accounting Section, Cashiering Unit..	2.9	Temporary Help

Total Proposed New Positions----- 40.9

Positions Proposed to Be Converted

Data Processing Section-----—13.7 Temporary Help Converted

Net Total, Proposed New Positions. 27.2

All of these position requests appear justified and we recommend approval as budgeted.

Electronic Data Processing Section

The Electronic Data Processing Section was established in 1963-64 and marked the board's conversion from several separate punched card operations to a centralized computer based system. In our discussion of this consolidation in last year's analysis, we pointed out that total data processing costs had increased rapidly since the conversion and recommended that the board report to the Legislature in 1965-66 on the programs being performed, the projected workload, the ability of the system to absorb major new increments of work and on reductions which could be applied against the cost of the system.

This report has been submitted and is generally responsive to the specific questions raised with the major exception that cost data are incomplete. The report describes five programs under the heading "Prospects for Cost Recoveries and Other Benefits," but identifies specific savings for only three of these, totaling \$215,772. We recognize that the board's limited experience under the system makes it difficult to estimate savings at this time. In raising these questions last year, we pointed out that the transition to a centralized EDP system for an operation as large and intricate as that of the board is going to

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be costly. The following table, which is updated from one prepared last year, makes clear just how costly the conversion has become.

Table 7
Increase in Electronic Data Processing Costs, 1962-63 to 1965-66

	1962-63 <i>estimated</i>	1963-64 <i>estimated</i>	1964-65 <i>estimated</i>	1965-66 <i>proposed</i>
Personal services				
Permanent -----	\$207,666	\$304,811	\$422,760	\$512,518
Temporary help -----	---	120,220	133,946	112,926
Total, personal services----	\$207,666	\$425,031	\$556,706	\$625,444
Operating expense -----	106,417	264,435	393,055	382,184
Grand total -----	\$314,083	\$689,466	\$949,761	\$1,007,628
Percent increase over 1962-63--	---	120%	202%	221%

For 1965-66, 28 new positions are requested for the Data Processing Section, 6 of which were established administratively in 1964-65 and are proposed for continuance. To partially finance these positions, the board proposes to abolish 4 clerical positions in the Operations Division and 13.7 man-years of temporary help positions.

With the new positions requested for 1965-66, the board's process of converting to EDP should be complete. At the time its next budget request is prepared the board will have about 18 months of experience under the new system and savings in both staff and funds should be clearly identifiable. Future requests for additional positions should be limited to workload increases related to existing programs or to new programs financed from savings. *Therefore we recommend that the board:*

- (1) *Supplement its report to the Legislature on data processing with a specific statement of savings when submitting its next budget request.*
- (2) *Accompany future requests for data processing positions with a clear statement of either workload justification for existing programs or internal financing through savings for new or expanded programs.*

B. Operations Division

As indicated on budget page 484, lines 32 to 37 it is proposed to abolish four permanent clerical positions and 44.4 man-years of temporary help or the equivalent of 48.4 positions. The four permanent positions were abolished during the current and budget years to provide a part of the funds necessary to finance four new programmer positions for data processing in General Administration while the temporary help is abolished as a result of further conversion of the 599-FCP program to data processing.

Of the 22.5 new positions proposed on budget page 484, lines 39 to 47, the two income and corporation tax auditor II positions and six clerical are for a new program resulting from legislation, *and we recommend approval on a workload basis.*

We also recommend approval of the remaining three clerical positions and the 2.5 man-years of temporary help on a like basis.

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Of the remaining nine auditor I positions, shown on budget page 484, line 40, *we recommend approval of five and elimination of four, \$24,480.*

The detailed justification submitted by the agency for the positions, by operating sections, together with our recommendations in man-years are as follows:

Section	Total	Recommendation	
		Approve	Disapprove
Claims -----	3.3	2.3	1.0
Primary audit -----	1.0	--	--
Allocation audit -----	2.2	1.6	0.6
General audit -----	3.5	1.3	2.2
Specialist -----	1.3	--	--
Dividend exempt -----	1.2	1.0	0.2
Subtotal -----	12.5	6.2	4.0
Less proposed for deletion by agency:			
Drawer audit -----	-3.5	-3.5	--
Net total -----	9.0	2.7	4.0

In the following analysis of the proposed changes in positions, a total of four auditor man-years are recommended for deletion. Of these, 2.8 man-years would be used for audit activities where substantial revenues are produced per dollar of cost. We have not analyzed these requests in terms of potential revenue since they are requested by the board as being necessary to maintain the level of service which was authorized by the Legislature in the past. If the board's goal is to increase revenues through emphasizing the more productive activities, the positions should be requested on this basis. It would also be appropriate to transfer positions from activities which have lower revenue productivity, rather than to request new positions on a workload basis, if the board's intent is to change its program emphasis in this manner.

Claims Section

The board proposes to add 3.3 auditor man-years to this section for increased workload. The division expects formal personal income tax claims to increase by 33 percent in 1965-66 over 1963-64, from 12,656 to 17,100. Bank and corporation claims are expected to increase by 30 percent from 2,535 in 1963-64 to 3,041 in 1965-66. Of the 3.3 positions, about 2.5 man-years are requested for personal income tax claims and 0.8 would be for bank and corporate income tax claims. The section has 12 auditor positions in 1964-65.

We recommend that 2.3 auditor positions be allowed and that one auditor position, budget page 484, line 40, be deleted for a savings of \$6,120 and related expenses.

The division's estimate that the workload related to personal income tax formal claims will increase by 33 percent over a two-year period would represent a drastic increase in this workload since the average annual rate of increase over the last five years has been only about 10 percent. The workload is unusually heavy in 1964-65 because of a court decision on residency status, but this is expected to taper off before the start of 1965-66. The projection of corporate claims workload, however,

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is consistent with the long-run growth trend for this workload. The above recommendation allows 2.3 additional auditor man-years for 1965-66, sufficient to meet the normal increase in workload and maintain the same level of service as has existed in recent years.

Allocation Section

This section processes returns from corporations where allocation of income between California and other states is required. The request is for 2.2 new auditor positions for increased workload based on 1963-64 production per position of 959 audits per man-year and a predicted increase in audit units from 13,430 in 1963-64 to 15,494 in 1965-66. The section has 14 auditor positions in 1964-65.

We recommend that 1.6 auditor positions be allowed and that 0.6 auditor position, budget page 484, line 40, be deleted for a reduction of \$3,672 plus related expenses.

The long-run growth trend for the Allocation Section workload is about six percent per year and, on this basis, a realistic estimate of the 1965-66 workload is about 15,000 audits, somewhat less than is forecast by the division. On the basis of the division's estimate of 959 audits per auditor, about 15.6 man-years will be required in 1965-66, or 1.6 man-years more than is now authorized. The above recommendation would permit the division to maintain the existing level of service through 1965-66.

General Audit Section

This section, which audits corporate returns not involving income allocation between California and other states, is requesting 3.5 auditor positions to process an expected increase in audit workload of 22,381 audits. In 1963-64, the section processed 77,172 returns with a staff of 12 auditors, for an average production of 6,431 audits per man-year.

We recommend that 1.3 auditor positions be allowed and that 2.2 auditor positions, budget page 484, line 40, be deleted for a savings of \$13,464 plus related expenses.

The number of returns filed per year which are audited by this section has shown a consistent long-run trend to increase at a rate of about 5.3 percent per year. The workload for the section can be expected to increase from 77,172 cases in 1963-64 to about 85,569 cases in 1965-66. On the basis of the division's estimate that auditor positions will, on the average, process 6,431 cases per year, the man-years required in 1965-66 will be 13.3, or 1.3 man-years more than is currently being utilized. The above recommendation would allow an increase in auditor staff consistent with the average annual long-term growth in the number of returns filed.

Audits by this section produce large revenues relative to cost, more so than any other audit section. In 1963-64, the return for each dollar of cost was more than \$70. The board could increase its revenue performance at no increase in cost by lowering its audit coverage goals for less productive activities and applying more manpower to the general audit activity. This possibility is commented upon in the section on policy options, which follows.

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Dividend Exempt Section

This section audits the information returns filed by corporations exempt from the franchise tax and processes returns involving certain classes of dividend income. A total of 1.2 auditor positions are requested, of which 0.6 would be used to process an expected increase in exempt corporation audits from 816 to 1,500, and 0.6 would be for an expected increase of 941 in the number of dividend computation units. In 1964-65, two auditor positions are used for these activities.

We recommend that one auditor position be allowed and 0.2 auditor position, budget page 484, line 40 be deleted for a reduction of \$1,224 plus related expenses.

The number of exempt corporation returns filed each year has been increasing at a rate of about 7 percent per year. To process the increases which could be reasonably expected in 1965-66 at the same level as in other recent years, an increase only 0.1 man-years would be required rather than the 0.6 requested. The dividend computation workload has been increasing at a much faster rate, about 27 percent in the last two years, and 0.6 man-years requested for this activity appears justified. The above recommendation would result in the audit man-years in the section being increased by 33 percent, sufficient to meet the expected dividend computation workload increase and permit a somewhat higher level of audit for exempt corporation returns.

Los Angeles Regional Office

The board is requesting seven senior clerk positions for the Los Angeles region as being necessary to process increased collections workload. No new positions are requested for collections workload for the board's two other field collection units, the San Francisco region and the Sacramento field office.

We recommend seven senior clerk positions, budget page 485, line 8, be deleted for a reduction of \$34,272 plus related expenses.

The continuing workload per field collection position in the Los Angeles region is no greater than in the board's other field collection units, nor is it increasing at a faster rate, so that continuing workload alone does not justify the requested positions. The pertinent statistics are shown in Table 8 for both the San Francisco and the Los Angeles regions. Comparable data are not available for the Sacramento field office, but the record would be about the same as for the San Francisco region. The ratio between total clerical and total nonclerical positions, as described below, is about the same in all three units.

That the Los Angeles region is experiencing difficulty in processing collections workload is apparent in the statistics in Table 8 on accounts closed and amounts collected. Early in 1964 the board converted much of its headquarters collections operation to data processing and, as a result, the number of collection accounts moving to field offices increased substantially. This surge, which is apparent in the data for March 1964, was a nonrecurring result of the EDP conversion. The San Francisco region and the Sacramento field office both adjusted to the changed procedures and absorbed the temporary surge in workload.

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Table 8
Comparative Performance, Collection Activities Per Position,
January to December 1964

Month	Authorized collection positions ¹	Accounts received per position	Accounts closed per position	Amount collected per position
<i>Los Angeles Region</i>				
January -----	27	0	58	\$11,399
February -----	27	256	33	3,555
March -----	27	688	54	7,122
April -----	28	168	73	8,017
May -----	28	68	131	6,918
June -----	28	265	102	5,843
Six-month average -----		241	75	\$7,142
July -----	28	139	158	\$8,504
August -----	30	86	229	12,167
September -----	32	110	107	8,054
October -----	32	97	129	10,086
November -----	32	100	93	9,820
December -----	32	100	99	10,324
Six-month average -----		105	136	\$9,826
<i>San Francisco Region</i>				
January -----	12	0	136	\$12,733
February -----	12	265	81	5,265
March -----	13	603	126	8,872
April -----	13	174	106	8,435
May -----	13	8	189	8,242
June -----	13	221	167	7,869
Six-month average -----		212	134	\$8,569
July -----	13	106	198	\$11,430
August -----	14	104	233	14,465
September -----	14	89	102	7,968
October -----	14	128	127	13,641
November -----	15	108	99	9,841
December -----	16	80	153	8,931
Six-month average -----		103	152	\$11,546

¹ Includes all tax compliance, tax representative and tax representative trainee positions.

The difficulties of the Los Angeles region are apparent in the account inventory statistics. Prior to the EDP conversion in January 1964, the San Francisco and Los Angeles regions were in much the same condition in terms of account inventory per position, but by December 1964 the Los Angeles inventory position had deteriorated. On January 1, 1964, the Los Angeles region had an inventory of 1,507 accounts per position compared to 1,725 for San Francisco. After the increase in accounts moving to the field early in the year as a result of the EDP conversion, the Los Angeles inventory reached 2,360 accounts per position and San Francisco reached 2,168. In subsequent months, the San Francisco region succeeded in reducing its inventory per position to 1,399 as of January 1, 1965, or 326 accounts less than on hand as of

Franchise Tax Board—Continued

January 1, 1964. The Los Angeles region, by comparison, had 1,980 accounts per position on hand on January 1, 1965, or 493 accounts *more* than on January 1, 1964.

There are a number of contributing factors relating to the differences in collections performance between the two regions, and these are discussed below, but differing ratios of clerical support cannot be cited as a reason. The pertinent measure of clerical support in field offices is the ratio between total clerical positions and all other positions since the distribution of clerical time between collections, auditing and other activities is a management prerogative. In December 1964, the ratio in the Los Angeles region was 1.39 nonclerical positions for each clerk, while in the San Francisco region the ratio was 1.35 to 1. The ratios were similarly close in other months of 1964. The small differences in the relative numbers of clerical positions in the two regions and the disparity in performance eliminates the quantity of clerical positions as a primary explanation of the differences in performance.

Differences in the utilization of clerical personnel in the collections process between the two regions explains, in part, the differences in collections productivity. The San Francisco region uses clerical positions for processing less complex accounts and dealing directly with delinquent taxpayers more than does the Los Angeles region. Standard policies and procedures, including the responsibilities of clerical personnel, are systematically formulated and implemented in all branch offices more aggressively. The comparatively close control maintained over all phases of the field collection process, including use of clerical personnel, by management in the San Francisco region is a major difference between the two regions.

The relatively unsuccessful performance of the Los Angeles region appears to result from a number of factors and the addition of clerks would be a stopgap measure and not a solution to the basic problems. We recommend that the board, with existing collections and clerical positions, take steps to effectively control workload in the region, with the goal of achieving the inventory and production levels as existed prior to the EDP conversion. These steps should include some or all of the following:

1. More effective training and use of existing clerical positions, including their direct use in the collections operation, under the supervision of tax representatives. This may involve upgrading existing clerical positions to the senior level.
2. A systematic, aggressive program to install and maintain uniform collection standards and procedures in all field offices, including close supervision of field office collections by regional management, with special attention to production rates of each office and position. This should include a positive effort to emphasize branch office supervisory responsibility for collections performance.
3. A major effort to cull the collections account inventories in field offices of old accounts, possibly coupled with a program to maintain information, on an interim basis, on accounts relieved, i.e., written off,

Franchise Tax Board—Continued

during this culling. Timeliness is an essential for an effective collections program. A major factor in the region's collections problem is that the heavy inventory load results in a relatively high average age of accounts, thus making them more difficult to collect, contributing to low production rates which makes it still more difficult to reduce the inventory. By retaining information on an interim basis on relieved accounts, much of the revenue written off could be recovered at a later date since a large proportion of tax delinquents are repeaters and can be depended upon to reappear in the account inventory in a subsequent year on a more current basis.

The experience of the San Francisco region and Sacramento field office shows that an aggressive, systematic program can overcome these problems. The collections problems of the three areas are not identical, especially in regard to population mobility, but the nature of the collections workload is basically the same in essentially all respects but size. This similarity includes the ratio of existing technical and clerical staffs to continuing workload. The board should upgrade the performance of the existing Los Angeles collections program, before requesting new permanent positions for current workload.

The Los Angeles region is requesting \$26,469 for in-state travel in 1965-66.

We recommend that \$2,500 for in-state travel, budget page 485, line 20, be deleted.

In 1963-64 the Los Angeles region actually expended \$22,498 on this item. The number of personnel which might incur travel costs in 1965-66 is increased by five positions from 1963-64. There have been no other changes in prices, programs or other items to account for the disproportionate increase in the request. The recommended reduction would result in \$23,969 being available for in-state travel in 1965-66, about \$1,500 more than was actually required in 1963-64 and should be ample for the increased costs of the additional positions.

POLICY OPTIONS

1. In comparison with other personal and corporate income taxing agencies, the Franchise Tax Board has an unusually high degree of audit coverage. While tax administrators are understandably reluctant to make known the percentage of returns in various income brackets which are actually audited, in most jurisdictions only a small share of the lower income returns receive detailed examination.

As an alternative to its current policy of extensive coverage, the state could concentrate attention on returns which produce the most revenue per audit cost. Under this change, a small but systematically selected sample of returns in the lower income ranges would be audited each year to assure general compliance and for public education purposes. Personal income returns reporting higher incomes and bank and corporate returns would be given more intensive audits. If revenue production varied from year to year for different classes of returns, audit positions would be shifted accordingly.

Franchise Tax Board—Continued

The advantage of this policy would probably be a substantial increase in revenue at no additional cost. The disadvantages are less well defined but widespread noncompliance might result from lower audit coverage and also, if audit efficiency was measured by revenue productivity alone, an inherently high revenue producing audit activity, such as corporation audits, could be inefficient and still appear highly productive. At the same time, there are no grounds to assume that lower audit coverage leads directly to widespread noncompliance.

2. The board now audits most returns several years after they are filed. The personal income tax returns in the annual file drawers which will be examined in 1965-66 will be primarily from the 1962 income year. The returns in the folder file drawers to be audited in 1965-66 will primarily be for the 1963 and 1964 years but some 1961 and 1962 returns will be in the workload. For bank and corporate returns, the workload will consist of 1963 and earlier year returns. Only the form 540A personal income tax returns are now audited within a year after being filed.

There are major advantages to be gained by more timely audits. More timely detection of delinquencies by the audit process would minimize collection problems. The effectiveness of audits in correcting future self-assessments would be maximized by prompt discovery of irregularities in returns.

There are several ways in which audits could be placed on a more timely basis. If the board were to discontinue the review of all prior year returns and concentrate on the most recent in the files, there would be some potential revenue which might never be recovered, but this could be offset at least in part by a review of older returns of particular taxpayers in instances where major discrepancies were found in the latest return. It would also be possible for the board to make the changeover over several years time by progressively reducing the coverage for earlier years and applying the auditor man-years thus made available to the most recent year. In either case, the advantages to be gained by more timely audit might well offset any loss of revenue which might result during the changeover.

STATE TREASURER

ITEM 150 of the Budget Bill

Budget page 486

FOR SUPPORT OF THE STATE TREASURER
FROM THE GENERAL FUND

Amount requested	\$461,567
Estimated to be expended in 1964-65 fiscal year	452,371
<hr/>	
Increase (2.0 percent)	\$9,196
TOTAL RECOMMENDED REDUCTION	\$4,350

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
From amount requested to maintain existing level of service			
Delete new intermediate clerk position	\$4,350	487	6

State Treasurer—Continued

PROGRAM PLANS AND BUDGET

The State Treasurer is a constitutional official who has the following responsibilities: (1) to pay warrants and checks drawn by the State Controller, (2) to invest surplus state funds, (3) to prepare, sell and redeem general obligation bonds, and (4) to maintain accountability for all securities, pledges or other items deposited in the vault or approved depository.

Table 1 shows our estimate of the distribution of the Treasurer's staff and budget by programs for 1965-66. The budgeted figures for debt and trust services are the net amounts remaining after deducting substantial reimbursements.

Table 1
Distribution of the Treasurer's Staff and
General Fund Budget by Programs

	1965-66	
	Positions	Budget
1. General administration -----	12.2	\$157,384
2. Debt service -----	7.7	59,141
3. Investment services -----	6.0	70,807
4. Accounting and cashiers -----	15.7	116,075
5. Trust services -----	11.7	58,160
Total -----	53.3	\$461,567

1. *General Administration.* This program includes the State Treasurer and his immediate staff, the agency's administrative services, and such other functions as budgeting and personnel which are not directly assignable to a specific program.

No change in the level of service is proposed.

2. *Debt Service.* This program includes the selling, issuing, servicing and redeeming of state general obligation bonds, state building certificates and state college revenue bonds. An estimated \$500 million in bonds will be offered for sale each year. The workload connected with servicing bonds is increasing at a much slower rate than in previous years because the Treasurer is marketing more \$5,000 denomination rather than \$1,000 bonds, and registered rather than coupon bonds are receiving greater acceptance. Workload will increase by 0.3 percent in the budget year compared to the current year, and no changes are proposed in staffing.

3. *Investment Services.* One part of this program is cash management which consists of maintaining on a daily basis sufficient money in the active treasury bank accounts to redeem warrants when presented and to compensate banks for services rendered. The Treasurer also has the responsibility for the investment of temporarily idle state moneys in either interest-bearing bank accounts or securities under the direction of the Pooled Money Investment Board, consisting of the Controller, Treasurer and Director of Finance. These investments earned \$32.5 million in interest during 1963-64, and the outlook for interest earnings in 1965-66 is favorable, especially since banks started paying $4\frac{1}{4}$ percent interest on state time deposits effective December 1, 1964.

No change in staffing is proposed for this program.

State Treasurer—Continued

4. *Accounting and Cashiering.* This program provides the necessary banking services for all state agencies. The estimated workload for the budget year is 4.8 percent above the current year, and the related staff will be increased by 3 percent which is equivalent to one-fourth of a man-year.

5. *Trust Services.* State-owned securities, securities pledged to secure bank deposits and for other purposes, and other personal property are kept in the Treasurer's vault or in approved depositories under this program. An additional function consists of the timely collection of interest on the securities held which are state-owned and clipping of coupons on bonds held as pledges.

The agency is requesting one additional intermediate clerk on a workload basis for this program in the budget year. Our comments opposing this request will be given in a later section.

REVIEW OF AGENCY ACCOMPLISHMENTS

1. *General Administration.* During 1963-64, one clerical position which was budgeted for debt and trust services was transferred to this program to provide additional secretarial support. Otherwise the staff approximated the original estimate.

This program does not have the regular type of workload statistics needed to measure accomplishments.

2. *Debt Service.* The workload of this program for 1963-64 fell 16.4 percent below the original estimate, mainly because the higher denomination bonds received faster market acceptance than anticipated. The staff was also reduced, but not at the same ratio, because the activity associated with bond registrations is temporarily lowering unit production quotas. The following table compares these workload and staffing figures.

Debt Service, 1963-64		
<i>Staff</i>	<i>Estimate</i>	<i>Actual</i>
Permanent positions -----	6.0	6.0
Temporary help -----	1.7	1.6
New position -----	.5	0
Total -----	8.2	7.6
<i>Workload</i>		
Number of bonds and coupons redeemed -----	6,610,214	5,527,485

The new position (0.5 man-year) in 1963-64 was transferred to general administration. The last Legislature approved an additional position for this program in 1964-65. However, when workload did not grow at the anticipated rate, the position was transferred to trust services. During the current year, 7.7 man-years will be used to handle 5,712,791 workload units.

3. *Investment Services.* This program does not have regular workload statistics, but an indication of the types and magnitudes of their work can be gained from the following table.

State Treasurer—Continued

Investments by the Pooled Money Investment Board, 1963-64
(Millions)

<i>Program</i>	<i>Average daily amount invested</i>	<i>Earnings</i>
Pooled Money Investment Account.....	\$592.4	\$21.3
Surplus Money Investment Fund.....	271.7	9.9
Condemnation Deposits Fund.....	32.4	1.3
Total	\$896.5	\$32.5

The staff of this program has remained constant during 1963-64 and in the current fiscal year.

4. *Accounting and Cashiering.* The workload of this program in 1963-64 was 2.1 percent below the original estimate. The staff was also reduced by one man-year of temporary help. The following table shows these figures.

Accounting and Cashiering, 1963-64

<i>Workload</i>	<i>Estimate</i>	<i>Actual</i>
Total number of warrants paid and bank deposits.....	5,356,108	5,245,946
<i>Staffing</i>		
Permanent positions	5.1	5.1
Temporary help	4.5	3.5
Total	9.6	8.6

During the current year, 8.9 man-years will be used to handle 5,509,-982 items of workload. These positions account for about 60 percent of the personnel in this program. Workload information is not available for the remaining positions.

5. *Trust Services.* The agency did not present workload information for this program in the original 1963-64 budget. However, it is possible to reconstruct the estimated and actual staffing patterns, which were as follows:

Trust Services, 1963-64

<i>Staffing</i>	<i>Estimate</i>	<i>Actual</i>
Permanent positions	5.0	5.0
New position5	0
Temporary help	0	.85
Total	5.5	5.85
<i>Workload</i>		
Number of bonds, coupons and documents.....	N/A	2,796,567

The new position (0.5 man-year) was transferred to general administration. The temporary help was obtained by transferring part of the amount not used by accounting and cashiering.

The pattern for the current year is as follows:

State Treasurer—Continued

		Trust Services, 1964-65	
<i>Staffing</i>		<i>Estimate</i>	<i>Revised</i>
Permanent positions	-----	5.0	5.0
Temporary help	-----	0	.87
Position transferred from debt services	-----	0	1.0
Total	-----	5.0	6.87
<i>Workload</i>			
Number of bonds, copies and documents	-----	N/A	3,118,172

ANALYSIS AND RECOMMENDATIONS

In justifying its request for a new clerical position in the trust services program, the agency neglected to include temporary help in the total staffing figures. This omission distorts the hourly workload ratio which the agency is attempting to maintain at 270. The following table shows that by including the temporary help hours in the total staffing figures, the ratio for 1965-66, without the new position, will be 267, which approximates the acceptable standard that existed in 1961-62 and 1962-63.

Year	Workload units	Staffing hours		Workload per hour	
		Agency estimate	Including temp. help	Agency estimates	Including temp. help
1961-62	2,575,528	9,520	9,520	270	270
1962-63	2,578,898	9,520	9,520	270	270
1963-64	2,796,567	9,520	11,138	294	251
1964-65 (est.)	3,118,172	11,424	13,080	273	238
1965-66 (est.)	3,495,471	11,424	13,080	306	267

The agency has estimated that the number of workload units in the current year would be 11.5 percent above 1963-64. Partial information available so far indicates that the actual growth is falling behind this estimate.

We recommend disapproval of the proposed intermediate clerk (\$4,350) for the trust services program, budget page 487, line 6.

HEALTH AND WELFARE AGENCY ADMINISTRATOR

ITEM 151 of the Budget Bill

Budget page 489

FOR SUPPORT OF THE HEALTH AND WELFARE AGENCY ADMINISTRATOR FROM THE GENERAL FUND

Amount requested	-----	\$73,582
Estimated to be expended in 1964-65 fiscal year	-----	71,915
Increase (2.3 percent)	-----	\$1,667
TOTAL RECOMMENDED REDUCTION	-----	\$500

Summary of Recommended Reductions

	Amount	Page	Line
From amount requested to maintain existing level of service:			
Reduce Communications	\$500	489	37

PROGRAM PLANS AND BUDGET

A total expenditure of \$73,582 is proposed for the operation of the office of the Health and Welfare Agency Administrator in 1965-66,