

**Department of Education
HASTINGS COLLEGE OF LAW**

ITEM 111 of the Budget Bill

Budget page 396
Budget line No. 6

For Support of Hastings College of Law From the General Fund

Amount requested	\$7,000
Estimated to be expended in 1953-54 Fiscal Year	7,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$7,000
Legislative Auditor's recommendation	7,000
Reduction	None

ANALYSIS

The budgeted amount of \$7,000 represents the annual interest payment which the State must make to the college under the original agreement with S. C. Hastings.

The total budget for 1954-55 is \$229,645. Revenues, including the \$7,000 from the State, student fees, receipts from the Federal Government for veterans, and investment income fall \$144,000 short of providing enough funds to meet expenditures. The college is utilizing the surplus funds it built up during the immediate postwar period when receipts per student from the Federal Government for G. I. students were in excess of the cost per student. The unbudgeted surplus at the end of the 1954-55 Fiscal Year will be approximately \$367,000. If deficits continue at the present rate the surplus will be exhausted in a few years and other sources of funds will have to be found.

Prior to the present fiscal year the tuition at Hastings was \$75 a semester. However, the Board of Directors reduced tuition fees from \$75 to \$37 a semester effective in 1953-54 to bring the college in line with the fees at Boalt Hall in Berkeley, which charges \$37 a semester. Both fees will be raised to \$70 a semester in 1954-55 according to the schedule proposed by the Governor.

We recommend approval of the \$7,000 as submitted.

BOARD OF CONTROL

ITEM 112 of the Budget Bill

Budget page 398
Budget line No. 7

For Support of the Board of Control From the General Fund

Amount requested	\$23,370
Estimated to be expended in 1953-54 Fiscal Year	23,007
Increase (1.5 percent)	\$363

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$180	\$180	---	398	46
Operating expense	41	41	---	398	60
Equipment	142	142	---	398	66
Total increase	\$363	\$363	---	398	86

Board of Control—Continued

RECOMMENDATIONS

Amount budgeted	\$23,370
Legislative Auditor's recommendation	23,370
Reduction	None

ANALYSIS

The request for support of the Board of Control for the 1954-55 Fiscal Year provides for expenditures at the existing level of service. The increase of \$363 over the current year expenditures represents adjustments in salaries and operating expenses and replacement of one typewriter.

We recommend approval of the item as budgeted.

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 400
Budget line No. 21

For Support of the State Controller From the General Fund

Amount requested	\$2,275,874
Estimated to be expended in 1953-54 Fiscal Year	2,221,478
Increase (2.4 percent)	\$54,396

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$40,867	\$40,867	---	408	66
Operating expense	40,272	40,272	---	408	67
Equipment	—11,017	—11,017	---	408	68
Less:					
Increased reimbursements	—7,000	—7,000	---	408	72
Plus:					
Decreased appropriations from other funds	4,662	4,662	---		
Less:					
Increased appropriations from other funds	—13,388	—13,388	---		
Total increase	54,396	54,396	---	399	13

RECOMMENDATIONS

Amount budgeted	\$2,275,874
Legislative Auditor's recommendation	2,157,142
Reduction	\$118,732

ANALYSIS

At the present time the Controller is studying an over-all change in the method of keeping accounts which will streamline his department and result in substantial economies. Work is going ahead to develop the necessary procedures to place the accounts on punch cards and produce required reports and financial data from punch cards. We have carefully studied the over-all problem and the proposed change and are in complete agreement with its objective.

It is contemplated that this change should be put into effect in the early part of the 1954-55 Fiscal Year. We believe the conversion period should not exceed three months. We estimate annual savings of approxi-

State Controller—Continued

mately \$80,000 in salaries and wages. Additional studies and data will be available before the Legislature adjourns and a specific reduction can be made in the Budget Bill prior to its passage.

Audits Division

Summary of Recommended Reductions

Claim Audits	
Claim reviewer (8) -----	\$39,840
Claim auditor (2) -----	7,440
Intermediate account clerk (2) -----	5,544
Bookkeeping machine operator (1) -----	3,540
Intermediate typist-clerk (3) -----	8,316
Accountant-auditor I (3) -----	14,052
Field audits -----	40,000
Total -----	\$118,732

The following recommended changes in the method of processing and handling claims in the Bureau of Claim Audits and the recommendations affecting the Bureau of Field Audits are made as being consistent with the attitude of the State Controller in improving the efficiency of his office. In other divisions the Controller is conducting a re-examination of the methods and procedures presently used to carry out his constitutional and statutory responsibilities. We believe that our survey and examination of the procedures employed in the Division of Audits will assist the Controller in his efforts to reduce costs of administration. We have not had the opportunity to discuss our findings and recommendations affecting the Division of Audits with the Controller or his staff due to the late date when we finished our study and due to the press of time to analyze the 1954-55 Budget. However, we believe the recommendations are entirely feasible and that the details of their application can be worked out with the Office of the Controller. For this reason we recommend that these changes be approved by the Legislature because the changes are relatively simple and easily installed and the Controller's staff will have ample time before the end of the fiscal year to study the existing procedures, put into effect the simplified procedures and make the necessary personnel adjustments.

A thorough survey of the actual step by step processing of claims and an examination of the Functions and Procedures Manual of the Division of Audits was made, and compared with the audit functions performed in other state agencies. This revealed that the functions and procedures employed by the Controller in auditing could be significantly reduced and streamlined. The above summary of recommended reductions totaling \$118,732 consists of a reduction of \$78,732 in the Bureau of Claim Audits and \$40,000 in Field Audits. Further reductions will result from the adjustment of operating expenses and equipment by the Department of Finance.

Bureau of Claim Auditing

The study of the functional flow of normal claims through the Bureau of Claim Auditing revealed the process as shown on the following flow chart, Chart I. It can be seen that the flow of the claims and the exception notices go through numerous counts, postings, checks, reviews and rereviews before they finally leave the office. The unnecessary steps and

State Controller—Continued

handling result in a cumbersome and overlapping process which adds nothing to the basic function of determining whether the claim should be paid. We believe this procedure is not efficient and that the office audit is costing the State more money than it should. The sections (Chart I) indicated by boldface type in the description of the existing functional flow are areas where we feel the process can be simplified or changed.

There are certain basic principles of procedure which are overlooked in the existing flow of claims as seen on Chart I. Some of these are:

1. Perform only those functions which are absolutely necessary to the process.
2. Make each step of the process as complete and accurate as possible.
3. Keep the documents moving one way and never let them return through a step through which they have previously passed.

Following these principles and proceeding on the basis that the State may expect competent work from its employees, we propose that such a functional flow as proposed in Chart II will fulfill the responsibility of the Controller in the audit of claims and at the same time result in considerable savings to the State. On the basis of our recommended procedure we believe the Controller can reduce the Claim Audit Bureau by the following positions.

- 8 Claim reviewers
- 2 Intermediate account clerks
- 3 Intermediate typist-clerks or equivalent

We recommend that the above positions be deleted.

In our analysis of the Budget Bill for the Fiscal Year 1953-54, we proposed that the check for mathematical correctness in audit be done on a 25 percent sampling basis. The Senate Finance Committee requested the Department of Finance, Controller and Legislative Auditor to make a study of the sampling method and report to the committee at the 1954 Session. In Management Analysis Report 634, the Department of Finance recommended that the Bureau of Claim Audits of the State Controller's Office discontinue the complete verification of the mathematical accuracy of claims since the resultant saving to the State does not justify the cost. The report recommends that all invoices for \$500 or more be filed separately and checked 100 percent. All others should be checked on a sampling basis not to exceed 10 percent of all items of claims. The report further recommended that the calculating machine operator positions in the Bureau of Claim Audits be reduced from thirteen positions to three. This reduction in staff is reflected in the proposed budget for 1954-55.

We also made a study of the mathematical verification of claims as required by SCR 89, and wish to report that our findings are in complete agreement with those of the Department of Finance. As is reported in the Management Analysis Report, our findings also showed that:

1. Mathematical verification is being completely duplicated.
2. Of the claim exceptions noted, the number involving mathematical errors is small.

State Controller—Continued

3. The savings to the State from discovering these errors does not justify the expenditure to find the errors.

Further, we believe that the subsequent objections raised by the Controller are not valid and are completely refuted by the management analysis supplement to their original report No. 634. We are completely in accord with the reductions in calculating machine operators in the Claims Audit Bureau and recommend that the budget be approved to abolish these positions.

The study of the claims audit activities of the Controller's Office disclosed other auditing functions which are duplicating and unnecessary. Within the Controller's Office one entire division is designated to make tax refunds to users of motor vehicle fuel purchased for non-highway use. The function of the division consists of reviewing refund claims and approving the claims for payment. After these claims are reviewed and approved by the Motor Vehicle Fuel Tax Refund Division they are sent to the Division of Audits where they are processed like other claims. The claims are audited 100 percent and also checked 100 percent for mathematical accuracy. The 100 percent for mathematical accuracy will be reduced by the revised procedures reflected in the 1954-55 budget. However, we submit that these tax refund claims should not go through the Audits Division as this is a complete double check within the Controller's own office. The review and approval of a claimant's request for tax refund by the Motor Vehicle Tax Refund Division should be sufficient, accurate and complete in itself. The findings of the Management Analysis staff in their supplement to Report A.N. 634 showed that the review by the Motor Vehicle Fuel Tax Refund Division is adequate. The report also demonstrated that the audit of gas tax refund claims by the Claims Audits Bureau for January and July, 1953 resulted in the following net reductions in the total amount of refunds for the month.

<i>Month</i>	<i>Number of claims</i>	<i>Amount of claims</i>	<i>Number of corrections</i>	<i>Net amount deducted</i>
January, 1953 -----	11,279	\$1,995,264	94	\$69.08
July, 1953 -----	4,565	1,451,233	48	41.70

The report showed further that 54.2 percent of the corrections were for amounts less than \$1.00 and only 12.6 percent were for \$5.00 or more. We believe that these results fail to justify the review by the Bureau of Claims Audit.

We recommend that the entire Claims Audit Motor Vehicle Fuel Tax Refund Sub-Unit consisting of one claim reviewer, recommended for deletion above, and two claims auditors be abolished and gas tax refund claims not be routed through the Audits Division.

Three auditors of the Claim Audit Bureau devote full time to the audit of disbursements made under the Uniform State Payroll System. The auditors are located in the Sacramento, Los Angeles and San Francisco disbursing offices where they audit payrolls produced by machine methods. As was stated in the case of the audit of gas tax refund claims we believe that the Controller should have proper controls within his own office so that one division does not check work already checked by another. The Disbursements Division reviews the documents

State Controller—Continued

Chart I

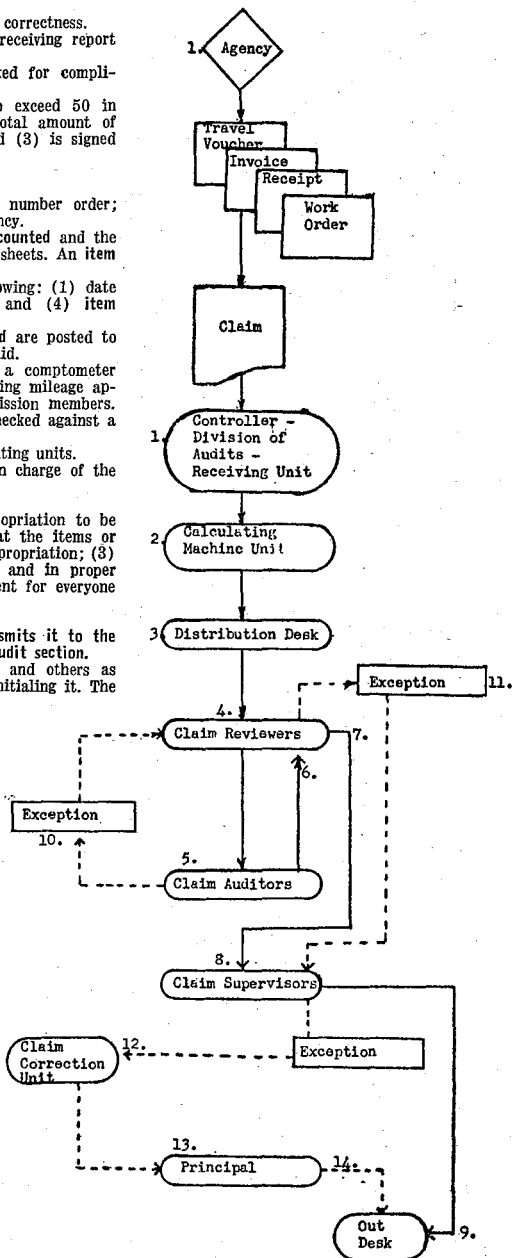
Functional Flow of Normal Claims
Claim Audit Bureau—Division of Audits—Office of Controller

AGENCY

1. (a) All documents are verified for mathematical correctness.
- (b) Invoices for purchases are compared with receiving report and purchase orders.
- (c) All supporting travel documents are checked for compliance with Board of Control rules.
- (d) Documents are prepared in groups not to exceed 50 in number with a face sheet showing (1) total amount of claims (2) appropriation to be charged and (3) is signed by a certifying officer.

DIVISION OF AUDITS

1. (a) Claims are segregated by agency in claim number order; time received is stamped and coded by agency.
- (b) Claims are counted when time stamped, recounted and the number for each agency is entered on tally sheets. An item count is entered on the claim face sheet.
- (c) Data on claims is entered on a register showing: (1) date received (2) claim number (3) amount and (4) item count.
- (d) Warrant number and date warrant was paid are posted to register from the Daily Record of Claims paid.
2. All mathematical computations are proven by a comptometer check. Comptometer operators flag claims requiring mileage approval and expense claims for board and commission members.
3. (a) Signatures of approval on the claims are checked against a signature file.
- (b) Claims are grouped by agencies for the auditing units.
- (c) Claims are distributed to claim reviewers in charge of the claim audit units.
4. Claims are distributed to claim auditors.
5. Claim is checked to determine (1) if the appropriation to be charged is in accordance with statute; (2) that the items or services purchased are in accordance with the appropriation; (3) that the supporting invoices appear legitimate and in proper order; and (4) that there is an invoice document for everyone listed on the face sheet.
6. Claim returned to claim reviewer.
7. Claim reviewer spot checks the claim and transmits it to the supervising claim auditor in charge of a claim audit section.
8. Supervising claim auditor reviews special cases and others as necessary, gives final approval to the claim by initialing it. The claim is then transmitted to the out desk.
9. Claim is signed out by the entry of the claim number and agency number on a tally sheet and is sent to the Accounting Division.
10. Exceptions noted by the claim auditor are prepared in rough draft. The supporting documents, either an entire claim, or an invoice or travel voucher which is part of a claim, is separated from the other claims and with the draft of the exception notice sent to the claim reviewer.
11. The claim exception is sent to the supervising claim auditor who reviews it, contacts the agency involved regarding adjustments. Where adjustments cannot be made by contacting the agency, the exception notice is sent to the Claim Correction Unit.
12. Claim exception notice is typed and checked for accuracy.
13. The principal claim auditor reviews the exception and signs it.
14. The exception notice goes to the out desk where it is signed and sent to the agency.

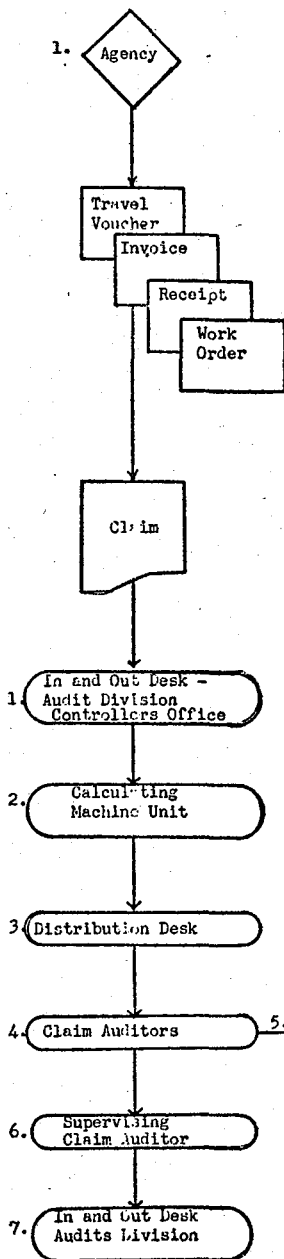


State Controller—Continued

Chart II

Recommended Changes and Simplification in the Functional Flow
of Normal Claims

Claims Audit Bureau—Audits Division—Office of Controller



AGENCY

1. (a) All documents are verified for mathematical correctness.
- (b) Invoices for purchases are compared with receiving report and purchase orders.
- (c) All supporting travel documents are checked for compliance with Board of Control rules.
- (d) Documents are prepared in groups not to exceed 50 in number with a face sheet showing (1) total amount of claims; (2) appropriation to be charged and (3) is signed by a certifying officer.

DIVISION OF AUDITS

1. (a) Claims are segregated by agency in claim number order; the time received is stamped.
- (b) Data on claims is entered on a register showing: (1) date received; (2) schedule number.
2. Mathematical computations are proven by a comptometer check on a sample basis. Comptometer operators flag claims requiring mileage approval and expense claims for board and commission members.
3. (a) Signatures of approval on the claims are checked against a signature file.
- (b) Claims are grouped by agencies for the auditing units.
- (c) Claims are distributed to auditors.
4. Claim is checked to determine (1) if the appropriation to be charged is in accordance with statute; (2) that the items or services purchased are in accordance with the appropriation; (3) that the supporting invoices appear legitimate and in proper order; and (4) that there is an invoice document for everyone listed on the face sheet.
5. When an exception is detected an exception notice is prepared in duplicate on an exception notice form. The exception notice and the supporting documents, an invoice, travel voucher or the entire claim, are sent to the agency if adjustment of the exception by telephone cannot be made.
6. The claim is transmitted to the supervising claim auditor who gives supervisory review and provides final approval by initialing the claim face sheet. The claim is then transmitted to the in and out desk.
7. Date out is posted opposite original entry. Warrant number is posted opposite schedule number from Daily Record of Claims Paid received from the Division of Disbursements. Claim then transmitted to Control Accounts.

State Controller—Continued

before processing. The processing consists of a complete machine operation with all calculations made by machine and the warrant produced by punch card equipment. The auditors check extensions and verify the totals already produced by machine in the Disbursements Division. Finally, the payrolls are subject to a post-audit by the Department of Finance. We believe that the combination of machine proofs and the Department of Finance post-audit are sufficient.

Therefore, we recommend that the entire activity of auditing the payroll by the Claims Audit Bureau be discontinued and the three positions of accountant-auditor I be deleted from the budget.

The Claims Audits Bureau is divided into a number of claim audit units. One such unit is the Welfare Claim Audit Unit consisting of an auditor, intermediate clerk and bookkeeping machine operator. This unit audits all State Department of Social Welfare aid claims filed under the various categorical aid programs. The audit also includes the mathematical verification of documents submitted by the counties prior to submission of the advance claim. Amounts advanced to the various counties under the several aid programs and the amounts allowed by the Controller as credits against the advances are posted to accountability records. Transcripts of these records are used by the Field Audits Bureau in its field audit of the welfare programs of the counties. Also each month the accountable balance for each county is reconciled against the Department of Social Welfare records.

We recommend that this function of maintaining accountability records in the Audits Division be abolished. This is not a proper function for the Audits Division but rather is an accounting function. Any accounts maintained in the Controller's Office should be maintained in the Accounting Division.

Furthermore, identical accountability records are maintained in the Department of Social Welfare. The Field Audits Bureau may secure transcripts from that department. As for reconciling the balances with the Department of Social Welfare, we fail to see the necessity for maintaining two sets of records to keep accurate accounts.

We recommend, therefore, that the position of bookkeeping machine operator be abolished and the bookkeeping machine be used elsewhere or transferred to a department requiring one.

Field Audit Bureau

Approximately \$90,000 of the total amount budgeted for field audits is expended to perform social welfare audits. Our recommendation to reduce this amount by \$40,000 is based on the following reasons:

1. The so-called Social Welfare Fiscal Audits are now being done on a current annual basis. The backlog that existed in 1952 has been eliminated.
2. The results obtained by 100 percent fiscal audits now performed by the Controller do not indicate the need for a complete fiscal audit.
3. In more than 50 percent of the audits made for the period, the gross exceptions for the State were less than the cost of the audits.

State Controller—Continued

If this reduction of \$40,000 is approved by the Legislature we recommend that a considerable portion of this sum be used to make recipient eligibility checks and that the fiscal audit be made on a sample basis.

Inheritance and Gift Tax Division

One new position of intermediate typist-clerk is requested for the San Francisco office on the basis of increased work load. Otherwise the level of service of the division is budgeted at the same level as the current fiscal year.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 400
Budget line No. 36

For Support of The Tax Collection Division From the Motor Vehicle Transportation Tax Fund

Amount requested	\$120,439
Estimated to be expended in 1953-54 Fiscal Year	120,925
Decrease (0.4 percent)	\$486

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	—\$207	—\$207	---	409	32
Operating expense	84	84	---	409	49
Equipment	—2,279	—2,279	---	409	56
Less: Increase charge to General Fund	—214	—214	---	409	59
Plus: Decrease in charge to Motor Vehicle Fuel Fund	2,130	2,130	---	409	61
Total increase	—\$486	—\$486	---	399	20

RECOMMENDATIONS

Amount budgeted	\$120,439
Legislative Auditor's recommendation	120,439
Reduction	None

ANALYSIS

We recommend that appropriate changes in the law be made during the next General Session of the Legislature to transfer this function from the Controllers Office.

The principal function of this division is the collection of the motor vehicle transportation license tax which is supported from the Motor Vehicle Transportation Tax Fund. The amount of \$120,439 has been requested for the 1954-55 Fiscal Year for this purpose. The amount of \$10,662 has been requested for 1954-55 to perform the necessary functions for collection of motor vehicle fuel tax. The amount of \$13,328 is requested from the General Fund for the remaining functions of this division, collection of the insurance tax and certain assessments on oil and gas operators. We recommend that all of these collection functions, be transferred to the Board of Equalization with the exception of fees for oil and gas operators which could be transferred to the Division of

State Controller—Continued

Oil and Gas in the Department of Natural Resources. This is in line with our belief that all major tax collection functions should be placed in a single revenue agency. We estimate that a transfer of this nature would result in a savings of approximately \$70,000 annually.

The above recommendation was made in our analyses of the budgets for the 1949-50 and 1953-54 Fiscal Years.

State Controller

**MOTOR VEHICLE FUEL TAX REFUND DIVISION, THE BUREAU OF HIGHWAY
ACCOUNTS AND REPORTS, AND TAX COLLECTION DIVISION**

ITEM 115 of the Budget Bill

Budget page 400

Budget line No. 49

For Support of the Motor Vehicle Fuel Tax Refund Division, the Bureau of Highway Accounts and Reports, and Tax Collection Division From the Motor Vehicle Fuel Fund

Amount requested	\$417,498
Estimated to be expended in 1953-54 Fiscal Year	411,653
Increase (1.4 percent)	\$5,845

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$3,082	\$3,082	---	411	77
Operating expense	1,758	1,758	---	411	52
Equipment	3,135	3,135	---	411	79
	\$7,975	\$7,975			
Less: Decrease charge to Motor Vehicle Fuel Fund	—2,130	—2,130	---	411	66
	\$5,845	\$5,845	---	411	81

RECOMMENDATIONS

Amount budgeted	\$417,498
Legislative Auditor's recommendation	417,498
Reduction	None

ANALYSIS

The following significant changes are reflected in the budget request for the 1954-55 Fiscal Year.

Motor Vehicle Fuel Tax Refund Division

	Decrease	Increase
Temporary help	\$20,889	---
Proposed new position	---	\$15,048
3 Field representatives	\$12,276	---
1 Intermediate typist clerk	2,772	---
	\$15,048	---
Salary savings	---	2,613
Charge to Motor Vehicle Fund for services rendered	—\$2,130	

The proposed new positions have been financed from the decrease in temporary help. Investigation of claimants in the field to determine basis of claims for refund has been limited. We believe this function is

Vehicle Tax Refund—Highway Accounts and Reports—Tax Collections—Continued

essential and will help prevent and detect fraudulent claims. We recommend approval of these proposed new positions.

Bureau of Highway Accounts and Reports

Significant changes in this bureau are as follows:

	<i>Decrease</i>	<i>Increase</i>
Salary savings	\$5,150	---
Automobile replacement	---	\$2,760
Salary adjustments	---	3,481

We recommend approval of the amount requested.

**State Controller
TAX-DEEDED LANDS DIVISION**

ITEM 116 of the Budget Bill

Budget page 412
Budget line No. 61

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

Amount requested	\$178,050
Estimated to be expended in 1953-54 Fiscal Year	182,422
Decrease (2.4 percent)	\$4,372

RECOMMENDATIONS

Amount budgeted	\$178,050
Legislative Auditor's recommendation	178,050
Reduction	None

ANALYSIS

The decrease of \$4,372 is due primarily to the elimination of two positions at a savings of approximately \$5,000, a decrease in salary savings of \$1,915 plus salary adjustments.

We recommend approval of the budget request as submitted.

**State Controller
AUDIT OF SPECIAL APPROPRIATIONS FOR AID TO LOCAL GOVERNMENT**

ITEM 117 of the Budget Bill

Budget page 401
Budget line No. 7

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

Amount requested	\$20,338
Estimated to be expended in 1953-54 Fiscal Year	25,019
Decrease (18.7 percent)	\$4,681

RECOMMENDATIONS

Amount budgeted	\$20,338
Legislative Auditor's recommendation	---
Reduction	\$20,338

**Special Appropriations for Aid to Local Government—Continued
ANALYSIS**

This program is in its final stages. At the end of the 1952-53 Fiscal Year only \$1,000,000 under Chapter 47, Statutes of 1944, and \$3,245,000 under Chapter 20, Statutes of 1946, were still available. Legislation was passed during the 1953 session which extended the filing of applications for aid to June 30, 1955, and the filing of claims for reimbursement until June 30, 1956. To receive this aid, local governments must expend from their own funds a minimum of 50 percent of the cost of the project. Very few new allocations were made during the 1952-53 Fiscal Year in spite of the fact that the local Allocations Division made a specific appeal to local governments to bring their programs to a conclusion.

To obtain reimbursement from the State on an approved allocation, the local agency files a claim with supporting documents with the Local Allocations Division. The claim and documents are submitted in duplicate. The claim is notarized. The supporting documents consist of copies of warrants paid on the projects, architect statements of costs and completion and other necessary documents. The agency's claim receives a complete office audit in the Local Allocations Division. Local allocations then prepares a claim schedule from the agency's claim which with one copy of all agency documents is approved by the Director of Finance for submission to the Controller's Office for payment.

The Claims Audit Bureau of the Division of Audits makes a complete office audit to satisfy all requirements that a warrant should be issued. Finally, the Field Audit Bureau conducts a post-audit. The actual expenditure by the Accounting and Audits Divisions for post-auditing and adjusting exceptions for the 1952-53 Fiscal Year was \$49,950. Yet the total amount recovered for the fund was only \$1,050.82.

In view of the amounts recovered by the post-audit and two complete reviews made before the warrant is issued, we recommend that the amount appropriated for the post-audit be deleted from the budget. There appears to be nothing in either act which requires the post-audit by the Controller except where exceptions are referred to him by the Director of Finance.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM PUBLIC SCHOOL BUILDING LOAN FUND

ITEM 118 of the Budget Bill

Budget page 401

Budget line No. 24

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

Amount requested	\$43,130
Estimated to be expended in 1953-54 Fiscal Year	42,206
Increase (2.2 percent)	\$924

RECOMMENDATIONS

Amount budgeted	\$43,130
Legislative Auditor's recommendation	43,130
Reduction	None

ANALYSIS

The accounting and auditing of school building aid to impoverished school districts is performed by the State Controller in accordance with Chapter 1389, Statutes of 1949.

Audit of this activity did not begin until January of 1953. Sufficient experience has not been gained to determine the man-hours necessary for this function.

We recommend approval of the amount requested.

State Controller

ADDITIONAL SUPPORT PAYABLE FROM THE STATE SCHOOL BUILDING AID FUND

ITEM 119 of the Budget Bill

Budget page 413

Budget line No. 23

For Additional Support of the State Controller Payable From the State School Building Aid Fund

Amount requested	\$12,484
Estimated to be expended in 1953-54 Fiscal Year	None
Increase	\$12,484

RECOMMENDATIONS

Amount budgeted	\$12,484
Legislative Auditor's recommendation	12,484
Reduction	None

ANALYSIS

This is a new audit function in accordance with Chapter 27, Statutes of 1952 (2d Ex. Sess.). The amount requested is based on the man-hours necessary to audit completed projects.

We recommend approval of the budget as submitted.

BOARD OF EQUALIZATION

GENERAL ACTIVITIES

ITEM 120 of the Budget Bill

Budget page 415

Budget line No. 49

For Support of Board of Equalization From the General Fund

Amount requested	\$13,524,425
Estimated to be expended in 1953-54 Fiscal Year	12,856,664
Increase (5.2 percent)	\$667,761

Summary of Increase

	Total increase	INCREASE DUE TO	Budget page	Line No.
		Work load or salary adjustments		
		New services		
Salaries and wages	\$637,891	\$637,891	427	67
Operating expense	—3,496	—3,496	427	68
Equipment	—5,928	—5,928	427	69
Plus:				
Decreased reimbursements	39,294	39,294	---	---
Total increase	\$667,761	\$667,761	427	77

Board of Equalization—Continued

RECOMMENDATIONS

Amount budgeted	\$13,524,425
Legislative Auditor's recommendation	13,252,462
Reduction	\$271,963

ANALYSIS

Of the total increase of \$667,761, \$261,738 or 39.1 percent is in the Division of Assessment Standards, most of which is the result of a complete year's operation of the expanded program authorized by the 1953 Legislature for carrying out the provisions of Section 1831 of the Revenue and Taxation Code. The Legislature authorized the addition of 70 positions for this purpose, which were only partially filled during the current year. A decrease in salary savings of \$168,508, exclusive of a decrease of \$25,034 in the Division of Assessment Standards, accounts for another 25.2 percent while merit salary increases account for most of the remaining 35.7 percent.

The increase would have been higher by \$49,407 had it not been for the purchase by the State of the building occupied by the board at 2229 Grove Street in Oakland, for which a rental was paid in 1952-53 of that amount.

The agency is faced with a possible deficit of \$194,640 during the current fiscal year as a result of the overestimate of salary savings made at the time the Budget Bill of 1953 was adopted.

Our recommendations for reductions in the General Fund budget of the Board of Equalization are limited to two major items: a net decrease of \$71,963 involving automobile additions, replacements and operation, and a decrease of \$200,000 in the sales tax field audit staff, each of which is discussed in detail under the appropriate heading.

Automobiles

11 Additional automobiles, Division of Assessment Standards ..	\$17,820
47 Automobile replacements, all divisions	62,590
Automobile operation, all divisions (increase)	—8,447
Net decrease	\$71,963

The 11 additional automobiles for the increased program of the Division of Assessment Standards are shown on Budget page 421, line 35.

The 47 replacements are indicated in the following:

Division	No. of cars	Amount	Budget page	Line No.
General administration				
Possible wrecks	4	\$5,880	418	24
Replacement	2	2,540		
Assessment standards	2	2,740	421	34
Sales tax, districts	19	25,030	425	21
Alcoholic beverage control				
Headquarters	1	1,270	426	17
Districts	19	25,130	426	81
Totals	47	\$62,590		

Board of Equalization—Continued

The increase of \$8,447 recommended in automobile operation represents the difference between \$0.034 per mile at which this item is computed for operation (not including depreciation) of the agency's own fleet in the current budget and \$0.05 per mile (including depreciation) on an estimated 527,950 car miles for rental from the Department of Finance pool in Sacramento as a substitute for the cars deleted. If approved, this increase should be distributed among the divisions involved.

The additional automobiles and the replacements recommended for deletion represent all of the items in these categories in the General Fund section of the Board of Equalization Budget.

In essence, we are recommending that the needs of the agency for automotive transportation in the Sacramento area be met in the future entirely on a rental basis from the Department of Finance pool, that the agency-owned cars in the Sacramento area be assigned to the more remote field offices as a substitute for those scheduled for replacement in those areas, and that all 42 cars scheduled for replacement be transferred to the Department of Finance pool. We are also recommending that the \$5,880 shown as a replacement item to provide for four cars to replace possible wrecks be deleted and the need for any such replacements be met on a rental basis from the Department of Finance pool.

If the Legislature approves this policy, funds available in the Department of Finance pool for the purchase of additional automotive equipment should be augmented to the extent necessary to enable it to provide adequate automotive transportation for all agencies using the pool. We believe that the augmentation needed to provide the necessary service for the Board of Equalization as the result of our recommended action will be substantially less than the net decrease of \$71,963 herewith recommended in this budget.

As of November 30, 1953, the Board of Equalization operated a fleet of 36 General Fund cars based in Sacramento, of which three are scheduled for replacement during 1954-55, and a fleet of 49 such cars in adjacent territory in districts with headquarters in Stockton, Marysville and Woodland, of which seven are scheduled for replacement during 1954-55.

The remaining 33 replacements are distributed by districts as follows:

<i>District</i>	<i>Miles from Sacramento</i>	<i>Replacements</i>
Oakland -----	85	2
Santa Rosa -----	106	5
San Jose -----	129	3
Fresno -----	168	5
Redding -----	172	4
Los Angeles -----	387	7
San Bernardino -----	437	5
San Diego -----	515	2
Totals -----		33

Board of Equalization—Continued

We recommend that these cars be replaced by reassignment of the 33 Sacramento based cars to these outside areas and that all needs of the Sacramento area and any deficiencies in the Stockton, Marysville and Woodland areas be supplied by the Department of Finance pool. Actually, liquor control officers in the Marysville district drove rented Department of Finance pool cars 2,622 miles during 1952-53 and those in the Santa Rosa district 4,830 miles likewise.

In an attempt to evaluate the efficiency of the use by the Board of Equalization of its passenger cars based in Sacramento, we examined records on file in the Department of Finance for the 11 months ended November 30, 1953, for each of the cars in the fleet. We found that out of this fleet, which averaged 46.8 cars during the period, an average of 16 cars or 34.2 percent were idle at all times. There were 229 working days in the period involved and detailed storage records were examined for 217 out of these 229 days.

Table 1 which follows is based upon our calculations of idle car days disclosed by this study and shows by months the number of working days involved, the average cars available, the average cars idle, and the percent idle. In computing idle car days, we included only those days where there was conclusive evidence that the car was idle a full working day. Where there was any indication that the car might have been used at any time during a given day, such days were treated as full working days of use for purposes of our calculations.

Table 1. Idle Time, Sacramento Based Cars, January 1 to November 30, 1953

Month	Number of working days in test period	Average cars available	Average cars idle	
			Number	Percent
January -----	21	50.00	13.5	27.5
February -----	18	50.00	16.0	32.0
March -----	21	50.00	14.1	28.1
April -----	20	50.45	19.2	38.1
May -----	20	49.75	20.6	41.3
June -----	20	48.90	17.0	34.0
July -----	20	46.30	19.1	41.3
August -----	20	43.95	15.2	34.5
September -----	18	43.44	16.1	37.1
October -----	21	40.48	11.8	29.1
November -----	18	41.00	13.5	32.9
Totals -----	217	46.80	16.0	34.2

This high percentage of idle time appears to be due, in part, to the fact that the 47 cars were not operated as a single pool but were assigned in comparatively small numbers to various operating units and in some cases to particular individuals. The situation during September was fairly typical. During that month the cars were assigned to 10 different operating units; the units, the number of cars assigned to each, the total available car days, the idle car days, and the percent of idle time are shown in Table 2.

Board of Equalization—Continued

Table 2. Idle Time, Sacramento Cars, by Units—September, 1953

Unit to which assigned	Number of cars	Car days available (1) \times 18 days	Car days idle Number	Percent (3 \div 2)
	(1)	(2)	(3)	(4)
Fuel Tax, headquarters-----	8	144	66	45.8
Liquor Control, District 8-----	7	126	45	35.7
Liquor Control, headquarters-----	6	108	35	32.4
Sales Tax, District 8-----	5	90	8	8.9
Valuation -----	5	90	32	35.6
General administration -----	4	72	32	44.4
Assessment Standards -----	4	72	31	43.1
Sales Tax, headquarters-----	3	54	27	50.0
Bureau of Tax Assessment, Alcoholic Beverage Control-----	1	18	7	38.9
Transportation Tax, headquarters-----	0.44	8	7	87.5
Total -----	43.44	782	290	37.1

If this particular fleet had been operated on a pool basis during the 11-month period and the same standards used in operating the pool as are used in comparable operations in private industry, the needs of the agency could have been met with approximately 10 fewer cars.

A day by day analysis for the entire period indicates that on no single day during the period were there fewer than seven cars idle all day and that on only 18 of the 217 days were there 10 or fewer idle. On one of these days seven were idle, on four of them eight were idle, on eight of them nine were idle, and on five of them 10 were idle. A reduction of 10 in the total fleet would, accordingly, have permitted the agency to meet its requirements on 204 out of the 217 working days in the period, or 94 percent of the time. We are informed on very good authority that in private industry a car pool would be staffed on approximately this basis.

It should be pointed out that our figures for idle time are probably low, since 90 percent of our data was based on records of storage charged by the Department of Finance for space in the garage at 10th and O Streets. Since storage is charged at the rate of 40 cents for each 24-hour period or any fraction thereof, and since these records did not show the time of day at which the car entered or left the garage, we excluded the first and last day of the period stored in our computations. It is possible that a more detailed study would reveal a substantially greater percentage of idle time than our test disclosed.

Sales Tax Field Auditors

Salaries ----- \$200,000

We are recommending a reduction of 40 positions in the field audit staff for the same reason that we made such a recommendation three years ago; namely, to reduce audit costs. It appears to us that 60 percent of the audit manpower is engaged in nonprofitable auditing and we believe this percentage to be excessive. A reduction in the staff should tend to decrease this percentage.

We believe that a reduction of 40 positions can be accomplished with a minimum of inconvenience because of the turnover factor and that the positions to be deleted should be selected by the agency with the approval of the Department of Finance.

Board of Equalization—Continued

A more detailed discussion of this whole problem and our reasons for making this recommendation are included in the material which follows.

In our special report on the sales tax field audit program for the year 1948-49 issued in July, 1951, and first referred to in our Budget Analysis for 1951-52, pages 195 to 200, we pointed out among other things that certain deficiencies existed in the agency's method of reporting audit recoveries and audit costs. As a result, the agency revised its accounting procedures in respect to these matters and has been reporting these items for the last three fiscal years on a reasonably accurate and reasonably comparable basis.

Table 3 which is a summary of these reports shows net revenue, audit costs and revenue per dollar of cost, by district, for the three-year period ended June 30, 1953. In many respects these figures are more significant than those for any single year taken alone, since, in general, accounts are audited only once every three years and for a full three-year period because of the three-year limitation period provided in the law for asserting deficiencies, and the figures for any given year for any given district may be distorted.

Table 3. Sales Tax Field Audit Revenue and Cost, by Districts,
Three Years Ended June 30, 1953

<i>Administrative district</i>	<i>Net revenue</i>	<i>Audit costs</i>	<i>Revenue per dollar of cost</i>
San Francisco	\$3,298,599	\$1,872,079	\$1.76
Stockton	891,866	514,189	1.73
Fresno	1,077,944	645,428	1.67
Redding	301,657	184,055	1.64
San Jose	1,223,765	761,439	1.61
San Bernardino	1,184,894	739,082	1.60
Los Angeles	9,371,616	5,907,396	1.59
Oakland	1,910,551	1,220,316	1.57
Marysville	485,576	315,895	1.54
Woodland	404,997	274,487	1.48
Santa Rosa	660,815	453,019	1.46
Sacramento	440,984	336,821	1.31
San Diego	944,857	777,889	1.21
Santa Barbara	292,052	256,612	1.14
Totals, California	\$22,490,173	\$14,258,707	\$1.58
Out-of-state	2,313,559	577,851	4.00
Totals	\$24,803,732	\$14,836,558	\$1.67
<i>Equalization district</i>			
I	\$4,522,364	\$2,633,518	\$1.72
II	4,321,345	2,716,754	1.59
IV	11,793,419	7,680,979	1.54
III	1,853,045	1,227,456	1.51
Totals, California	\$22,490,173	\$14,258,707	\$1.58

Since the foregoing table does cover a three-year period, we believe that the variations in revenue per dollar of cost between districts in comparable economic areas in the State, such as San Francisco, \$1.76; Los Angeles, \$1.59; Oakland, \$1.57; and San Diego, \$1.21, for example, and Stockton, \$1.73; and Sacramento, \$1.31, are sufficient to indicate

Board of Equalization—Continued

significant differences in the efficiency with which the program is administered in these several areas.

It is possible, for example, that the geographical distribution of personnel in relation to work load leaves something to be desired and that administration of the tax on a uniform state-wide basis with a stronger centralized administration, such as could be expected from a department of taxation with a single head, would improve the situation.

It is also probable that the geographical pattern of the administrative districts themselves, which are conditioned on the political boundaries of the equalization districts rather than on the boundaries of natural economic areas, is an important factor in these variations and that a reshuffling of the pattern, such as would be possible under a department of taxation with a single head, would result in a more logical and economical distribution of the field staff and facilities, with considerably fewer districts.

Table 4, which follows, shows the audit revenue per dollar of cost by district and by fiscal years for the last three fiscal years as well as the three-year average.

Table 4. Sales Tax Field Audit Revenue per Dollar of Cost by District and by Year, Three Years Ended June 30, 1953

District	1950-51		1951-52		1952-53		3 years ended June 30, 1953	
	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank
San Francisco	\$1.57	(8)	\$2.11	(1)	\$1.61	(3)	\$1.76	(1)
Stockton	1.95	(3)	1.96	(2)	1.39	(7)	1.73	(2)
Fresno	1.70	(7)	1.82	(3)	1.51	(5)	1.67	(3)
Redding	2.20	(1)	1.30	(12)	1.57	(4)	1.64	(4)
San Jose	1.86	(5)	1.50	(6)	1.48	(6)	1.61	(5)
San Bernardino	1.47	(10)	1.44	(10)	1.85	(1)	1.60	(6)
Los Angeles	1.97	(2)	1.47	(7)	1.38	(8)	1.59	(7)
Oakland	1.95	(4)	1.53	(5)	1.27	(10)	1.57	(8)
Marysville	1.46	(11)	1.46	(8)	1.67	(2)	1.54	(9)
Woodland	1.81	(6)	1.46	(9)	1.26	(11)	1.48	(10)
Santa Rosa	1.40	(9)	1.58	(4)	1.33	(9)	1.46	(11)
Sacramento	1.36	(13)	1.33	(11)	1.25	(12)	1.31	(12)
San Diego	1.11	(14)	1.30	(13)	1.23	(13)	1.21	(13)
Santa Barbara	1.40	(12)	1.16	(14)	.93	(14)	1.14	(14)
Totals, California	\$1.77		\$1.58		\$1.42		\$1.58	
Out-of-state	4.61		3.70		3.77		4.00	
Totals	\$1.88		\$1.66		\$1.51		\$1.67	

The most significant trend indicated in Table 4 is the decline in revenue per dollar of cost from \$1.88 in 1950-51 to \$1.51 in 1952-53, a drop of \$0.37 or 19.7 percent. This is due entirely to rising costs, since cost per hour has increased 32 percent during the period, while revenue per hour has increased only 6 percent.

In our special report on the sales tax field audit program issued in 1951, we pointed out that while the program in total showed a profit, a very substantial part of the total manpower was devoted to submarginal audits where the individual audits were not paying their way. The most recent data available on this aspect of the program is that which we compiled for 1950-51, based chiefly on data contained in punched cards furnished us by the agency showing the deficiency per hour for each of

Board of Equalization—Continued

the regular field audits completed during that fiscal year exclusive of those made out of State.

In Table 5 which follows, all audit hours for that year as shown by the agency's reports are distributed among three groups: (a) audits resulting in refunds, (b) those showing deficiencies of \$4.74 per hour or less, and (c) those showing deficiencies in excess of \$4.74 per hour, with the net revenue and costs distributed likewise. Total cost is distributed on the basis of \$4.74 per audit hour, the average for that year, while revenues are distributed on an actual basis.

Table 5. Audit Hours, Net Revenues and Audit Costs, by Class of Audit, Excluding Those Made Out of State, 1950-51

Class of Audits	Audit hours		Net revenue		Audit program costs
	Number	Percent of total	Amount	Percent of total	
A. Refunds	34,339	3.76	—\$181,337	—2.36	\$162,925
B. Deficiencies \$4.74 per hour or less	482,518	52.80	584,292	7.60	2,289,340
Total, nonprofitable	516,857	56.56	\$402,955	5.24	\$2,452,265
C. Deficiencies over \$4.74 per hour	396,982	43.44	7,280,831	94.76	1,883,509
Totals	913,839	100.00	\$7,683,786	100.00	\$4,335,774

We believe the data in Table 5 is highly significant, since it indicates that the agency was spending 56.56 percent of its available manpower on submarginal audits consisting of (a) audits producing refunds and (b) audits no one of which produced revenue per hour in excess of its cost per hour of \$4.74. This group together produced net revenue of \$402,955 at a cost of \$2,452,265 or a net loss of almost exactly \$2,000,000.

Stated somewhat differently this means that on the average approximately three out of every five field auditors are engaged at any given time in nonproductive work and that the remaining two are the revenue producers.

It has been argued that the most beneficial effect of widespread field auditing is the effect on future self assessments. We grant the validity of this argument with respect to the taxpayers whose audits appear in group "C," Table 5, but fail to see its validity with respect to the remainder.

It has also been argued that a certain percentage of nonprofitable auditing is justified in order to "keep taxpayers honest." This purpose could be most economically served by a small sample of, say, 5 to 10 percent of total accounts selected on a random basis. We do not believe that expenditure of 60 percent of the audit effort, which is equivalent of about 24 percent of the total audit coverage, can be justified on these grounds alone.

We have no reason to believe that there has been any change in the pattern indicated in Table 5 since 1950-51. In fact, all indications point in the opposite direction, since the net revenue per dollar of cost has been decreasing steadily over the last three years, as shown in Table 4, from \$1.77 in 1950-51 to \$1.58 in 1951-52 and \$1.42 in 1952-53. We believe it is highly probable that if more current data were available,

Board of Equalization—Continued

it would indicate a higher percentage of time spent on submarginal audits than was the case in 1950-51.

As a result of our mention of this condition in our Analysis of the Budget Bill for 1951-52, the Senate Finance Committee adopted the following resolution on May 11, 1951:

“The subcommittee approves the recommendation of the Legislative Auditor that a standard be established for the sales tax field audit program which will limit the proportion of nonproductive audit time to total audit time and recommends that a study be made by the Legislative Auditor, in collaboration with the agency and the Division of Audits and Division of Budgets and Accounts of the Department of Finance, looking toward the development and application of such a standard, with a report to the next session of the Legislature.”

As a direct result of this resolution, the agency has undertaken a sample audit study, the final results of which are not available as this is written.

The general objectives of the study are to estimate the total “misplaced tax,” that is, audit deficiencies *plus* refunds which could be detected from 100 percent audit coverage as compared with the present coverage of approximately 40 percent; estimate how much additional tax could be recovered by the existing staff if its energies were to be diverted into the most productive channels; and estimate the maximum size of the most desirable staff.

These estimates are based on certain relationships between the results of the actual audit program for the three calendar years 1950, 1951 and 1952 and the estimates of what a 100 percent program would have produced during the same period. The latter are derived in part from an estimate based on a sample audit program consisting of 1944 audits of accounts selected on a random sample basis.

For purposes of the study, all accounts have been divided into 15 major groups or “cells” by size and class of business and findings are expressed in terms of the percentage of accounts which it is profitable or desirable to audit in each “cell.”

Two tentative conclusions which we have reached from an examination of the preliminary data are (1) that if the the size of the staff were to be increased sufficiently to permit 100 percent audit coverage, about 67 percent of the added manpower would of necessity be employed on nonprofitable audits as compared with the 56.56 percent shown in Table 5, and (2) audit recoveries by the existing staff could be increased about 10 percent merely by auditing more of certain classes of accounts such as automobile dealers, large contractors and manufacturers, and large retailers, and fewer of others such as service stations, small retailers and small service establishments, without any increase in the efficiency of current methods of audit selection or audit techniques.

While any study such as the sample audit study which requires concentrated analysis and research on a particular administrative problem is bound to have some beneficial results, we do not believe that the sample audit study is the final answer by any means to the point raised by the Senate Finance Committee resolution.

Board of Equalization—Continued

We are still of the opinion that with better supervision at the working level, better selection of accounts for audit, better audit techniques—particularly cutoff techniques in the case of nonprofitable audits, more extensive use of methods other than auditing to educate taxpayers as to proper application of the tax, more extensive use of prosecutions against violators with attendant publicity, and better centralized management on an over-all state-wide basis, all the auditing which is necessary can be accomplished with a reduced audit staff.

We are also of the opinion that a detailed analysis of the results of all audits for the purpose of determining the reasons why taxpayers fail to report the proper amounts of tax will be a most useful possible tool in effecting economies in the audit program and will also disclose the existence of areas of general misunderstanding with respect to particular kinds of transactions which can be corrected without the necessity of an audit of all taxpayers having such transactions. The agency has made a beginning on this type of analysis. Preliminary analysis of the findings indicates that a prevalent reason for incorrect reporting was failure to understand the application of the tax with respect to purchase and sale of capital assets and that this misunderstanding was sufficiently widespread to warrant special publicity on the subject.

Undoubtedly, other similar situations will be disclosed as the program continues.

In connection with the recommended reduction in the audit staff, it is interesting to note that 20 field audit positions were deleted at the beginning of the current fiscal year under the provisions of Section 16 of the Budget Act of 1953 as having been vacant for an unduly long period of time, that nine additional were deleted during the 1952-53 Fiscal Year for other reasons, chiefly to provide funds for establishing positions in other classifications, and that, so the agency informs us, it has currently requested the deletion of two junior accountant-auditor positions in the field to provide funds for the establishment of an additional associate administrative analyst position under general administration in Sacramento.

Assessment Standards

The difference between the actual expenditures shown for 1952-53 of \$142,485 and the proposed expenditures for 1954-55 of \$607,338, or \$464,853, represents the approximate cost of a full year's operation of the additional staff of 70 authorized by the 1953 Legislature for carrying out the provisions of Section 1831 of the Revenue and Taxation Code.

Because of the amount involved and the many ramifications of the activities of the Division of Assessment Standards affecting as they do many of the basic problems involved in property taxation in the State, we believe it is essential that detailed information be available to the Legislature as to the purposes for which all money appropriated for the support of the Division of Assessment Standards is being spent, not only to enable it to better evaluate past activities but to assist it in evaluating future budget requests and in determining basic future policy.

Board of Equalization—Continued

Accordingly, we believe that immediate steps be taken to develop a system of record keeping for the staff of the Division of Assessment Standards which will disclose the actual time expended on the various functions performed by the division in order that more detailed estimates of cost may be available in the future than have been available in the past.

We recommend that the Department of Finance take immediate steps to devise an appropriate system and that such a system be adopted by the agency at the earliest possible date so that a joint report can be made by the Department of Finance and the Legislative Auditor to the Legislature for the 1955 Session.

On this basis we recommend approval of the budget.

"Compliance" Costs, Sales Tax Division

In our Budget Analysis for 1953-54, pages 201 and 202, we commented on the wide disparity which existed in so-called compliance costs per work load unit throughout the State and recommended further study of these costs. Current data on compliance costs indicates that these disparities still exist.

Accordingly, we recommend that studies be made to determine the reasons for these variations with a report by the Legislative Auditor at the next session of the Legislature.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 121 of the Budget Bill

Budget page 415
Budget line No. 63

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

Amount requested	\$804,450
Estimated to be expended in 1953-54 Fiscal Year	759,491
Increase (5.9 percent)	\$44,959

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$51,636	\$51,636	---	429	75
Operating expense	50,548	5,644	—\$56,192	429	76
Equipment	585	585	---	429	77
Total expenditures for support	\$1,673	\$57,865	—\$56,192	429	79
Plus:					
Decreased reimbursements from other funds, Budget Bill:					
Item 122	1,590	1,590	---	429	81
Item 123	41,696	---	41,696	429	82
Total increase ...	\$44,959	\$59,455	—\$14,496	429	80

Board of Equalization—Continued

RECOMMENDATIONS

Amount budgeted	\$804,450
Legislative Auditor's recommendation	796,758
Reduction	\$7,692

ANALYSIS

Partly as a result of the recommendation made in our last year's Budget Analysis, page 207, the agency has consolidated the activities formerly carried on by the Motor Transportation License Tax Division and the Motor Vehicle Fuel Tax Division under two separate administrators into a new Division of Highway Taxes under a single head. This consolidation should result in substantial economies and a more efficient operation for two reasons: (1) decentralization of use fuel (diesel) tax field activities, a large part of which were formerly handled direct from Sacramento, and (2) integration of field activities with respect to use fuel tax and motor vehicle transportation license (truck) tax activities where many of the same taxpayers are involved under both tax laws.

As a result of the first factor, travel expense for 1954-55 has been reduced \$5,500, but it is too early to evaluate the other factor at this time. We recommend a study be made by the Department of Finance of possible savings which should result from the integration of field operations in order to give effect to such savings when the 1955-56 budget is prepared.

The net increase of \$1,673 in the cost of operating this division represents the following:

Salaries:	
Merit increases	\$17,418
Decrease in salary savings	34,218
Total increase, salaries	\$51,636
Operating Expenses:	
Decrease in services by Retail Sales Tax Division	—\$49,899
Decrease in travel due to decentralization of use fuel tax field work	—5,500
Increase in auto operation due to work load increase in use fuel tax	5,644
All other, net decrease	—793
Net decrease, operating expenses	—\$50,548
Equipment	585
Total	\$1,673

During 1953-54 a large nonrecurring expenditure was made for assessing the motor vehicle fuel storage tax imposed on motor vehicle fuel stored by licensed distributors on July 1, 1953, the effective date of the increase in the motor vehicle fuel tax, of from 4½ cents to 6 cents per gallon. Much of this work was done by Sales Tax Division personnel on a reimbursable basis, and the decrease of \$49,899 in services rendered by the Retail Sales Tax Division shown in the foregoing tabulation represents this item.

Automobiles

Replacements	\$9,240
Auto operation increase	—1,548
Net decrease	\$7,692

Board of Equalization—Continued

This division operates a fleet of 47 automobiles. The distribution of these vehicles by districts as well as the replacements requested during 1954-55 are shown in Table 1 which follows:

Table 1. Automobiles Operated and Replacements Requested

District	Miles from Sacramento	Number of vehicles operated	Number of replacements requested
Sacramento	—	5	—
Woodland	20	1	—
Stockton	47	1	—
Marysville	53	1	—
Oakland	85	3	2
San Francisco	91	1	1
Santa Rosa	106	2	—
San Jose	129	5	—
Fresno	168	2	—
Redding	172	1	—
Los Angeles	387	22	2
San Bernardino	437	2	1
San Diego	515	1	1
Total		47	7

We recommend deletion of the \$9,240 requested for automobile replacements, Budget page 429, line 59. We also recommend that the vehicles in need of replacement be sold and replaced by the transfer of vehicles from Sacramento and surrounding territory to the districts where replacements are needed and that the needs of this division for automobiles in Sacramento and surrounding territory be met by using cars from the Department of Finance Sacramento pool on a rental basis. The increase in automobile operation of \$1,548 is to provide for the increase in rental of from \$0.034 per mile, the rate at which automobile operation is provided for in the amount budgeted, and \$0.05 per mile, the rental rate (including replacement) charged for use of Department of Finance pool cars, on an estimated mileage of 96,795 for the seven cars involved.

As a result of the study mentioned in our analysis of Item 120, which included a number of cars operated by the Division of Highway Taxes, we are convinced that adequate transportation will be available to this division under this arrangement at a substantial saving to the State.

Board of Equalization
DIVISION OF HIGHWAY TAXES

ITEM 122 of the Budget Bill

Budget page 416
Budget line No. 6

For Additional Support of Division of Highway Taxes From the
Itinerant Merchants' Fund

Amount requested	\$23,251
Estimated to be expended in 1953-54 Fiscal Year	24,841
Decrease (6.4 percent)	\$1,590

Board of Equalization—Continued

RECOMMENDATIONS

Amount budgeted	\$23,251
Legislative Auditor's recommendation	23,251
Reduction	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of licensing itinerant merchants, the expenditures for personnel, operating expense and equipment being paid out of that fund in the first instance and included in the detailed budget data supporting Item 121 of the Budget Bill.

There have been no changes in the program as budgeted for 1954-55, and we recommend approval of the budget as submitted.

Board of Equalization
DIVISION OF HIGHWAY TAXES

ITEM 123 of the Budget Bill

Budget page 416
Budget line No. 20

*For Additional Support of Division of Highway Taxes From the Motor
Vehicle Fuel Fund*

Amount requested	\$631,491
Estimated to be expended in 1953-54 Fiscal Year	673,187
Decrease (6.2 percent)	\$41,696

RECOMMENDATIONS

Amount budgeted	\$631,491
Legislative Auditor's recommendation	631,491
Reduction	None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the Motor Vehicle Fuel License Tax Law and the Use Fuel Tax Law by the Division of Highway Taxes, the expenditures for personnel, operating expense and equipment being paid out of that fund in the first instance and included in the detailed budget data supporting Item 121 of the Budget Bill. The activities involved include the assessment of the motor vehicle fuel tax and the liquefied petroleum gas taxes and the assessment and collection of the use fuel (diesel) tax.

The decrease of \$41,696 is the result of a nonrecurring activity; that of assessing and collecting a storage tax on distributors on the effective date of the increase of from 4½ cents to 6 cents a gallon in the motor vehicle fuel license tax; namely, July 1, 1953.

Any economies which may result from the integration of the administration of the use fuel tax and the transportation tax mentioned in our analysis of Item 121 would affect this appropriation in future years.

We recommend approval of the budget as submitted.

DEPARTMENT OF FINANCE
GENERAL ACTIVITIES

ITEM 124 of the Budget Bill

Budget page 433
Budget line No. 34

For Support of General Activities, Department of Finance, From the
General Fund

Amount requested	\$5,653,163
Estimated to be expended in 1953-54 Fiscal Year	5,793,206
Decrease (2.4 percent)	\$139,043

Summary of Increase

	Total increase	INCREASE DUE TO Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	—\$134,389	—\$140,449	\$6,060	450	10
Operating expense	—294,094	—294,094	---	450	11
Equipment	—32,821	—32,821	---	450	12
Add:					
Decrease					
reimbursements	327,058	327,058	---	450	16
Less:					
Increase appropriation					
from other funds	—4,797	—4,797	---	---	---
Total increase	—\$139,043	—\$145,103	\$6,060		

RECOMMENDATIONS

Amount budgeted	\$5,653,163
Legislative Auditor's recommendation	5,757,089
Increase	\$103,926

ANALYSIS

Summary of Recommended Augmentations and Deductions

Augment Building and Ground Division

Sacramento buildings	
Operating expense—general maintenance	\$35,000
Equipment—maintenance of buildings—additional	15,000
(The above augmentations are discussed under the analysis of item 133)	
San Francisco buildings	
Salaries and wages	34,386
Operating expense	16,600

Delete in Local Allocations Division

Structural engineering associate	6,060
--	-------

(This item should be adjusted for proper fund allocation)

The total expenditure program of \$5,653,163 for the Department of Finance General Activities, for the Fiscal Year 1954-55 includes two divisions, Buildings and Grounds Division and Local Allocations Divisions, which were not budgeted in general activities in the 1953-54 Fiscal Year. The following analysis shows the increases in expenditure program of the Department of Finance by the three main groups of activities in the department.

Activity	1953-54	1954-55	Change from 1953-54
General activities	\$2,477,764	\$2,447,592	—\$30,172 (—1.2%)
Building and Grounds Division	3,261,453	3,164,106	—97,347 (—2.9%)
Local Allocations Division			
(General Fund portion only)	52,989	41,465	11,524 (21.7%)
Total—Department of Finance	\$5,792,206	\$5,653,163	—\$139,043 (—2.4%)

Department of Finance—Continued

General activities of the department has heretofore included only administration, accounts and disbursements, audits, budgets and accounts, communications, purchasing and public works and acquisition. The amount requested for the above divisions is \$2,447,592 or \$30,172 less than is estimated to be expended in the current fiscal year. It should be noted that while the over-all decrease for the department of 2.4 percent the greatest portion of that decrease is due to the reductions effected in the Divisions of Buildings and Grounds.

Buildings and Grounds Division

The 1954-55 requested amount for the Division of Buildings and Grounds reflects a net decrease of \$97,347 or 2.9 percent. At the same time the budget shows that 120 positions have been abolished and 43 new positions requested. The abolishment of 120 positions comes as a result of (1) a study of janitorial staffing which showed that fewer positions were needed than were being used and (2) the discontinuance of certain existing service.

The reduction in the number of janitors for state buildings in Sacramento, San Francisco and Los Angeles is based upon practices currently in operation in private employment. As a result of taking this positive action toward more efficient janitorial staffing, the division has effected a saving of approximately \$240,000. Reductions due to discontinued service amounted to approximately \$136,000.

The total reduction of \$376,000 is partially offset by 43 new positions at a cost of \$135,000 which are related primarily to expenses for new facilities. It is anticipated that in the 1953-54 Fiscal Year janitorial staffs will have to be provided for the new Personnel Building, new Agricultural Annex Building and the new Printing Plant.

In light of the saving made by the Buildings and Grounds Division through more realistic janitorial staffing, we believe it is pertinent at this time to recommend that all building maintenance should be under control of Buildings and Grounds. The division is now handling most buildings. Its primary function is building maintenance and it is well equipped and staffed to do that job. It has demonstrated that it can improve its procedures and do a more efficient job. We feel confident that the division can maintain buildings more cheaply than a single agency can. We, therefore, recommend that the Division of Buildings and Grounds be given full responsibility for maintaining all state buildings in the Sacramento, San Francisco and Los Angeles areas. To implement this we further recommend that the Legislature instruct the Director of Finance to enter into full maintenance contracts with the directors of all agencies whose buildings are not maintained by Buildings and Grounds Division and that all custodial, janitorial and maintenance personnel be deleted from the budgets of those agencies with whom contracts are drawn.

In line with the above principle that the responsibility for maintenance and operation of all state buildings should be vested in one agency, we are recommending that \$50,986 be added to the budget of the Buildings and Grounds Division as follows: salaries and wages, \$34,386; operating expense, \$16,600. These funds will provide for the maintenance and operation of the new state building in Berkeley, Cali-

Department of Finance—Continued

foria, scheduled for occupancy by the Department of Public Health in January, 1955. A like amount is being recommended for deletion from the amount requested by the Department of Public Health where the function is presently budgeted.

Automotive Management Section

The proposed budget for the 1954-55 Fiscal Year for Automotive Management shows a decrease of six positions of Inspector of Automotive Equipment I. These positions were a part of 12 positions employed in maintaining the automotive equipment of the California Highway Patrol. The cost of the positions was reimbursed to the Department of Finance from the Motor Vehicle Fund.

An expanded program of automotive inspection in the Highway Patrol was instituted during the current fiscal year. It was planned that the 12 inspectors would work intensively on patrol vehicles during the current year and then shift half of their time to General Fund agencies. Proper maintenance of patrol vehicles requires six full-time inspectors. However, due to the state-wide operations of the Highway Patrol, six full-time inspectors cannot visit every patrol station; on the other hand, 12 inspectors placed throughout the State spending only a portion of their time on patrol vehicles can inspect vehicles in all sections of the State as necessary.

However, due to the fact that an inspection program for General Fund agencies on a reimbursable basis has not been developed, these six inspectors are being dropped. From experience, we know that an automotive inspection program will pay for itself and will save the State money if vehicles are to be operated on a 100,000-mile replacement basis. We recommend that the Department of Finance develop an automotive inspection program embracing General Fund agencies on a reimbursable basis to retain the men already trained and to reduce the cost of vehicle maintenance.

Pooling of Automotive Equipment

In our Analysis of the Budget Bill for Fiscal Year 1953-54, we made a detailed statement recommending the pooling of automotive equipment. We repeat that economies can be realized from pooled operations of automotive equipment, and where adequate facilities are available the larger the pool the more economical the operations in terms of costs per mile. Basically this is due to the fact that fewer vehicles are needed to handle a given work load than where cars are assigned to particular individuals or operated out of a number of small pools. The reduction in number of cars necessary for a given number of miles reduces depreciation cost of transportation and, to a lesser extent, maintenance, storage and insurance costs.

A sample check of the number of cars in storage assigned to specific agencies showed that one agency had a minimum of eight cars in storage every day. Other agencies also had vehicles in dead storage. Under a pooling arrangement, dead storage can be more efficiently controlled. A low utilization period of one agency can be offset by the heavy demands of another agency. Pooling provides greater flexibility of use. If an agency requires continued use of an automobile, it can be as-

Department of Finance—Continued

signed to that agency for use at a fixed rate. Care and maintenance would still remain with the pool.

We recommend that the Director of Finance be instructed to study the extent to which further centralized pooling of automobiles can be put into effect and submit a report to the Joint Legislative Budget Committee before the 1954-55 General Session of the Legislature.

Local Allocations Division

The total proposed expenditure program by funds is as follows:

<i>Fund</i>	<i>Amount</i>	<i>Item No.</i>
General Fund	\$41,465	124
Postwar Unemployment and Construction Fund	28,743	127
Public School Building Loan Fund	139,945	128
School Building Aid Fund	261,042	129

A total amount of \$471,195 is requested from all funds for the support of the Local Allocations Division for Fiscal Year 1954-55. This amount represents an increase of \$14,395 or 3.1 percent over the amount estimated for expenditure in the current fiscal year.

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

General Fund

1. Aid to local agencies for emergency veterans' housing: Chap. 29, Stats. of 1946 (1st Ex. Sess.); Chap. 1, Stats. of 1946 (2d Ex. Sess.); Chap. 391, Stats. of 1947; and Chap. 1547, Stats. of 1947.
2. Acquisition of housing facilities at colleges: Chap. 46, Stats. of 1946 (1st Ex. Sess.).
3. School building aid: Chap. 1575, Stats. of 1947; and Chap. 24, Stats. of 1948.
4. Aid for educational facilities for cerebral palsied children: Chap. 1167, Stats. of 1949.

Postwar Unemployment and Construction Fund

1. Aid to local agencies for postwar plans and sites: Chap. 47, Stats. of 1944 (4th Ex. Sess.). (Funds available for application until June 30, 1955, and for payment until June 30, 1956.)
2. Aid to local agencies for postwar construction: Chap. 20, Stats. of 1946 (1st Ex. Sess.). (Funds available for application until June 30, 1955, and for payment until June 30, 1956.)

Public School Building Loan Fund

1. School building aid: Chap. 1389, Stats. of 1949. (Program to continue as long as funds are available.)

State School Building Aid Fund

1. School building aid: Chap. 27, Stats. of 1952 (2d Ex. Sess.). (Chap. 19 Education Code.) (Program to continue as long as funds are available.)

The larger share of the increase is requested for salary adjustments and some increases in operating expenses. However, one new position of structural engineering associate at a salary of \$6,060 is requested for the school building aid program. The justification provided for the new position is that the engineer will determine the feasibility of rehabilitating school facilities requested for replacement as required by the 1953 amendment to the School Building Aid Law of 1952.

Department of Finance—Continued

We recommend that this position be disapproved because such determinations are not the proper function of the Local Allocations Division.

1. To make such determinations would place the Local Allocations Division in the incompatible position of making findings and reviewing its own findings.
2. It would tend to cause the local jurisdiction to evade its responsibility of making a determination and to apply in an increasing number of cases for replacement of facilities.
3. The Division of Architecture is equipped to make such determinations and in all cases must make a determination as to conformance with the Field Act. We recommend that an agreement be reached with the Division of Architecture for that agency to perform this function.

Department of Finance

GENERAL ACTIVITIES

ITEM 125 of the Budget Bill

Budget page 433
Budget line No. 34

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

Amount requested	\$44,007
Estimated to be expended in 1953-54 Fiscal Year	65,129
Decrease (32.4 percent)	<u>\$21,122</u>

RECOMMENDATIONS

Amount budgeted	\$44,007
Legislative Auditor's recommendation	<u>44,007</u>
Reduction	None

ANALYSIS

The amount of \$44,007 requested by this item supplements the General Fund support provided to the Department of Finance, General Activities, by Item 124 of the Budget Bill. The amount requested represents the estimated net cost to the State in the 1954-55 Fiscal Year, resulting from the liquidation of equipment and leases acquired by the Department of Social Welfare for administration of the former Article XXV of the Constitution. It is further provided that proceeds from subleases and the sale of equipment are also made available to the Department of Finance to meet expenses related to this activity. The remaining leases will expire during the 1954-55 Fiscal Year.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 126 of the Budget Bill

Budget page 433
Budget line No. 46

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

Amount requested	\$72,500
Estimated to be expended in 1953-54 Fiscal Year	72,500
<hr/>	
Increase	None

RECOMMENDATIONS

Amount budgeted	\$72,500
Legislative Auditor's recommendation	72,500
<hr/>	
Reduction	None

ANALYSIS

The amount of \$72,500 is requested from the Fair and Exposition Fund for support of the Audits Division. This represents the estimated amount necessary to provide adequate audits of fair activities during the budget year.

This appropriation supplements the amount of \$622,503 incorporated as a part of the general support of the Department of Finance by Item 124 of the Budget Bill.

We recommend approval.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 127 of the Budget Bill

Budget page 433
Budget line No. 56

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

Amount requested	\$28,743
Estimated to be expended in 1953-54 Fiscal Year	27,864
<hr/>	
Increase (3.1 percent)	\$879

RECOMMENDATIONS

Amount budgeted	\$28,743
Legislative Auditor's recommendation	28,743
<hr/>	
Reduction	None

ANALYSIS

The amount of \$28,743 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 124 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 124.

We recommend approval.

Department of Finance
GENERAL ACTIVITIES

ITEM 128 of the Budget Bill

Budget page 434
Budget line No. 6

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

Amount requested	\$139,945
Estimated to be expended in 1953-54 Fiscal Year	176,782
Decrease (20.8 percent)	\$36,837

RECOMMENDATIONS

Amount budgeted	\$139,945
Legislative Auditor's recommendation	139,945
Reduction	None

ANALYSIS

The amount of \$139,945 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 124 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 124.

We recommend approval.

Department of Finance
GENERAL ACTIVITIES

ITEM 129 of the Budget Bill

Budget page 434
Budget line No. 19

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

Amount requested	\$261,042
Estimated to be expended in 1953-54 Fiscal Year	199,165
Increase (31.0 percent)	\$61,877

RECOMMENDATIONS

Amount budgeted	\$261,042
Legislative Auditor's recommendation	261,042
Reduction	None

ANALYSIS

The amount of \$261,042 requested by this item supplements the General Fund support provided to the Department of Finance, Local Allocations Division, by Item 124 of the Budget Bill.

The activity budget of Local Allocations Division is analyzed under Item 124.

We recommend approval.

Department of Finance
AUTOMOBILE LIABILITY INSURANCE

ITEM 130 of the Budget Bill

Budget page 434
 Budget line No. 37

*For Payment of Premiums on Automobile Liability Insurance From the
 General Fund*

Amount requested	\$205,248
Estimated to be expended in 1953-54 Fiscal Year	205,248
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Increase	None

RECOMMENDATIONS

Amount budgeted	\$205,248
Legislative Auditor's recommendation	205,248
<hr/>	
Reduction	None

ANALYSIS

The amount requested represents the estimated portion of the total cost of automobile liability insurance which is chargeable to the General Fund. The cost of such insurance has increased substantially during the last few years. The present policy is on a retrospective basis with a basic rate of \$33.50 per vehicle.

We recommend approval as requested.

Department of Finance
PUBLIC LIABILITY INSURANCE

ITEM 131 of the Budget Bill

Budget page 434
 Budget line No. 43

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

Amount requested	\$2,500
Estimated to be expended in 1953-54 Fiscal Year	2,500
<hr/>	
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval.

Department of Finance
DISTRIBUTION OF STATE DOCUMENTS TO LIBRARIES

ITEM 132 of the Budget Bill

Budget page 434
Budget line No. 58

For Distribution of State Documents to Libraries From the General Fund

Amount requested -----	\$50,000
Estimated to be expended in 1953-54 Fiscal Year -----	47,000
<hr/>	
Increase (6.4 percent) -----	\$3,000

RECOMMENDATIONS

Amount budgeted -----	\$50,000
Legislative Auditor's recommendation -----	50,000
<hr/>	
Reduction -----	None

ANALYSIS

The amount of \$50,000 is requested to provide for additional printing costs and the cost of distribution of state documents to libraries as required by law. This is an increase of \$3,000 over the estimated expenditures for 1953-54 Fiscal Year.

We recommend approval.

Department of Finance

ALTERATIONS, REPAIRS AND EQUIPMENT, STATE BUILDINGS AND RENTED OFFICES

ITEM 133 of the Budget Bill

Budget page 435
Budget line No. 8

For Support of Alterations, Repairs, and Equipment, State Buildings and Rented Offices, From the General Fund

Amount requested -----	\$75,000
Estimated to be expended in 1953-54 Fiscal Year -----	75,000
<hr/>	
Increase -----	None

RECOMMENDATIONS

Amount budgeted -----	\$75,000
Legislative Auditor's recommendation -----	None
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Reduction -----	\$75,000

ANALYSIS

The amount of \$75,000 is requested for miscellaneous alterations, repairs, and equipment for state buildings and rental offices. The same amount was appropriated for the current year and it is estimated the full amount will be expended. We believe that \$75,000 is not needed for 1954-55 and that this item should properly be under the management of the Buildings and Grounds Division.

We have contended in previous years that the need for rental space should continue to decrease as additional state-owned buildings are completed; also the need for shifting agencies between locations and resulting alterations should decrease. Normal maintenance should be provided for through the support budget of buildings and grounds and minor construction and maintenance except in emergency situations, reviewed and approved through the regular budgetary process. There

Alterations, Repairs, Etc., State Buildings—Continued

is an amount of \$47,500 for general maintenance in the requested amount for buildings and grounds for the 1954-55 Fiscal Year. An additional \$50,000 item for alterations, repairs and equipment in the Buildings and Grounds Division budget should be provided as a contingency to that already budgeted for general maintenance and should be completely adequate for this work.

There should, no doubt, be some contingency for maintenance and equipment. However, this contingency together with other available funds in the Division of Buildings and Grounds, should be subject to strict annual review in the light of expenditure experience.

Furthermore, we believe that if this contingency amount for alterations, repairs and equipment is justified over and above other items requested for general maintenance and equipment, it should be a part of the general function of maintenance of buildings and grounds. Proper budgeting by function demands that this item be placed under the Buildings and Grounds Division so that all costs can be reflected for that function.

We, therefore, recommend that:

1. The item be reduced from \$75,000 to \$50,000 for a saving of \$25,000 and
2. That the balance of \$50,000 be transferred to the budget of buildings and grounds to augment the following items for state-wide use as needs require:

Sacramento buildings—operating expense—	
general maintenance	\$35,000
Sacramento buildings—equipment—maintenance of	
buildings—additional	15,000

Department of Finance**MAINTENANCE OF UNION CEMETERY IN SAN MATEO**

ITEM 134 of the Budget Bill

Budget page 435
Budget line No. 15

For Maintenance of Union Cemetery in San Mateo From the General Fund

Amount requested	\$1,500
Estimated to be expended in 1953-54 Fiscal Year	1,500
Increase	None

RECOMMENDATIONS

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

ANALYSIS

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

We recommend approval as submitted.

**Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS**

ITEM 135 of the Budget Bill

Budget page 454
Budget line No. 7

For Support of Division of Fairs and Expositions From the Fairs and Expositions Fund

Amount requested	\$104,550
Estimated to be expended in 1953-54 Fiscal Year	105,162
Decrease (0.6 percent)	\$612

Summary of Increase

	Total increase	INCREASE DUE TO Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	\$1,921	\$1,921	---	454	67
Operating expense	—384	—384	---	455	18
Equipment	—592	—592	---	455	21
Less:					
Increased reimbursements	—1,557	—1,557	---	455	25
Total increase	—\$612	—\$612	---	455	27

RECOMMENDATIONS

Amount budgeted	\$104,550
Legislative Auditor's recommendation	104,550
Reduction	None

ANALYSIS

Contemplated expenditures of \$104,550 are \$612, or 0.6 percent, less than the current year's estimates and are intended to support the same level of service. Increased reimbursements together with reduced equipment and operating expense offset merit salary increases and result in a small reduction in the request.

We recommend approval of the budget as submitted, subject to the following qualifications:

The budget for this division provides on page 454, lines 55 and 56, for one associate civil engineer and three assistant civil engineers.

A substantial portion of the time of these positions is utilized in assisting local fairs on problems of construction from funds derived from revenues from horse racing and made available for capital outlay purposes for fairs from the second balance in the Fairs and Expositions Fund.

Attention is directed to the recommendation of this office embodied earlier in this report with reference to the Fairs and Expositions Fund.

Coincidental with the implementation of those recommendations, it would be in order to re-evaluate the work load of the Division of Fairs and Expositions with special attention to the possible reduction in staff that might be effectuated with any indicated downward adjustment in the capital outlay program for fairs.

Department of Finance—Division of Fairs and Expositions
CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 136 of the Budget Bill

Budget page 456

Budget line No. 29

**For Support of the California State Fair and Exposition From the
 State Fair Fund**

Amount requested	\$1,943,308
Estimated to be expended in 1953-54 Fiscal Year	1,853,600
Increase (4.8 percent)	\$89,708

Summary of Increase

	Total increase	INCREASE DUE TO		
		Work load or salary adjustments	New services	Budget page
Salaries and wages	—\$141,186	—\$141,186	---	460
Operating expense	—46,094	—46,094	---	460
Equipment	—3,762	—3,762	---	460
	—\$191,042	—\$191,042	---	
Plus:				
Decreased reimbursements	280,750	280,750	---	460
Total increase	\$89,708	\$89,708	---	460

Line
No.
60
61
62

RECOMMENDATIONS

Amount budgeted	\$1,943,308
Legislative Auditor's recommendation	1,943,308
Reduction	None

ANALYSIS

Comparison of Expenditures and Revenues

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenues as percent of expenditures</i>
1947-48	\$1,134,483	\$927,623	\$206,860	81.8
1948-49	1,507,315	944,681	562,634	62.7
1949-50	1,762,768	1,005,235	757,533	57.1
1950-51	1,563,402	928,210	635,192	59.4
1951-52	1,754,149	1,166,849	587,300	66.5
1952-53	1,890,797	1,268,536	622,261	67.1
1953-54	1,898,600	1,313,344	585,256	69.2
1954-55	1,989,308	1,311,850	677,458	65.9

The above table indicates that for 1954-55 the operating deficit will be \$677,458. This is \$92,202, or 15.7 percent, more than the estimated deficit for 1953-54. It is the second highest deficit in the eight years of operations reflected above, being exceeded only in the 1949-50 fiscal period.

We note that when the 1953-54 Budget was submitted, the deficit was estimated to be \$637,894 but is now re-estimated to be \$585,256, or \$52,638 less.

A similar comparison last year showed that the revised estimated deficit figure for 1952-53 turned out to be \$47,079 greater than the original forecast.

The percentage which revenues bear to expenditures is scheduled to decline from 69.2 percent in 1953-54 to 65.9 percent in 1954-55. This

California State Fair and Exposition—Continued

indicates an adverse economic trend and moves the operation just that much more distant from a self-sustaining basis.

The point is more emphatically illustrated by the fact that although \$90,708 more will be spent on the forthcoming fair, revenues will be \$1,494 less in comparison with the last fair.

The following table reflects the annual per capita cost of the deficit at the fair when measured by the total number of paid adult attendance:

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid adult attendance</i>	<i>Per capita cost of deficit</i>
1947-48 -----	\$206,860	481,660	\$0.43
1948-49 -----	562,634	395,650	1.42
1949-50 -----	757,533	482,833	1.57
1950-51 -----	635,192	405,912	1.56
1951-52 -----	587,300	481,862	1.22
1952-53 -----	684,454	481,575	1.42
1953-54 -----	585,256	473,099	1.24
Totals -----	\$4,019,229	3,102,591	Average: \$1.27

In addition to showing what direct loss is sustained to get each paying customer through the gate at the fair, it is also interesting to note that the paid attendance dropped from 481,575 in 1952-53 to 473,099 in 1953-54, a decline of 8,476 paying patrons.

The table indicates that the fair sustained a net loss of \$1.24 on each paying customer that attended the 1953 show. It reflects some improvement over the 1952 fair when the comparable loss was \$1.42 per paid attendance.

The total accumulative deficit for the seven fairs shown from 1947 to 1953, inclusive, is \$4,019,229 with an average per capita deficit of \$1.27.

We believe that the trend indicated by the above table further sustains our comment made in our analysis last year that:

"The pulling power or attraction and educational value of the fair, in the minds of those who have to pay to see the fair, has not materially improved."

In our opinion this bears serious consideration by the fair management, since it indicates that in terms of public interest, the total paid attendance at the fair is not even keeping pace with the population growth in the area forming the economic trading zone for Sacramento, and which is the source of the major portion of the total attendance.

Our conclusions in this regard are supported by findings of the survey conducted by the John B. Knight Company, in which it is pointed out that there has been an evident decrease since 1952, when 129,543 fair customers came from Sacramento County. This figure declined to 91,787 in 1953, which is about the same number as attended from Sacramento County in 1951.

Revenues

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

California State Fair and Exposition—Continued

STATE FAIR FUND					
	<i>Actual</i> <i>1952-53</i>	<i>Estimated</i> <i>1953-54</i>	<i>Proposed</i> <i>1954-55</i>	<i>Increase over 1953-54</i>	
				<i>Amount</i>	<i>Percent</i>
Admissions:					
Grounds -----	\$241,493	\$236,846	\$240,000	\$3,154	1.3
Grandstand—afternoon	74,255	81,801	80,000	—1,801	—2.2
Grandstand—evening	69,812	70,455	70,000	—455	—0.6
Horse show -----	24,624	23,740	23,000	—740	—3.1
Totals, admissions	\$410,184	\$412,842	\$413,000	\$158	0.03
Entry fees:					
Exhibits -----	\$25,922	\$21,751	\$26,450	\$4,699	21.6
Races -----	7,470	2,680	2,600	—80	—3.0
Horse show stakes-----	7,285	7,225	7,300	75	1.0
Totals, entry fees	\$40,677	\$31,656	\$36,350	\$4,694	14.8
Rental of facilities:					
Exhibit space -----	\$96,618	\$98,007	\$125,000	\$26,993	27.5
Concessions -----	206,369	229,608	225,000	—4,608	—2.0
Stalls -----	4,186	100	—	—100	—100.0
Horse show stalls-----	2,854	3,046	3,000	—46	—1.5
Buildings -----	67,909	95,000	100,000	5,000	5.3
Equipment -----	1,782	2,000	2,000	—	—
Totals, rental of facilities	\$375,532	\$427,661	\$455,000	\$27,339	6.4
Pari-mutuel wagering --	380,153	391,549	375,000	—16,549	4.2
Parking -----	28,626	27,667	27,500	—167	—0.6
Livestock feed sales-----	20,751	17,080	—	—17,080	—100.0
Miscellaneous -----	9,257	4,889	5,000	111	2.3
Escheated warrants ----	57	—	—	—	—
Totals, revenue --	\$1,265,236	\$1,313,344	\$1,311,850	—\$1,494	—0.1

The decrease of \$1,494, or 0.1 percent, in proposed revenues for 1954-55 is due primarily to a rounding off downward of most of the estimated 1953-54 revenue items.

The only sources of anticipated increases in revenues are as follows:

Admissions, grounds -----	\$3,154
Entry fees, exhibits -----	4,699
Entry fees, horse show stakes-----	75
Rental facilities, exhibit space-----	26,993
Rental facilities, buildings-----	5,000
Miscellaneous -----	111
Total -----	\$40,032

The largest single source of revenue, pari-mutuel wagering, is scheduled to decline from \$391,549 to \$375,000, a drop of \$16,549, or 4.2 percent.

However, this is the same amount as estimated for 1953-54 on the basis of the budget presented last year. Actual experience indicated this source to produce \$391,549, or \$16,549 more than the forecast. A similar situation may hold for the forthcoming fair.

Passes

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

California State Fair and Exposition—Continued

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

NUMBER AND VALUE OF PASSES HONORED—CALIFORNIA STATE FAIR

<i>Passes honored</i>	<i>Grounds</i>	<i>Function</i>			<i>Totals</i>
		<i>Horse show</i>	<i>Races</i>	<i>Night show</i>	
1950					
Number -----	112,347	3,891	12,509	7,324	136,071
Value -----	\$47,186	\$1,946	\$6,255	\$3,662	\$59,049
1951					
Number -----	137,688	3,651	15,927	8,919	166,185
Value -----	\$57,829	\$1,826	\$13,219	\$4,460	\$77,334
1952					
Number -----	131,400	6,329	22,877	15,501	176,107
Value -----	\$65,700	\$3,164	\$18,988	\$12,866	\$100,718
1953					
Number -----	134,375	4,840	20,668	14,263	174,146
Value -----	\$67,187	\$2,420	\$17,154	\$11,838	\$98,597

The above table reflects some improvement in the pass situation as far as the number of passes honored in 1953 is concerned.

In 1953, 174,146 passes were honored, having a total admission revenue value of \$98,597. This represents an improvement to the extent of 1,961 fewer passes with a revenue value difference of \$12,869.

The number of passes honored declined in all functions shown in the table, except passes to the grounds. This latter function had an increase of 2,975 passes honored.

Assembly Bill No. 700, the Budget Act of 1953, on page 125, Sec. 27.5, provided as follows:

"The number of free passes issued for admittance without cost to the State Fair or to any district or county fair eligible for funds under this act or the Business and Professions Code shall not exceed during the 1953-54 Fiscal Year 5 percent of the gross number of paid admissions in the preceding fiscal year."

According to figures released by the management, the paid attendance at the fair in the Fiscal Year 1952-53 was 481,575.

Five percent of this figure is 24,079. This, then, should be the maximum number of passes issued by the State Fair.

On a mimeographed release issued in September of 1953, entitled "California State Fair—Pass Comparison," the representation is made that a total of 251,187 passes were issued and 174,146 passes were honored.

We raise a question as to how management can reconcile the issuance of 251,187 passes with the limitation figure of 24,079 based upon "5 percent of the gross number of paid admissions in the preceding fiscal period"—according to the control Section 27.5 of Assembly Bill 700, Statutes of 1953.

The ineffectiveness of the control section in the Budget Act of 1953 is illustrated in the following table.

California State Fair and Exposition—Continued

COMPARISON OF PASSES HONORED TO ATTENDANCE

Year	Total attendance	Number paid adult admissions	Percent paid admissions to total attendance	Passes honored	Percent of passes to paid admissions
1947-----	656,749	481,661	73.3	102,350	21.2
1948-----	596,826	387,402	64.9	108,580	28.0
1949-----	698,235	482,245	69.1	109,512	22.7
1950-----	631,256	405,912	64.3	112,347	27.7
1951-----	762,029	481,862	63.2	137,688	28.6
1952-----	778,256	481,575	61.9	131,401	27.3
1953-----	767,251	473,099	61.7	134,375	28.4

The above table clearly demonstrates our point. In 1953, the number of passes honored constituted the equivalent of 28.4 percent of the total paid admissions.

With the exception of 1951, this is the highest percentage of any year in the period 1947-1953, inclusive. The control section first became "effective" in 1953.

Salaries and Wages

Salaries and wages for 1954-55 are scheduled at \$814,064, a decline of \$139,686, or 14.6 percent, below the 1953-54 level of \$955,250.

Salary savings are scheduled at \$3,000, or \$1,500 more than estimated for 1953-54.

No new positions are requested.

The substantial reduction in total salaries and wages is primarily related to a reduction of \$162,659 in salary and wage costs in the operations function, where such costs are anticipated to decline from \$573,759 in 1953-54 to \$412,100 in 1954-55.

This latter reduction in turn is traceable to two basic items. The first is the elimination of an item of temporary help—capital outlay, which in 1953-54 cost \$130,000. The second is the elimination of another item, overtime, capital outlay projects, which in 1953-54 cost \$29,000.

Another \$5,000 reduction is noted in the amount of overtime scheduled for support purposes. The 1954-55 figure is \$75,000 for this item.

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

	DISTRIBUTION OF TEMPORARY HELP COSTS					
	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Administration -----	\$14,186	\$11,878	\$18,020	\$17,563	\$19,950	\$19,950
Exhibits and horse show -----	39,392	32,175	55,441	45,450	37,000	51,000
Operations -----	228,899	140,808	237,000	314,521	280,000	150,000
Promotions -----						
Admissions -----	44,500	43,367	52,470	53,193	55,125	55,500
Public information -----	17,041	17,404	23,880	26,793	25,200	28,700
Concessions -----	4,574	1,813	1,200	1,529	1,260	1,260
Commercial space -----	6,700	5,032	9,333	8,195	3,150	5,656
Attractions and special events -----						
Special events -----	10,950	8,244	11,130	6,542	7,000	7,000
Attraction -----	11,002	10,085	3,500	8,409	11,000	11,000
Racing -----	60,699	54,803	64,161	63,553	69,883	70,575
Totals -----	\$437,943	\$325,609	\$476,135	\$545,748	\$509,568	\$400,641
Salaries and wages less overtime and temporary help -----	\$232,745	\$291,461	\$307,514	\$259,629	\$327,807	\$332,263
Percentage of salaries and wages to temporary help -----	53.1	89.5	64.6	72.6	65.7	82.9

California State Fair and Exposition—Continued

The total amount of funds expended for temporary help continues at an exceptionally high figure, \$400,641 in 1954-55, although this figure represents an improvement over similar expenditures in 1952-53 and 1953-54 when \$545,748 and \$509,568 were expended respectively.

The percentage of salaries and wages, exclusive of overtime and temporary help costs, in relation to temporary help reflects a corresponding trend.

Every effort should be made to program the work load necessary to get ready for the fair, over a period of time as far in advance of the opening date as possible, in order that large portions of it may be accomplished within the framework of regularly authorized full-time positions.

We note a substantial increase in temporary help under the function, "Exhibits and Horse Show." In 1953-54, this item totaled \$37,000. For 1954-55 it is scheduled at \$51,000. This is an increase of \$14,000, or 37.8 percent.

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

	DISTRIBUTION OF OVERTIME COSTS					
	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Administration -----	\$3,566	\$4,141	\$6,691	\$5,868	\$6,300	\$5,500
Exhibits and horse show -	1,793	875	754	652	1,000	1,000
Operations -----	72,050	62,486	86,364	133,402	109,000	75,000
Promotions -----	1,361	800	526	345	500	200
Concessions and commercial space -----	141	189	300	1,760	1,575	1,460
Attractions and special events -----	4,000	1,074	200	335	1,000	1,000
Totals -----	\$82,911	\$69,565	\$96,635	\$142,362	\$119,375	\$84,160
Salaries and wages less overtime and temporary help -----	\$232,745	\$291,461	\$307,514	\$259,629	\$327,807	\$332,263
Overtime as percentage of salaries and wages -----	35.6	23.9	64.6	54.8	36.4	25.3

Observations with respect to temporary help funds are equally applicable to this item. However, in terms of productive value received for each dollar of expenditure, funds for payment of overtime merit greater management consideration.

Operating Expenses

Operating expenses are scheduled at \$1,129,468 for 1954-55. This is a decline of \$46,094, or 3.9 percent below the 1953-54 figure of \$1,175,562.

California State Fair and Exposition—Continued

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

	1950-51	1951-52	1952-53	1953-54	1954-55	Increase over 1953-54	
						Amount	Per- cent
Administration --	\$55,481	\$51,581	\$59,919	\$61,161	\$59,436	—\$1,725	—2.8
Exhibits and horse show ---	273,900	277,641	307,495	281,470	315,490	34,020	12.1
Operations -----	253,244	262,347	303,850	388,842	248,777	—140,065	—36.0
Promotions -----	54,763	60,096	76,989	78,325	91,900	13,575	17.3
Commercial space	10,971	6,439	6,286	3,150	5,115	1,965	62.4
Concessions -----	---	---	5,165	5,700	10,600	4,900	86.0
Attractions and special events--	133,638	134,606	142,660	153,600	193,500	39,900	26.0
Racing -----	162,690	182,257	187,600	203,314	204,650	1,336	0.7
Totals ----	\$944,687	\$974,967	\$1,089,964	\$1,175,562	\$1,129,468	—\$46,094	—3.9

The major increases in operating expenses occur in the functions of exhibits and horse show, \$34,020; promotions, \$13,875; and attractions and special events, \$39,900.

The following table reflects the distribution of those items of operating expense scheduled to increase \$1,000 or more:

ITEMS OF INCREASE IN EXCESS OF \$1,000 OPERATING EXPENSE			
Function and item	Increase		Percent
	1954-55 over 1953-54		
Administration			
Pro rata liability insurance-----	\$1,251		13.4
Exhibits and horse show			
Premiums—general -----	28,160		19.3
Premiums—junior division -----	2,016		7.5
Judges -----	1,400		6.0
Promotions			
Paid advertising -----	10,000		20.0
Publicity -----	1,600		9.5
Attractions and special events			
Contests -----	6,802		70.1
Receptions -----	4,400		46.8
Night show -----	2,462		3.9
Special days -----	3,285		191.5
Centurial events -----	25,000		---
Total -----	\$86,376		

The major items of increase in the above table are indicated to be \$28,160 in general premiums, \$25,000 for centurial events, \$10,000 in paid advertising, and \$6,802 for contests. These four items account for \$69,964 of the total increases of \$86,376 in the table.

Equipment

Equipment expenditures are scheduled at \$34,776 for 1954-55. This is a decrease of \$3,762, or 9.8 percent under the amount of \$38,538 estimated to be expended in the 1953-54 Fiscal Year.

Out of the total of \$34,776 requested for equipment, the sum of \$17,599 is for replacement of items deemed obsolete or no longer serviceable.

California State Fair and Exposition—Continued

The further sum of \$17,177 is requested for *additional* items of equipment. The request, by function, for additional equipment is as follows:

Function	1953-54	1954-55	Additional equipment	
			Increase	
			Amount	Percent
Administration				
Operations -----	\$13,450	\$14,792	\$1,342	10
Promotions -----	500	2,285	1,785	357
Attractions and special events-----	---	100	100	---
Totals -----	\$13,950	\$17,177	\$3,227	23.1

It is to be noted that where items of additional equipment are not directly related to population increases or other work load changes, the acquisition of such items represents an improvement in the level of service. Since such items also tend to build up subsequent requirements for replacement items, a very careful evaluation of the requests for additional equipment should be made at all levels of the budget process.

The request by function for replacement equipment is as follows:

Function	1953-54	1954-55	Replacement equipment	
			Increase	
			Amount	Percent
Administration -----	\$383	\$220	—\$163	—42.6
Exhibits and horse show-----	125	44	—81	—64.8
Operations -----	23,228	16,993	—6,235	—26.8
Promotions -----	400	342	—58	—14.5
Totals -----	\$24,136	\$17,599	—\$6,537	—27.1

Expenditures for an operation of this type are largely a matter of policy. They may be expanded or contracted accordingly.

We recommend approval of the budget as submitted.

Department of Finance
CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 137 of the Budget Bill

Budget page 461
Budget line No. 45

For Augmentation of State Fair Fund From the Fair and Exposition Fund

Amount requested -----	\$495,000
Estimated to be expended in 1953-54 Fiscal Year-----	469,939
Increase (5.3 percent) -----	\$25,061

RECOMMENDATIONS

Amount budgeted -----	\$495,000
Legislative Auditor's recommendation-----	495,000
Reduction -----	None

ANALYSIS

This amount is required to augment the State Fair Fund from the Fair and Exposition Fund in line with the budget request submitted.

Department of Finance
DIVISION OF FAIRS AND EXPOSITIONS

ITEM 138 of the Budget Bill

Budget page 462
 Budget line No. 8

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

Amount requested	\$131,125
Estimated to be expended in 1953-54 Fiscal Year	125,344
 Increase (4.6 percent)	 \$5,781

Summary of Increase

	Total increase	INCREASE DUE TO Work load or salary adjustments	New services	Budget page	Line No.
Salaries and wages	\$3,127	\$3,127	---	463	65
Operating expense	2,426	2,426	---	463	66
Equipment	228	228	---	463	67
 Total increase	 \$5,781	 \$5,781	 ---	 463	 69

RECOMMENDATIONS

Amount budgeted	\$131,125
Legislative Auditor's recommendation	131,125
 Reduction	 None

ANALYSIS

The total support budget for this facility is scheduled to increase \$5,781 or 4.6 percent. Merit salary increases for 26.5 authorized positions account for \$3,165 of the increase. An amount of \$2,000 is expected to be charged to operating expenses for the operation and maintenance of parking lot facilities formerly supported by a separate budget act appropriation. Minor work load adjustments account for the small balance of the increase. Equipment requests appear to be in line as budgeted.

We recommend approval of the budget as submitted.

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

ITEM 139 of the Budget Bill

Budget page 464
 Budget line No. 32

*For Augmentation of Sixth District Agricultural Association Fund From the
 Fairs and Expositions Fund*

Amount requested	\$98,000
Estimated to be expended in 1953-54 Fiscal Year	16,000
 Increase (512.5 percent)	 \$82,000

RECOMMENDATIONS

Amount budgeted	\$98,000
Legislative Auditor's recommendation	\$98,000
 Reduction	 None

Sixth District Agricultural Association—Continued

ANALYSIS

The amount requested is necessary in order to provide for the support of the Sixth District Agricultural Association from the Sixth District Agricultural Association Fund, in view of the fact that total expenditures of \$139,800 are expected to exceed net revenues of \$43,000 by \$96,800. Accumulated deficit on July 1, 1954, is expected to be \$14,270 and on June 30, 1955, there will be a surplus of \$1,930.

We recommend approval of the request.

Department of Finance
DIVISION OF STATE LANDS

ITEM 140 of the Budget Bill

Budget page 466
Budget line No. 6

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

Amount requested.....	\$516,498
Estimated to be expended in 1953-54 Fiscal Year.....	441,516
Increase (17.0 percent).....	\$74,982

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages.....	\$36,596	36,596	---	467	66
Operating expense.....	55,768	55,768	---	468	17
Equipment.....	3,295	3,295	---	468	27
Less:					
Increased reimbursements					
Land appraisals, etc. --	—3,200	—3,200	---	468	34
Colorado River bound- ary determination --	—17,477	—17,477	---	468	35
Total increase.....	\$74,982	\$74,982	---	468	38

RECOMMENDATIONS

Amount budgeted.....	\$516,498
Legislative Auditor's recommendation.....	516,498
Reduction	None

ANALYSIS

The Division of State Lands requests an amount of \$516,498 to carry out its responsibilities for the 1954-55 Fiscal Year. This requested amount is an increase of \$74,982 or 17.0 percent over estimated expenditures in the support items during the current year. However, since a major part of the increase is the result of transferring to support items formerly financed under other current expense it should be noted that the increase over the amount expended for comparable activities during the current year is \$14,942 or 3.3 percent.

Division of State Lands—Continued

The increase of \$74,982 requested for the 1954-55 Fiscal Year consists of the following items:

Transfers from other current expense to support.

1. Defense of title to tide and submerged lands	\$50,000
2. Defense of State's interest—Arizona-California Colorado River boundary	10,000
New position—land sales and records	4,740
Salary adjustments, operating expense and equipment increases	10,242

The item for defense of title to tide and submerged lands consists of an editorial assistant position, intermediate typist-clerk position, an item for legal services and an amount for out-of-state travel. The transfer of this item to support is proposed on the basis that it is a continuing expenditure rather than a special project. While it is possible that the tidelands matter may not be settled in the next year or so, it will be settled eventually so we cannot agree that it is a continuing expenditure. On the other hand, as a temporary matter, the transfer will afford the executive officer considerably more flexibility in management. We recommend approval of the transfer to support, subject to the condition that adequate records be maintained to permit a reduction in the amount provided for tidelands litigation as reduced activity in this field will permit.

The second proposed item of transfer, defense of State's interest—Arizona-California Colorado River boundary, is for legal expenses and technical assistance in defending the State's interest in property along the Colorado River boundary. We recommend approval of the transfer of this project to support as it is apparent that assistance by the State Lands Division, relative to boundary disputes, is a regular activity.

The new position of assistant real property appraiser is requested on a work load basis to appraise public lands to be sold by the State. We believe this requested position is justified on a work load basis and recommend approval.

The balance of the increase amounting to \$10,242 consists of salary adjustments and small increases in operating expenses and equipment. We believe these increases are justified.

We recommend approval of the budget as submitted.

FRANCHISE TAX BOARD

ITEM 141 of the Budget Bill

Budget page 472
Budget line No. 21

For Support of Franchise Tax Board From the General Fund

Amount requested	\$4,408,624
Estimated to be expended in 1953-54 Fiscal Year	4,054,126
Increase (8.7 percent)	\$354,498

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$283,460	\$213,404	\$70,056	478	64
Operating expense	75,902	71,350	4,552	478	65
Equipment	—4,864	—9,299	4,435	478	66
Total increase	\$354,498	\$275,455	\$79,043	478	68

Franchise Tax Board—Continued

RECOMMENDATIONS

Amount budgeted	\$4,408,624
Legislative Auditor's recommendation	4,386,477
Reduction	\$22,147

ANALYSIS

A summary of our recommended reductions is as follows:

	Amount	Budget	
		Page	Line
Administration			
Rent—building space	\$3,187	474	26
Personal income tax, Los Angeles			
2 Junior accountant-auditors for information at source program	7,620	477	39
2 Junior accountant-auditors for federal comparison program	5,670	477	44
Personal income tax, San Francisco			
2 Junior accountant-auditors for federal comparison program	5,670	478	25
Total	\$22,147		

Analysis of Increases as Requested

An analysis of the increase of \$354,498, as requested, distributed among the operating divisions of the agency as they are shown in this budget is as follows:

TABLE 1
ANALYSIS OF BUDGET INCREASES REQUESTED, BY CATEGORY AND BY DIVISION

	Total	Division				
		Admin- istration	Franchise Tax	Head- quarters	Los Angeles	San Francisco
Salaries and wages:						
Merit increases, permanent employees	\$95,233	\$24,344	\$16,510	\$34,952	\$11,274	\$8,153
Decrease in salary savings	34,986	12,244	12,115	11,157	—281	—249
Increase in temporary help	60,199	---	—664	57,900	725	2,238
Temporary help converted to permanent positions (3)	—7,187	—7,187	---	---	---	---
Limited term positions deleted (10)	—31,873	---	—31,873	---	---	---
New positions added (45)	132,102	8,580	23,538	48,516	33,810	17,658
Total salaries	\$283,460	\$37,981	\$19,626	\$152,525	\$45,528	\$27,800
Operating expenses	75,902	32,298	2,677	32,461	8,576	—110
Equipment	—4,864	—9,659	—1,713	2,439	2,802	1,267
Totals	\$354,498	\$60,620	\$20,590	\$187,425	\$56,906	\$28,957

The first item is uncontrollable, since it represents annual merit salary increases to those employees below the maximum for their established salary ranges.

The second results from the fact that fewer vacancies in established positions are anticipated during the budget year than during the current year, with a consequent reduction in savings from this factor. Salary savings estimated for the current year at the time the 1953-54 Budget Bill was enacted were \$52,087 in excess of those shown for that year in the 1954-55 Budget, which means that if the current esti-

Franchise Tax Board—Continued

mates are correct, the agency will have a deficiency of that amount by June 30, 1954, if recruiting continues at the present levels.

The increase in temporary help is accounted for almost entirely by addition of the equivalent of 24 junior clerk positions in the headquarters office of the Personal Income Tax Division to process an anticipated increase in tax returns.

The decrease of \$7,187 in this item under administration represents the conversion of the equivalent of three units of temporary help to permanent positions at the junior clerical level.

The 10 limited term positions deleted, \$31,873, are positions authorized in the last budget for particular projects with specified termination dates of June 30, 1954. Seven of these have been converted to permanent positions and are included in the 45 shown and rejustified in the current budget.

Aside from the increase in temporary help at a cost of \$60,199, there is a net increase of 32 in new positions, as follows:

	<i>No.</i>	<i>Salary</i>
New permanent positions added.....	45	\$132,102
Limited term positions deleted.....	—10	—31,873
Temporary help positions deleted.....	—3	—7,187
Net increase	32	\$93,042

Federal Comparison Project

Of this net increase, four junior accountant-auditor positions and 20 clerical positions in the Personal Income Tax Division at Los Angeles, San Francisco and headquarters, with total salaries of \$70,056, are for the so-called federal comparison project. This project contemplates the examination of some 3,325,000 federal income tax returns filed at the federal collection district offices in Los Angeles and San Francisco for the income year 1951, the abstracting of certain information from these returns, and the determination of the amount of tax due in cases where no tax or an incorrect amount of tax has been paid by these taxpayers to the State of California. The 3,325,000 returns represent substantially all of the federal returns filed by taxpayers for the income year 1951, with sufficient income to render them liable for state tax. It is estimated that with the staff requested the project can be completed in about three years.

During 1951 and 1952 the program was conducted on a test basis in Los Angeles. Abstracts were made of 135,517 of the larger returns, i. e., those with adjusted gross income above \$7,000 which had been filed for the income year 1948, and it appeared that 7,999 taxpayers, or 5.9 percent of the total abstracted, might owe some state tax. Further investigation of these 7,999 cases disclosed that 62.7 percent, or 5,015, owed unreported state tax of \$346,126, which amounted to about \$2.55 for each of the 135,517 returns abstracted. In other words, the test indicated that 3.7 percent of all federal taxpayers in California with adjusted gross above \$7,000, or one in 27, had failed to file a state return.

A similar test of 10,000 of the smaller returns, or those with adjusted gross income of less than \$7,000, filed for the income year 1949 dis-

Franchise Tax Board—Continued

closed that 2,616, or 26.2 percent, might owe state tax, of which 226, or 2.3 percent of the 10,000 (approximately one in 44), owed \$10,891 in state tax. This amounted to about \$1.09 for each of the 10,000 returns in the sample.

On the basis of these tests, the agency estimates that by abstracting information from the 3,325,000 federal returns for the 1951 income year, \$4,203,000 additional revenue will accrue to the State. This estimate is arrived at as follows:

	(1) <i>Total to abstract</i>	(2) <i>Average tax per return abstracted</i>	(3) <i>Total revenue (1 x 2)</i>
Larger returns -----	398,000	\$2.554	\$1,016,000
Smaller returns -----	2,927,000	1.089	3,187,000
Totals -----	3,325,000		\$4,203,000

If these estimates are correct, it would appear that the State can obtain about \$4,203,000 in additional revenue during the three-year period at a total salary cost of about \$225,000.

If, as these tests seem to indicate, one out of 27 of the larger taxpayers and one out of 44 of the smaller taxpayers who are subject to both state and federal income tax file a federal return but fail to file a state return, it would appear that some corrective action should be taken. If these same ratios apply to the 3,325,000 federal returns for the 1951 income year, it means that 14,726 of the larger taxpayers and 66,150 of the smaller, or a total of 80,876 (one out of 41, or 2.4 percent of the entire group), are in this category. Why as many as 80,000 taxpayers should file a federal return and no state return is an interesting question. Unless it can be attributed to ignorance on their part of state requirements, the explanation could well be that they have greater respect for federal enforcement methods than for those of the State and are unwilling to risk the consequences for failure to file a federal return, while the same does not hold true where state returns are involved. In either event it would appear that the state enforcement program is deficient in this respect in comparison with that of the Federal Government.

Whether or not there is a better method of solving this problem than that suggested by the agency, we are not, at this time, prepared to state. The great volume of returns involved immediately suggests the possibility of a machine application and we recommend that a study be undertaken along these lines.

In the meantime, we recommend approval of the 20 additional clerical positions on a one-year basis with a progress report to the Legislature before the next regular session of the Legislature.

We are recommending against the establishment of the four additional junior accountant-auditor positions for reasons indicated under Personal Income Tax Division.

Franchise Tax Board—Continued

Operating Expenses

The total increase in operating expenses of \$75,902 represents the following major items:

Work load due to increase in volume of returns	
Postage -----	\$15,798
Printing -----	14,885
Office (mostly filing supplies) -----	11,295
Total -----	\$41,978
Increased space in Sacramento	
Rent, additional space, last six months -----	\$16,421
Alterations, building space -----	10,000
Moving -----	6,380
Total -----	\$32,801
All other (work load items) -----	6,064
Subtotal -----	\$80,843
Less reduction of rent for San Francisco area due to purchase by State of building at 2229 Grove Street, Oakland -----	-4,941
Net increase -----	\$75,902

All the increases in operating expenses appear to be justified by increased work load, with the exception of the \$32,801 for increased space in Sacramento concerning which we have certain reservations.

Additional Space, Sacramento

At present the agency is occupying 68,628 square feet of space in the Business and Professions Building at 1020 N Street in Sacramento at an annual rental of \$102,589, or an average cost per square foot per month of about 12½ cents. In addition, it uses temporary space at the Fairgrounds during four months out of the year at a cost of \$3,960.

The agency estimates that during the next five years it will need 30,000 additional square feet of space in addition to that at 1020 N Street as a satisfactory substitute for the temporary space at the Fairgrounds.

The current budget provides funds for additional rent of \$16,421 for 1954-55 for space in the building at 1015 L Street, the Mull Building, part of which will be available on January 1, 1955, and the remainder on May 1, 1955. This space is now occupied by the State Personnel Board and the State Department of Agriculture which are scheduled to move into space in state-owned buildings now under construction.

The additional rent of \$16,421 is computed substantially as follows:

	<i>Rental per sq. ft. per month</i>	<i>Total sq. ft.</i>	<i>Total rental</i>
January to June, inclusive, 1955 -----	\$0.09375	31,000	\$17,438
May to June, inclusive, 1955 -----	0.09375	17,000	3,187
Total -----		48,000	\$20,625
Less rental of space at Fairgrounds -----			3,960
Remainder -----			\$16,665

Franchise Tax Board—Continued

In our comments under general administration, we recommend a reduction in rent of \$3,187 which represents rent for the 17,000 square feet of space provided for during May and June, 1955, since the 31,000 square feet provided for the full six-month period is slightly in excess of the total requested by the agency.

We recommend approval of the remainder, and the \$10,000 provided for alterations and \$6,380 provided for moving conditioned on the findings of a study now in progress by the Department of Finance looking toward the formulation of a long-range program for most economical provision for office space for all state agencies in Sacramento, and certain other cities. There are four new state-owned buildings now under construction in Sacramento which will be ready for occupancy at some time during the next two years: the printing plant, the Personnel Board building at Eighth and Capitol Avenue, the Department of Agriculture building at Twelfth and O Streets, and the Department of Employment building on Capitol Avenue between Seventh and Ninth Streets. Completion of these buildings will in some instances provide new space for agencies other than those for which the buildings are primarily being constructed but will also release considerable space in existing state-owned structures; and until some long-range program is formulated for apportioning this space on a priority basis to all state agencies according to need, we believe it is unwise to make any definite commitments for additional leased space.

It has been suggested that, pending final solution of the space problem, the Franchise Tax Board give consideration to conducting certain of its operations of a split-shift basis.

Administration

Rent—building space ----- \$3,187

The recommended reduction in rent of \$3,187 (budget page 474, line 26), as previously discussed, is to eliminate the space in excess of that requested by the agency.

The cost of three of the four additional permanent junior clerk positions requested (budget page 474, line 8) is offset by a decrease of \$7,187 in temporary help (budget page 473, line 79) and we recommend approval of this transaction.

The additional junior clerk position, effective January 1, 1955, is to provide an operator for a panel truck to cost \$1,450, requested on budget page 474, line 35. Both the truck and the operator are requested on the assumption that new space will be occupied at 1015 L Street during the budget year and that they will be needed to transport bulky material back and forth between that location and 1020 N Street. Our recommended approval of the position and purchase of the truck is conditioned on the occupancy of the new space and should be timed accordingly.

Franchise Tax Division

We recommend approval of two additional intermediate file clerk positions requested (budget page 475, line 41) on a permanent basis, as being justified by increased work load.

The other five additional positions requested are for the continuation of two programs previously authorized on a limited term basis, the

Franchise Tax Board—Continued

examiner II and two clerks for work in connection with exempt corporations and the accountant-auditor I and one clerk for checking sources of information for locating taxpayers. We recommend approval of all five of these positions for an additional year only, with termination date of June 30, 1955.

Personal Income Tax Division Headquarters

We recommend approval of the increase in temporary help of \$57,900 (budget page 476, line 57) which is the equivalent of 24 man-years of personnel at the junior clerical level as well as the six additional permanent clerical positions (budget page 476, lines 61 to 63, inclusive) as necessary to process an increased number of returns.

The 11 additional clerical positions (budget page 476, lines 65 and 66) for the federal comparison project, are recommended for approval on a one-year basis only, with termination dates of June 30, 1955.

Personal Income Tax Division, Los Angeles and San Francisco

2 Junior accountant-auditors, information at source program, Los Angeles -----	\$7,620
2 Junior accountant-auditors, federal comparison program, Los Angeles -----	\$5,670
2 Junior accountant-auditors, federal comparison program, San Francisco -----	\$5,670

We recommend approval of the clerical personnel for the federal comparison project (budget page 477, lines 45 and 46, and budget page 478, lines 26 and 27) on a one-year basis only, with termination dates of June 30, 1955. We also recommend approval of the two intermediate typist positions (budget page 477, line 40) on a work load basis.

We recommend disapproval of the six junior accountant-auditor positions (budget page 477, lines 39 and 44, and budget page 478, line 25). Four of these are requested for the federal comparison program: two in Los Angeles and two in San Francisco, and two in Los Angeles for an expansion of the information at source program in that area.

Our reason for recommending against these positions is that we believe the necessary technical man power requested can be absorbed by the existing technical staff.

There is evidence from several sources that a considerable disparity exists in the productivity of the technical staff in the Los Angeles and San Francisco areas which leads to the conclusion that the agency is not making the fullest use of its technical man power in the San Francisco area and could, accordingly, provide for the additional technical assistance requested by administrative action looking toward fullest utilization of its existing technical staff. Table 2 gives a comparison of audit activity in the Los Angeles and San Francisco areas for the last two fiscal years. The data in columns 2 and 3 are taken from schedules 1, 2 and 3 of the agency's cost of operations reports for the last two fiscal years, while those in column 1 are the man years of filled positions in the classes junior accountant-auditor to income tax examiner IV, inclusive, as shown by the printed budgets.

Franchise Tax Board—Continued

TABLE 2.
AUDIT PRODUCTION, INCOME TAX EXAMINERS, BY AREAS

	<i>Filled positions</i>	<i>Cases examined</i>	<i>Net revenue</i>	<i>Cases per man (2 ÷ 1)</i>	<i>Revenue per man (3 ÷ 1)</i>
	(1)	(2)	(3)	(4)	(5)
1951-52					
Los Angeles	51.5	10,893	\$2,272,502	211.5	\$44,126
San Francisco	40.9	4,241	482,765	103.7	11,804
1952-53					
Los Angeles	50.8	12,098	1,453,082	238.1	28,604
San Francisco	41.6	5,858	659,024	140.8	15,842

The foregoing indicates that in 1951-52 the cases per man examined in the Los Angeles area were 211.5 or over twice as many as in the San Francisco area where only 103.7 were examined, per man. The fact that the revenue per man in Los Angeles was \$44,126 as compared to \$11,804 in San Francisco would tend to indicate that Los Angeles examiners were not only handling more cases per man but a higher percentage of the larger and more difficult cases.

The same disparity between the two areas existed in 1952-53, although the differences were not as marked.

If the men in the San Francisco area in 1952-53 were to be reduced by six, i.e., from 41.6 to 35.6, and the same number of cases, i.e., 5,858, had been examined by the reduced staff, the cases per man would have been 164.5 and the revenue per man \$18,511, both still considerably below the corresponding averages for the Los Angeles area.

Table 3 gives a complete summary of the data in the agency's cost of operations reports from which the figures in Table 2 were obtained.

TABLE 3.
BOARD ASSESSED REVENUE AND CASES EXAMINED, PERSONAL INCOME
TAX DIVISION, 1951-52 AND 1952-53

	1951-52		1952-53	
<i>Audit operations</i>	<i>Number of cases</i>	<i>Net revenue</i>	<i>Number of cases</i>	<i>Net revenue</i>
Headquarters:				
Drawer audit	1,015,583	\$1,228,354	1,122,991	\$1,666,803
Revenue agents report unit	8,385	1,197,463	10,741	1,069,052
Specialist section	61,173	483,229	39,926	493,318
Primary audit	935	98,849	9,273	38,246
Sacramento Field Audit	304	19,271	318	77,841
Los Angeles Area:				
Field audit unit	10,303	1,123,704	11,385	1,180,183
Residence and withholding unit	590	1,148,798	713	272,899
San Francisco Area:				
Field audit unit	3,919	325,488	5,348	438,347
Residence and withholding unit	322	157,277	510	220,677
Total audit	1,101,514	\$5,782,433	1,201,205	\$5,457,366

Franchise Tax Board—Continued

Nonaudit operations	1951-52		1952-53	
	Number of cases	Net revenue	Number of cases	Net revenue
Headquarters:				
Preliminary examination unit -----	22,040	\$206,454	25,832	\$123,070
Information at source unit -----	5,533	135,093	15,075	256,227
Los Angeles Area:				
Information at source unit -----	28,896	553,593	56,972	963,028
Miscellaneous -----	4,878	79,748	9,672	300,941
San Francisco Area:				
Information at source unit -----	17,933	390,155	35,005	599,267
Miscellaneous -----	1,796	47,191	2,740	118,300
Total nonaudit -----	81,076	\$1,412,234	145,296	\$2,360,833
Grand total -----	1,182,599	\$7,194,667	1,346,501	\$7,818,199

STATE TREASURER

ITEM 142 of the Budget Bill

Budget page 479
Budget line No. 7

For Support of the State Treasurer From the General Fund

Amount requested -----	\$310,814
Estimated to be expended in 1953-54 Fiscal Year -----	291,243
Increase (6.7 percent) -----	\$19,571

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$1,857	\$1,857	---	480	42
Operating expense -----	11,158	11,158	---	480	61
Equipment -----	10,270	10,270	---	480	68
Total increase -----	\$19,571	\$19,571	---	480	75

RECOMMENDATIONS

Amount budgeted -----	\$310,814
Legislative Auditor's recommendation -----	310,814
Reduction -----	None

ANALYSIS

The following are significant changes in the budget request of the State Treasurer:

	Increase
Salaries and wages -----	—\$2,725
Operating expense	
Fiscal agency fees -----	11,874
Insurance -----	—6,562
Freight cartage and express -----	2,940
Equipment	
Additional -----	14,594
Replacement office -----	—1,259
Replacement automobile -----	—3,065

The decrease in salaries and wages is due principally to a new mechanized procedure to process Treasury trust warrants and bond accounts. Temporary help has decreased \$7,531 but is partially offset by

Treasurer—Continued

salary adjustments. Seven positions of proof machine operators are deleted and four punched card operators are added for the new procedure. We believe the anticipated savings of \$6,500 per year subsequent to 1954-55 Fiscal Year is conservative. After the system has been in operation sufficient time to correct minor procedural "bugs" and the personnel become familiar with the new methods, additional savings may be realized. A further reduction of personnel was effected in the accounting section of the Controller's office, due to this new procedure.

One-time costs are approximately \$8,326. The amount of \$2,940 is for freight, cartage and express on new equipment. The balance of \$5,386 is for operating expenses, rental of temporary equipment, purchasing electroplates and form tractors, etc., for the new procedure.

The increase of \$11,874 in fiscal agency fees is due to large issues of Veterans School Building Aid, and San Francisco Harbor Revenue Bonds which increases fees for redemption.

The increase of \$14,594 for additional equipment is due primarily to the purchase of bond storage lockers at a cost of \$12,000 and additional equipment for new procedure.

The decrease of \$6,562 in insurance is due to the purchase of two years' insurance for movement of securities at a savings of \$1,400. It was necessary to obtain funds from the Emergency Fund to purchase the two-year premium.

We recommend approval of the budget request as submitted.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

ITEM 143 of the Budget Bill

Budget page 482
Budget line No. 23

For Support of California Highway Patrol From the Motor Vehicle Fund

Amount requested	\$14,641,836
Estimated to be expended in 1953-54 Fiscal Year	13,117,552
Increase (11.5 percent)	\$1,524,284

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$992,902	\$308,311	\$684,591	489	9
Operating expense	182,973	182,973	---	489	10
Equipment	353,329	—78,375	431,704	489	11
Less:					
Increase in Rentals from Department of Motor Vehicles	2,465	2,465	---	489	21
Plus:					
Decrease in accident re- port fees	—6,600	—6,600	---	489	22
Decrease in payment for photographs	—785	—785	---	489	23
Total increase	\$1,524,284	\$407,989	\$1,116,295	489	25