

Hastings College of Law—Continued

State General Fund has appropriated additional moneys for the maintenance and operation of the plant.

Since 1954, the Legislature has appropriated \$49,000 annually to the support of Hastings College of Law. An amount of \$42,000 has been appropriated to cover the cost of operating and maintaining the college building and \$7,000 has been appropriated to meet the original agreement with the founder to pay the 7 percent on the grant of \$100,000. In 1958-59, the entire support of the college was assumed by the State in the amount of \$271,892.

ANALYSIS

The 1959-60 budget request is \$292,802, or 7.7 percent more than was expended last year. This increase is largely the result of an anticipated enrollment increase of 30 students, an expenditure of \$3,000 in library expense to purchase revised editions of some of the codes, and a provision for \$21,751 for a 5 percent salary adjustment. There is no merit salary adjustment procedure at the college and this increase is in line with general state policy.

Although the Hastings College of Law is a part of the University of California, it has its own governing board, which sets the level of student fees.

Until the 1952-53 academic year, Hastings charged a higher student fee than did the university in its Berkeley and Los Angeles law schools. However, public criticism of this differential in fee charges and the loss of some San Francisco residents to the school of law at Berkeley forced the Hastings governing board to reduce their fee from \$75 a semester to the \$37 a semester incidental fee which was being charged in the other branches of the university. Since that time increases in the university's incidental fee have been accompanied by similar increases in the fee charge at Hastings. The present fee charge is at the same level as the University of California, with the exception that Hastings students contract for their medical service separately.

It is our belief that the present law school fees at Hastings and the other university law schools are unrealistic and should be increased. For a discussion of the entire problem of student fees see page 281.

We recommend approval of the budget as submitted.

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BOARD OF CONTROL	
ITEM 111 of the Budget Bill	Budget page 254
FOR SUPPORT OF THE BOARD OF CONTROL FROM	
THE GENERAL FUND	
Amount requested	\$14,023
Estimated to be expended in 1958-59 Fiscal Year	13,557
Increase (3.4 percent)	\$466
TOTAL RECOMMENDED REDUCTION	None
GENERAL SUMMARY	

In accordance with provisions of the Government Code, the board is composed of the State Controller, the Director of Finance, both acting

Board of Control—Continued

ex officio, and a third member who is appointed by the Governor and who may be a state officer, acting ex officio.

The board considers, audits and recommends to the Legislature payment of claims against the State for which there has been no appropriation made. Also, the board sits as an adjudicative body, hearing appeals from departments and protests from vendors in regard to purchasing procedures.

The board makes general rules and regulations governing the presentation and audit of claims against the State, travel claims and allowances, determination of partial pay for monthly employees, payroll deductions for charitable contributions and U. S. Savings Bonds, use of state-owned vehicles, and determination of value of state-supplied living quarters and maintenance. It may adopt rules and regulations pertaining to merit awards to state employees who propose procedures and ideas which increase efficiency of state operations, or who perform special acts or services in the public interest.

ANALYSIS

The \$466 or 3.4 percent increase does not reflect any change in the level of service, since the increase is primarily due to the replacement of a standard typewriter with an electric one.

We recommend approval of the amount requested.

STATE CONTROLLER**ITEM 112 of the Budget Bill**

Budget page 255

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

Amount requested -----	\$2,871,123
Estimated to be expended in 1958-59 Fiscal Year -----	3,021,660
Decrease (5.0 percent) -----	\$150,537

TOTAL RECOMMENDED REDUCTION ----- None

GENERAL SUMMARY

The State Controller is an elective official, serving terms of four years. Apart from the administration of the functions performed by the various divisions of this office, he is a member of 17 boards and commissions. One of the major functions, expressed in the Constitution, of this office is the drawing of warrants for all expenditures made by the Government of the State of California. To insure the legality, correctness and provisions of law for payment, Government Code Section 12410 provides for an audit by the Controller of claims against the State.

Other functions, in general, of the Controller are as follows:

1. Keeps centralized accounts of all revenues and expenditures of the various departments of State Government.
2. Administration of unclaimed property.
3. Prescribes forms to be used for county budgets and reports and publishes an annual report of the transactions of governmental entities.

State Controller—Continued

4. Audits claims and pays refunds for taxes paid for nonhighway use of fuel; collects sales and use tax on such fuel.
5. Administers the inheritance and gift tax laws.
6. Collects property tax on lands tax-deeded to the State and sells lands which have not been redeemed.

ANALYSIS

The total support, including contributions for employees' retirement, for the Office of State Controller is financed from several funds, as follows:

<i>Fund</i>	<i>Proposed expenditures for 1959-60</i>	<i>Item No.</i>
General	\$3,064,123	112
Motor Vehicle Fuel Fund	563,612	113
Motor vehicle transportation tax	195,051	115
Redemption tax	211,641	114
State school building aid	125,296	116
Total expenditure	\$4,159,723	

Comments on the several functions of the Controller's Office, supported by the above special fund appropriations, will be given in this analysis under the main support appropriation from the General Fund, and the amounts from special funds above will be shown under the item numbers without further comment.

Although increases in workload for certain programs are anticipated for the Fiscal Year 1959-60, the personnel man-years requested show a decrease of 41.9 man-years as compared with the current fiscal year. The Office of the State Controller has improved a number of operating procedures which has helped make cost reductions possible.

Moving expense of \$4,000 and additional rental of \$91,343 are the only significant items of increase in this proposed budget request. These expenses are caused by the transfer of the functions and personnel of the Accounting and Disbursements Divisions from the Capitol Annex to the Medical-Dental Building at 11th and L Streets.

Accounting Division

Looking forward to future years when further increases in workload and increased services will be required, we believe that further changes in functions now being performed are required, to bring about economies and to process increased workloads with minimum expenditures. Our recommendations are as follows:

A thorough study should be made of the detailed posting now being made in the Accounting Division for expenditures and revenue transactions of the various departments of State Government. At present, accounts for all transactions are being kept in detail in the departments on an accrual basis, which give an up-to-date status of the financial condition of the State. The Controller keeps his control accounts during the year only on a cash basis, which does not reflect the true financial condition of the State or any department at any one time, except at the close of the year when accrual figures are given by the departments to the Controller and pencil figures are posted to prepare the annual

State Controller—Continued

report. We agree that some sort of central accounts should be kept, but we question the contents of the accounts and the purpose for which they are kept. Furthermore, we recommend that serious consideration be given to the transfer of the function of control accounting to the Department of Finance.

Disbursements Division

In spite of anticipated increases in work for the Fiscal Year 1959-60, no request is made for additional personnel. This is an example of refinement of procedures, permitting present staff and machinery to absorb to a degree additional workload. Two clerk positions, which were added on a temporary basis in July, 1958, for the direct mailing of warrants will be continued on a permanent basis.

The following table shows the workload volumes for warrants and savings bonds, which are the major functions of the Disbursements Division:

<i>Fiscal year</i>	<i>Warrants issued</i>	<i>United States savings bonds issued</i>	<i>Warrants mailed directly to payees (New program, 7/1/58)</i>
1955-56 -----	2,459,147	65,958	
1956-57 -----	2,663,196	96,755	
1957-58 -----	2,890,249	110,212	
1958-59 -----	3,200,250	116,000	1,703,000
1959-60 est. -----	3,376,000	122,000	1,864,500

A comprehensive study is being made of the latest types of electronic equipment adaptable for this work. In the near future, the administrative staff will make a selection of machines and techniques which will be capable of handling future increased workloads more efficiently and at lower costs.

Inheritance and Gift Tax Division

Slight increases in workload are anticipated for the Fiscal Year 1959-60, yet additional employees are not requested. An attempt is being made to improve the program. An administrative assistant was employed during the current year to improve the procedure. However, we believe the entire concept of the assessment and collection of these taxes should be changed. Our recommendations regarding changes can be found in the fore part of this analysis.

County Budgets and Report Division

No additional positions are requested for the functions performed by this division.

Data on financial transactions of local governmental entities is gathered and reports prepared. The Collier-Burns Act of 1947 gave the Controller the responsibility for reviewing and reporting on the use of gas tax moneys apportioned to cities and counties. The usefulness of these reports in relation to the amount of work done and the costs involved is questionable. A study of these and other reports is contemplated during the coming interim.

State Controller—Continued

Tax Collection and Refund Division

No new positions are requested for this division. As we have stated in prior analyses, we do not believe this function should be in the Controller's Office. Our recommendation regarding the transfer of these functions and related personnel can be found in the fore part of this analysis.

Tax-Deeded Lands Division

The workload in this division decreased to some extent in the Fiscal Year 1957-58 and correspondingly one district manager position was abolished. This function derives its support from the Redemption Tax Fund. The anticipated balance in this fund as of June 30, 1959, is \$695,769.

Audits Division

For several years we have taken exception to the method used to pre-audit claims, the principal function of this division, and recommend reductions in staff which would have resulted if these recommendations had been put into effect. The firm of Price Waterhouse & Co. not only concurred in these recommendations, but stated that the Office of the State Controller should be abolished. The Division of Organization and Cost Control, Department of Finance, in a survey of pre-audit functions, made recommendations to reduce the personnel and change the basic concept of the preaudit functions. The Controller's Office did accept, in part, these recommendations and corresponding reductions in staff were made in the budget requests of the Controller's Office. Furthermore, some improvements in procedures were made by the Controller's Office, which resulted in reductions to the staff in spite of increased workloads.

This budget reflects a further reduction of 38 positions. The claims audit function shows a reduction of 18 positions at a savings of \$81,336. This is in line with recommendations made in our analysis of the 1958-59 Budget Act. Twenty positions are being transferred from the field audit staff, 14 of these to the Department of Social Welfare and six to the Department of Public Health. Audit functions will remain the same. The Federal Government will absorb approximately 40 percent of the cost of the positions being transferred to the Department of Social Welfare. The cost of the positions transferred to the Department of Public Health will be supported entirely from state funds.

We recommend approval of the budget as submitted subject to the matters referred to requiring legislation.

STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 262

FOR SUPPORT OF TAX COLLECTION AND REFUND DIVISION AND
THE BUREAU OF HIGHWAY ACCOUNTS AND REPORTS FROM THE
MOTOR VEHICLE FUEL FUND

Amount requested	\$528,612
Estimated to be expended in 1958-59 Fiscal Year	514,348

Increase (2.8 percent)	\$14,264
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TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS

The collection of vehicle transportation tax, motor vehicle fuel tax, and the processing of gasoline tax refunds for nonhighway use are the major functions of this division.

Our recommendation to transfer these functions to the Board of Equalization is contained in another section of the analysis.

This request provides for the same level of service provided in the current year. We recommend approval, subject to our other recommendations mentioned above.

STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 262

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

Amount requested	\$196,641
Estimated to be expended in 1958-59 Fiscal Year	196,886

Decrease (0.1 percent)	\$245
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TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS

The principal functions of this division are as follows:

1. Administration of procedures for tax sales, tax deeds, and redemptions of lands sold or deeded to the State for nonpayment of taxes.
2. Furnishing information to county officials concerning levying and collection of taxes on property.
3. Administration of property tax deeded to the State and providing services to counties in connection with delinquent tax accounting.

We recommend approval of this item in the amount requested.

STATE CONTROLLER

ITEM 115 of the Budget Bill

Budget page 262

FOR SUPPORT OF TAX COLLECTION AND REFUND DIVISION FROM
THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	\$182,551
Estimated to be expended in 1958-59 Fiscal Year	176,315

Increase (3.5 percent)	\$6,236
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TOTAL RECOMMENDED REDUCTION	None
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State Controller—Continued

ANALYSIS

The amount requested covers the costs, chargeable to the Motor Vehicle Transportation Tax Fund, of collecting taxes levied under the provisions of the motor vehicle transportation license tax and the collection of taxes covered by the motor vehicle fuel tax and the processing of gasoline tax refunds for nonhighway use.

Subject to conditions mentioned in Item 112, we recommend approval of the amount requested.

STATE CONTROLLER

ITEM 116 of the Budget Bill

Budget page 263

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

Amount requested	\$116,796
Estimated to be expended in 1958-59 Fiscal Year.....	119,235
Decrease (2.0 percent)	\$2,439

TOTAL RECOMMENDED REDUCTION.....	None
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ANALYSIS

The Controller audits projects where the State has provided financial assistance for school construction for school districts that are unable to provide facilities due to lack of bonding capacity.

In our analysis for the current fiscal year, we pointed out the duplication of audits performed by the Local Allocations Division, Department of Finance, and those performed by the Controller. Mutual arrangements between the two departments have eliminated this duplication.

We recommend approval of the amount requested.

BOARD OF EQUALIZATION

ITEM 117 of the Budget Bill

Budget page 263

FOR SUPPORT OF GENERAL ACTIVITIES FROM THE GENERAL FUND

Amount requested	\$11,458,000
Estimated to be expended in 1958-59 Fiscal Year.....	11,349,734
Increase (1.0 percent)	\$108,266

TOTAL RECOMMENDED REDUCTION.....	\$420,922
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GENERAL SUMMARY

The Board of Equalization is a constitutional agency consisting of four members elected by districts and the State Controller, an ex officio member. Its chief administrative officer is the executive secretary.

It administers several major tax programs, the state sales and use tax, which is the largest revenue source for the State General Fund, the local sales and use tax for counties and cities under the Bradley-Burns Law on a wholly reimbursable contract basis, three highway users taxes in whole or in part, all taxes on alcoholic beverages, the private car tax, and participates in the administration of the gross premiums tax on insurance companies.

General Activities—Continued

It also administers four programs relating to local property tax. It places valuations on all public utility properties, it makes sample appraisals of locally assessed properties for purposes of intercounty equalization, it renders advice and assistance to county assessors and it performs mapping services for counties on a wholly reimbursable contract basis.

It also handles appeals from the actions of the Franchise Tax Board under the personal income tax law and the bank and corporation tax law.

It has a currently authorized staff of 2,494.4, organized into seven main division or units distributed geographically among 62 offices in California and two outside the State.

All of its operations are financed from the General Fund except those relating to highway taxes, which are financed from three special funds, and account for about 14 percent of total agency expenditures.

The distribution of the currently authorized staff, by divisions, is as follows:

<i>Division</i>	<i>Staff</i>
Administration	246.9
Research and Statistics (sample appraisals)	65.1
Assessment Standards:	
Assistance unit	26.7
County contract mapping	56.4
Valuation	57
Sales Tax	1,794.5
Bureau of Tax Assessment (beverage tax)	41
Total, General Fund activities	2,287.6
Highway taxes (special funds)	206.8
Total	2,494.4

In June, 1957, the Budget Division and the Organization and Cost Control Division of the Department of Finance pointed out to the agency the need for an organizational study of the top structure of the Board of Equalization, and as a result such a study was made by an outside consultant, Mr. George Lawrence Hall of San Francisco, and a report submitted to the agency in September, 1957. One of the major recommendations of this report was that a further study should be made by the staff of the agency itself, directed, among other things, toward highlighting areas in which improvements in procedures and systems are indicated. Such a study was started early in 1958 by a group of 16 staff members in the agency, including representatives of the major operating divisions and headed by a senior administrative analyst. The study involved the use of the equivalent of between 9 and 10 units of personnel on a full-time basis for a six months' period at a direct salary cost of about \$39,000, and included some 1,600 interviews with other staff members in all parts of the State. Mr. George Lawrence Hall participated in this study as a consultant and received \$10,588 for his services, including those involved in the earlier report.

In June and July of 1958 a three-volume report was issued, entitled "Basic Internal Study of the State Board of Equalization,"

General Activities—Continued

Volume I, "Organization Plan," Volume II, "Major Recommendations" and Volume III, "Supplemental Recommendations."

The 1958 reports may be regarded as modifications and refinements of the original 1957 Hall Report, and the two reports may be regarded as part of the same overall project, completed at a direct cost of approximately \$50,000.

A review of the reports indicates to us that the study was both thorough and objective and we believe its recommendations as to organizational changes are basically sound. In general the study stresses the need for:

"1. Clarification and strengthening of lines of authority, responsibility and accountability.

"2. Delegation of authority and responsibility to the lowest point at which sufficient information is available for decision making.

"3. Establishment of policies to guide the work at operational levels.

"4. Centralization and strengthening of administrative controls.

"5. Improved services to the public and operating economies . . . by combining like functions, wherever advantageous, and eliminating duplications in the organization structure."

Elsewhere in this report we are recommending the establishment of a single department of revenue, headed by a director appointed by the Governor, to provide for the centralized administration of all state taxes, and we point out further that we do not believe that an agency headed by a board, such as the Board of Equalization, is best suited to constitute such a department since such an organization is not conducive to the development of the type of strong administrative direction needed to insure uniform tax administration on a statewide basis. We believe the findings of the study conducted by the board's own staff tend to support this view.

The following new positions have been created in the agency during the current year, through the elimination of five existing positions with equivalent aggregate salaries, in furtherance of the organizational changes recommended in the report:

<i>Class</i>	<i>Salary range</i>
Assistant executive secretary -----	\$1,250-1,350
Administrative service officer III -----	905-1,050
Sales tax compliance co-ordinator -----	676- 821
Budget officer -----	613- 745

The new assistant secretary position was created to relieve the executive secretary of responsibility for directing the line activities of the agency. The administrative service officer III position was established, reporting direct to the assistant secretary, to assume full responsibility for direction of certain administrative and staff units, some of which had formerly reported directly to the secretary and some of which had been in a separate service division. These units include administrative

General Activities—Continued

analysis, accounting, tabulating and office services. The sales tax compliance co-ordinator position was created in the sales tax division, headquarters office, to develop and interpret uniform compliance programs and practices for the statewide administration of the sales tax compliance program. We believe these positions will generally strengthen the administrative structure.

The budget officer position, reporting direct to the new administrative service officer III, was created to provide assistance to that officer in budgetary matters. In this connection it is noted that there is an existing accounting officer IV position at a higher salary, \$745-905, also reporting to the administrative service officer III, and that the official job definition for an accounting officer IV position reads "Under direction, to have charge of the accounting and budgetary work of one of the larger state agencies and to direct a variety of complex accounting and related business management work including heavy administrative responsibilities; and do other work as required." The accounting officer IV supervises a staff of only 27.5 positions, all in clerical classes. We believe that a position at the accounting officer IV level should be able to provide the administrative service officer III, with all needed assistance in budgetary matters and recommend that the matter be further studied by the board and by the State Personnel Board.

Included in the three-volume report on the "Basic Internal Study" are a number of recommendations which have definite budgetary implications, which will be commented upon later.

We believe these recommendations should be given the same consideration as those relating to the change in the organizational structure which are the basis for the creation of the four new positions previously mentioned.

Accordingly, in several instances in the succeeding analysis we have recommended reductions in existing personnel which are based directly on findings and recommendations contained in the report.

ANALYSIS

Summary of Reductions		Budget	
	Amount	Page	Line
Research and statistics:			
1 junior research technician	\$5,232	266	14
2 assistant real property appraisers.....	12,120	266	15
Assessment standards	147,770	266	79
Sales tax—headquarters:			
3 clerical positions	12,000	268	13
6 positions, checking unit	36,000	268	20
8 positions, audit review unit	50,000	268	20
Sales tax—districts:			
30 auditor positions	157,800	268	45
Total	\$420,922		

General Activities—Continued

Research and Statistics

We recommend deletion of the following additional positions requested for 1957-58, for \$17,352.

	Amount	Budget	
		Page	Line
1 junior research technician -----	\$5,232	266	14
2 assistant real property appraiser -----	12,120	266	15
Total -----	\$17,352		

The major activity of the Division of Research and Statistics is to conduct sample appraisals of local property tax assessments in order to determine assessment ratios for purposes of intercounty equalization. A staff of 50 appraisers is currently authorized for this work during 1958-59 and a staff of 45 during 1959-60, without the proposed increase.

During 1956-57 sample appraisals were made at a rate which contemplated appraisals in approximately one-fourth of the counties each year. The agency requested additional staff for 1957-58 to permit appraisals in one-half of the counties each year. The Legislature, however, granted an increase on the basis of a program which would provide for appraisals in approximately one-third of the counties each year, which is the basis on which the program is being conducted during the current and budget years.

At the time the increase in staff was granted for 1957-58, six positions were included with termination dates of June 30, 1959, the ending date of the first three-year cycle, in order to complete the cycle on that date since less than one-third of the counties were sampled in 1956-57.

The budget request is for the continuation of three of these positions on a permanent basis, since it is stated that they are needed to provide adequate staff for continuing the appraisals on a three-year cycle basis.

We do not recommend approval of the positions at this time, since we are not satisfied that sufficient experience has been had with the program in its present form, to provide firm data as to their actual need.

During 1956-57 the sample appraisals were made by staff which was under control of the Division of Assessment Standards. As of July 1, 1957, the staff engaged in sample appraisals was transferred to the Division of Research and Statistics, with considerable resulting confusion during the transition period. Accordingly, we do not believe the operation has been under its present management long enough to provide assurance that the operation cannot be continued at its present level, through increased efficiency, without the requested additional staff.

Assessment Standards—Assistance Unit

We recommend that this program be reduced by one-half, or \$147,770, as shown on budget page 266, line 79.

During the 10-year period, starting with 1948-49 and ending with 1957-58, approximately \$1,800,000 has been spent on the assistance program to county assessors, with \$144,101 spent in 1948-49 and \$250,901 in 1957-58. The amount estimated to be spent during 1958-59 is \$285,097, and the amount requested for 1959-60 is \$295,539.

General Activities—Continued

The work involved in the assistance program consists of two general categories, as follows:

1. Surveys in each county pursuant to Sections 15640-15645 of the Government Code to determine the adequacy of the practices of the assessors, and activities not related to a particular county, such as approval and design of forms, the issuance of general instructions in the form of manuals and handbooks, conferences involving problems common to a number of counties, etc., and

2. Appraisal instruction in individual counties on request.

During the 52-week period from December 8, 1957 to December 6, 1958, the agency reported man-days of direct time distributed as follows:

	<i>Man-days</i>	<i>Percent</i>
Appraisal instruction -----	1,843	45.3
All other -----	2,221	54.7
Total -----	4,064	100

Significant items in the "all other" category were writing and revising handbooks and manuals 1,051 man-days, conferences and meetings 350 man-days and assessment surveys 108 man-days.

Approximately half of the time spent on appraisal instruction was spent in five counties, which had a combined population of 656,300, or 4.4 percent of the State's total of 14,752,000, on the basis of estimated population at July 1, 1958.

The appraisal instruction program consists in the actual conduct of training classes for members of the staffs of the county assessors.

We do not believe that it is a proper function of the State to undertake to train the staffs of the various county assessors, but that such a function should be conducted and paid for by the counties themselves if needed.

Our recommendation for a 50 percent reduction in the budget for the assistance program of the Division of Assessment Standards is made with the intention that state funds for the appraisal instruction program be eliminated.

We can see no objection to the State undertaking to furnish instructional facilities to county assessors *provided the program is paid for by the counties* in the same manner as mapping services or co-operative personnel services, for each of which class of service, counties and other local agencies are now paying the State in excess of \$200,000 per year.

The following comments appear on pages 88 and 89 of Volume II of the "Basic Internal Study" previously mentioned.

"County assessors have never been fully informed of the assistance that is available to them. Their impression seems to be they can receive anything they want although it might take a little time. This feeling of being able to receive unlimited assistance appears to have been instilled over a period of years by the division itself, by giving almost unlimited assistance even to the point of making actual appraisals. . . .

General Activities—Continued

fact that all working papers are retained in the district office. This precludes an adequate review in headquarters.

"It is our opinion that primary responsibility for practical administration of the field audit program, including routine review functions, should rest with district offices, subject to centralized control from headquarters office.

"Headquarters review functions, as distinguished from billing processes, should be a responsibility of the Statewide Principal Auditor. It is recommended that he have a small staff of highly skilled auditors with extensive field experience to assist him in the planning, development, and enforcement of the statewide audit program.

"In order to maintain effective control and achieve uniformity in the board's audit program this specialized unit should carry on a regular program of analysis of audits with working papers from each district. This, of course, would be done on a test check sampling basis."

It is our belief that a revision of the review program, such as that recommended, could be accomplished with the reduced staff by transferring major responsibility for the billing operation to district offices.

In this connection it should be noted that in two other state agencies administering tax programs, procedures somewhat comparable to those recommended are in effect.

In the Franchise Tax Board far less than one-half of the personal income tax audit reports received in headquarters are reviewed before a billing is made, entire reliance being placed on the field office review in such cases.

In the Department of Employment, which administers the unemployment insurance tax, actual billing, in most cases, is made at the field office level.

In our 1958-59 analysis, page 330, we made mention of the sales tax audit review unit in headquarters, expressed the view that unnecessary duplications existed, suggested the adoption of procedures comparable to those used in the Department of Employment and recommended that the matter be studied.

We believe that comments in the "Basic Internal Study" generally confirm these views.

Sales Tax—Districts

The printed budget on page 268, lines 54, 55 and 56, provides for the elimination of 23 auditor positions during 1959-60. Three of these positions are being abolished because the use of additional adding machines, which have been provided, will increase the productivity of the remaining staff. The other 20 positions are being eliminated because, in effect, they are not being used, as indicated by an excessive number of vacancies. We are in agreement with the action proposed in the budget.

We recommend a further reduction in the existing audit staff of approximately 30 auditors, with total salaries of \$157,800, budget page 268, line 45.

General Activities—Continued

Our purpose in making this recommendation is to provide funds for a proposed increase of 30 auditors in the audit staff of the Franchise Tax Board, as detailed on budget page 300, lines 5, 8, 11 and 50, and on budget page 301, line 6, at a total cost of \$157,800. We believe that this increase is warranted, but that in the interests of economy, it should be financed by a shift of audit manpower from the sales tax audit program to that of the Franchise Tax Board, rather than by an overall budget increase. The recommended reduction in the sales tax audit program will have that effect.

Our reason for proposing this shift in manpower is that currently, as well as over the last seven-year period, the audit programs of the Franchise Tax Board have been about $4\frac{1}{3}$ times as productive, in terms of effort expended, as that in the Sales Tax Division. The Franchise Tax Board administers the bank and corporation tax law and the personal income tax law, and these two taxes, together with the sales tax, constitute the three main revenue sources of the General Fund.

The following table shows audit revenues and audit costs of these three programs over the last seven-year period.

Audit Revenues and Costs, Seven Years Ended June 30, 1958

<i>Tax</i>	<i>Revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Bank and corporation tax-----	\$54,577,860	\$3,819,622	\$14.29
Personal income tax -----	39,161,361	9,187,677	4.26
Subtotal -----	\$93,739,221	\$13,007,299	\$7.21
Sales tax -----	67,282,076	40,628,741	1.66
Total -----	\$161,021,297	\$53,636,040	\$3.00

It will be noted that bank and corporation tax audits produced over \$54,000,000 in additional revenue at a total cost of slightly under \$4,000,000, or at the rate of \$14.29 for each dollar of cost, while the sales tax audits produced \$67,000,000 in additional revenue, at a cost of about \$40,500,000, or at the rate of \$1.66 for each dollar of cost. This means that the bank and corporation tax audits were about $8\frac{1}{2}$ times as productive as the sales tax audits in terms of effort expended as measured by cost.

We believe that, in general, a high ratio of revenue to cost indicates the likelihood that an expansion of the program would be profitable while a low ratio, on the other hand, indicates the likelihood that a program could be curtailed with a minimum loss of revenue. It follows that a higher overall yield from a given audit effort, as between several different taxes, would result from a deployment of the staff which gave consideration to these ratios.

The reason why we believe that a reduction in the sales tax audit staff would not seriously impair the audit revenue is that the program is, to a degree at least, selective, and could be curtailed by eliminating the least productive segments.

Elsewhere in this report we are recommending that a department of revenue should be established for the centralized administration of all state taxes. One of the advantages of such a department is that

General Activities—Continued

it would permit the pooling of audit resources and facilitate their use in areas where the need is greatest as evidenced by the size of the "pickup" to be expected. We believe that an administrator of such a unified department would deem it good business to so deploy his audit staff, and our recommendation is intended to accomplish a like result within the framework of the existing organizational structure for state tax administration.

Entirely aside from the relationship between sales tax audits and audits made by the Franchise Tax Board from the standpoint of recovery, we believe that the recommended reduction in the sales tax audit program can be justified on other grounds.

Tables 1, 2 and 3 which follow, are based on cost data which the agency has been keeping since 1950-51. Costs shown include all direct costs as well as all overhead items, including some not directly budgeted by the agency, while net revenues are compiled on a basis which approximates as nearly as possible the actual cash to be collected after deducting an estimate for uncollectibles.

Table 1—Summary of Sales Tax Audit Results, by Years, 1950-51 to 1957-58

Year (1)	Audit hours (2)	Man- years (3)	Cost		Net revenue	
			Total (4)	Per hour (5)	Total (6)	Per dollar of cost (7)
California audits:						
1950-51-----	913,829	507.7	\$4,335,774	\$4.74	\$7,683,786	\$1.77
1951-52-----	837,647	465.4	4,620,989	5.52	7,280,715	1.58
1952-53-----	848,966	471.6	5,301,944	6.25	7,525,672	1.42
1953-54-----	835,732	464.3	5,416,139	6.48	8,239,479	1.52
1954-55-----	821,970	456.7	5,426,314	6.60	8,086,010	1.49
1955-56-----	754,970	419.4	5,307,720	7.03	8,596,599	1.62
1956-57-----	754,958	419.4	5,792,164	7.67	10,354,023	1.79
1957-58-----	812,938	451.6	6,681,692	8.22	10,259,214	1.54
Totals-----	6,581,010	457.0	\$42,882,736	\$6.52	\$68,025,498	\$1.59
Out-of-state audits:						
1950-51-----	28,120	15.6	\$176,867	\$6.29	\$815,930	\$4.61
1951-52-----	22,830	12.7	186,929	8.19	691,476	3.70
1952-53-----	24,443	13.6	214,055	8.76	806,153	3.77
1953-54-----	23,691	13.2	197,583	8.34	572,934	2.90
1954-55-----	24,189	13.4	207,542	8.58	448,168	2.16
1955-56-----	41,039	22.8	339,803	8.28	1,309,908	3.85
1956-57-----	44,801	24.9	419,337	9.36	1,247,932	2.98
1957-58-----	48,455	26.9	516,530	10.66	1,863,793	3.61
Totals-----	257,568	17.9	\$2,258,646	\$8.77	\$7,756,294	\$3.43
Total audits:						
1950-51-----	941,949	523.3	\$4,512,641	\$4.79	\$8,499,716	\$1.88
1951-52-----	860,477	478.1	4,807,918	5.59	7,972,191	1.66
1952-53-----	873,409	485.2	5,515,999	6.32	8,331,825	1.51
1953-54-----	859,423	477.5	5,613,722	6.53	8,812,413	1.57
1954-55-----	846,159	470.1	5,633,856	6.66	8,534,178	1.51
1955-56-----	796,009	442.2	5,647,523	7.10	9,906,507	1.75
1956-57-----	799,759	444.3	6,211,501	7.77	11,601,955	1.87
1957-58-----	861,393	478.5	7,198,222	8.36	12,123,007	1.68
Totals-----	6,838,578	474.9	\$45,141,382	\$6.60	\$75,781,792	\$1.68

General Activities—Continued

Table 1 is a summary by years showing the California audits and the out-of-state audits separately, the latter being made at out-of-state points of taxpayers doing business in California but maintaining their records elsewhere. Most of this auditing is done by staff resident in New York and Chicago.

The manpower used on out-of-state audits is comparatively small, 26.9 man-years in 1957-58 as compared with 451.6 man-years on California audits, and while they have been more expensive to make, as shown by the cost per hour figures, their recovery is much greater in terms of revenue per \$1 of cost.

The agency in recent years has completed two sample audit programs, the first for a three-year period ended December 31, 1952, and the second for a three-year period ended December 31, 1954. These were intended, among other things, to develop data that would be helpful for a better development of the audit staff from the standpoint of productivity, both as between various kinds of businesses and on a geographical basis. Starting July 1, 1954, as a result of data developed in the first program the headquarters office started furnishing district offices, where final responsibility for selection of the individual taxpayers to be audited rests, with more complete data than formerly was the case as to taxpayers subject to audit, by broad general groups according to size and class of business. The agency refers to this as its "new audit selection system." The second sample audit program, the report on which was completed in June 1955, among other things, contained data bearing on the geographical distribution of the staff. An examination of the data on Table 1, however, does not indicate any marked change in the cost revenue relationship, particularly as to the California audits, between 1953-54 and 1957-58. While it is true that the total net revenue has increased, costs have also increased, both in total and in costs per hour. Careful evaluation of costs, in relationship to results, however, we regard as a proper function of management.

It will be noted that the revenue per \$1 of costs for California audits for 1957-58 is below the eight year average, that for out-of-state audits above, while that for total audits is exactly the same as the eight year average.

During 1956-57 and 1957-58, audits were made for local sales and use tax purposes under the Bradley-Burns Law, as well as for state purposes, a single audit serving both purposes. Both the costs and the net revenue attributable to local sales and use tax are included in the totals shown in Table 1. The costs involved are not available. The revenue included, however, can be estimated rather accurately from available data, and amounted to \$675,234, or 5.8 percent of the total in 1956-57 and \$2,150,621, or 17.7 percent of the total in 1957-58. If the local sales tax audit revenue is excluded from the totals shown under total audits in Table 1 for these two years, the state revenue amounts to \$10,926,721 in 1956-57 and \$9,972,386 in 1957-58.

This represents a decrease of almost \$1,000,000 from 1956-57 to 1957-58.

General Activities—Continued

Table 2 shows the relationship between audit revenue and costs for 1957-58, by individual districts, while Table 3 shows the same data for the eight-year period.

Both tables indicate a variation as between individual districts, that in Table 3 being the more significant, since it indicates that the condition is not due to unusual conditions in a given year.

The data in Table 3 indicates to us the need for redeployment of staff on a geographical basis, a condition which was indicated by the 1955 sample audit study and a condition which we have commented upon for a number of years.

Table 2—Sales Tax Field Audit Revenue and Costs by Districts, 1957-58

	<i>Net revenue</i>	<i>Audit cost</i>	<i>Revenue per \$1 of cost</i>
San Bernardino -----	\$892,172	\$422,307	\$2.11
Santa Rosa -----	393,828	190,421	2.07
Redding -----	135,517	73,667	1.84
Los Angeles -----	4,470,768	2,630,486	1.70
San Diego -----	575,271	355,040	1.62
Marysville -----	228,981	152,359	1.50
Sacramento -----	583,508	428,733	1.36
San Jose -----	501,982	378,783	1.33
Santa Barbara -----	171,930	133,712	1.29
Oakland -----	751,798	604,931	1.24
Fresno -----	415,585	346,937	1.20
San Francisco -----	1,137,874	964,316	1.18
Totals California -----	\$10,259,214	\$6,681,692	\$1.54
Out-of-state -----	1,863,793	516,530	3.61
Totals -----	\$12,123,007	\$7,198,222	\$1.68

Table 3—Sales Tax Field Audit Revenue and Cost by District for Eight Years
Ended June 30, 1958

<i>District</i>	<i>Net revenue</i>	<i>Audit cost</i>	<i>Revenue per \$1 of cost</i>
San Bernardino -----	\$4,226,971	\$2,401,975	\$1.76
Los Angeles -----	29,410,223	17,144,040	1.72
Santa Rosa -----	2,222,034	1,295,613	1.72
Redding -----	954,503	570,854	1.67
Marysville -----	1,419,717	905,731	1.57
Oakland -----	5,667,976	3,742,095	1.51
San Jose -----	3,584,548	2,382,227	1.50
San Francisco -----	8,528,402	5,853,509	1.46
Sacramento -----	3,810,455	2,613,452	1.46
Fresno -----	3,023,639	2,113,798	1.43
Woodland -----	887,429	629,783	1.41
San Diego -----	3,255,479	2,356,881	1.38
Santa Barbara -----	1,034,122	867,778	1.19
Total California -----	\$68,025,498	\$42,882,736	\$1.59
Out-of-state -----	7,756,294	2,258,646	3.43
Totals -----	\$75,781,792	\$45,141,382	\$1.68

General Activities—Continued

In this connection we note the following comments in the "Basic Internal Study," Volume II, page 26:

"Throughout much of the State we received information and indications of over-staffing and/or maldistribution of audit staffs. In several districts or offices the audit supervisors stated that they did not have enough worthwhile audits to keep their staff busy and were forced to make audits which did not appear warranted by any standards. In one district, the main office audit staff is too large, while other offices of the district are understaffed.

"Another indication of the lack of proper distribution of the audit staff is that some offices are auditing only about 10 percent of the accounts on their audit selection list while other offices are auditing 50 to 60 percent of their accounts.

"While the foregoing applies to field auditors, of the junior, Grade I and Grade II levels, the same problem exists with respect to crew chiefs, Grade III, and to some degree with supervising auditors. While nearly all crew chiefs and supervisors state that about seven to nine men represent a proper crew size it was found that few crew chiefs had even the stated minimum number of men. Many crews consisted of only four or five men. This is highly indicative of an overstaffing of crew chiefs. As the staff and crew chiefs might decrease, direct effects on the staff of supervising auditors would result."

We also note that in a bulletin dated July 17, 1958, from the Principal Sales Tax Auditor to All District Tax Administrators regarding Summary of Results of Audit Program for June, 1958, and Year to Date, the following statement appears:

"We know that there is an uneven deployment of the audit staff in relation to the workload."

We believe that the reduction in staff of 30, which we are recommending, would encourage the agency to remedy this condition.

Tables 4, 5 and 6 present an analysis of the audit results from a somewhat different standpoint.

They show the audits for each of the years 1954-55 and 1957-58 segregated into four groups, those resulting in refunds, those resulting in no-change, those resulting in deficiencies less than cost and those resulting in deficiencies of more than cost. The first three groups, for which subtotals are shown are those which we regard as nonprofitable, and we believe that the percentage of total time spent on such audits is highly significant since it is obvious that this part of the program could be curtailed without any loss of revenue.

Some improvement is shown in this respect in all three tables as between 1954-55 and 1957-58 since the percentage of time on nonprofitable audits as shown in column 5 decreased from 54.6 percent to 53.4 percent for the California audits, from 41.2 percent to 28.8 percent for

General Activities—Continued

the out-of-state audits, and from 54.2 percent to 52.0 percent for all audits.

Our view is that a percentage of 53.4 percent, as shown for the California audits for 1957-58, is still far too high and that greater selectivity and better management could result in reducing this percentage substantially.

Percentages for the individual California districts ranged from a low of 49.7 percent to a high of 63.0 percent in 1954-55, and from a low of 43.1 percent to a high of 59.6 percent in 1957-58, with eight of the districts showing an improvement as between the two years.

We believe that the wide variations among districts in this respect is another indication of the need for redeployment of the staff geographically.

The data in Tables 4, 5, and 6 are not strictly comparable to those in Tables 1, 2, and 3 since audit costs and net revenues are more accurately stated in the latter and there are certain other minor differences, due to the limitations of the mechanical processes by which the data were compiled, although the data in Tables 4, 5, and 6 are comparable for the two years shown.

Table 4—California Sales Tax Audits, 1954-55 and 1957-58, Classified as to Individual Audits Producing More Than or Less Than Cost

Year and Class of audit	Audits		Hours		Net Revenue	Cost
	Number	Per- cent	Number	Per- cent		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1954-55 Year						
A—Refunds -----	2,254	5.1	44,456	5.4	—\$690,546	\$274,867
B—No change -----	12,875	29.1	119,390	14.5		734,661
C—Deficiencies under cost ---	12,470	28.1	285,241	34.7	828,628	1,776,568
Subtotal -----	27,599	62.3	449,087	54.6	\$138,082	\$2,786,096
D—Deficiencies over cost ----	16,725	37.7	372,970	45.4	8,319,794	2,319,791
Total -----	44,324	100.0	822,057	100.0	\$8,457,876	\$5,105,887
1957-58 Year						
A—Refunds -----	2,243	6.1	51,728	6.4	—\$1,610,750	\$406,218
B—No change -----	11,229	29.1	114,321	14.1		893,947
C—Deficiencies under cost --	10,194	26.3	267,223	32.9	1,034,641	2,101,840
Subtotal -----	23,765	61.5	433,272	53.4	—\$576,109	\$3,402,005
D—Deficiencies over cost ----	14,895	38.5	378,586	46.6	11,173,971	2,971,627
Total -----	38,660	100.0	811,858	100.0	\$10,597,862	\$6,373,632

General Activities—Continued

Table 5—Out-of-state Sales Tax Audits, 1954-55 and 1957-58, Classified as to Individual Audits Producing More Than or Less Than Cost

Year and Class of audit	Audits		Hours		Net Revenue	Cost
	Number	Per- cent	Number	Per- cent		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1954-55 Year						
A—Refunds	33	5.6	1,358	5.7	—\$61,711	\$11,555
B—No change	114	19.3	1,467	6.1		12,494
C—Deficiencies under cost	174	29.5	7,045	29.4	29,971	59,981
Subtotal	321	54.4	9,870	41.2	—\$31,740	\$84,030
D—Deficiencies over cost	269	45.6	14,109	58.8	561,195	120,125
Total	590	100.0	23,979	100.0	\$529,455	\$204,155
1957-58 Year						
A—Refunds	37	3.9	1,287	2.7	—\$41,583	\$13,750
B—No change	142	15.0	1,492	3.1		15,940
C—Deficiencies under cost	280	29.7	10,970	23.0	57,887	117,232
Subtotal	459	48.6	13,749	28.8	—\$16,304	\$146,922
D—Deficiencies over cost	486	51.4	33,909	71.2	1,908,893	362,340
Total	945	100.0	47,658	100.0	\$1,925,197	\$509,262

Table 6—Total Sales Tax Audits, 1954-55 and 1957-58, Classified as to Individual Audits Producing More Than or Less Than Cost

Year and Class of audit	Audits		Hours		Net Revenue	Cost
	Number	Per- cent	Number	Per- cent		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1954-55 Year						
A—Refunds	2,287	5.1	45,814	5.4	—\$752,257	\$286,422
B—No change	12,989	28.9	120,857	14.3		747,155
C—Deficiencies under cost	12,644	28.2	292,286	34.5	858,599	1,836,549
Subtotal	27,920	62.2	458,957	54.2	—\$106,342	\$2,870,126
D—Deficiencies over cost	16,994	37.8	387,079	47.8	8,880,989	2,439,916
Total	44,914	100.0	846,036	100.0	\$8,987,331	\$5,310,042
1957-58 Year						
A—Refunds	2,379	6.0	53,015	6.2	—\$1,652,333	\$419,968
B—No change	11,371	28.7	115,813	13.5		909,887
C—Deficiencies under cost	10,474	26.5	278,193	32.3	1,092,528	2,219,072
Subtotal	24,224	61.2	447,021	52.0	—\$559,805	\$3,548,927
D—Deficiencies over cost	15,381	38.8	412,495	48.0	13,082,864	3,333,967
Total	39,605	100.0	859,516	100.0	\$12,523,059	\$6,882,894

Board of Equalization
DIVISION OF HIGHWAY TAXES

ITEM 118 of the Budget Bill

Budget page 270

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

Amount requested ----- \$1,004,039
 Estimated to be expended in 1958-59 Fiscal Year ----- 991,356

Increase (1.3 percent) ----- \$12,683

TOTAL RECOMMENDED REDUCTION ----- **\$23,705**

GENERAL SUMMARY

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

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

Fund	Total expenditures by funds		
	1958-59	1959-60	Increase
Motor vehicle transportation tax -----	\$991,356	\$1,004,039	\$12,683
Motor vehicle fuel -----	907,661	912,911	5,250
Itinerant merchants -----	17,900	17,982	82
Total -----	\$1,916,917	\$1,934,932	\$18,015

Its entire expenditure program is shown under one heading in the printed budget, however, on page 270, since the operations under the three funds are rather completely integrated.

An amendment to the Use Fuel Tax Law (Section 8732.5 of the Revenue and Taxation Code), which became operative July 1, 1958, permits licensed vendors of fuel who are required to collect and pay the tax to the State to take credit on any tax return for the tax paid after July 1, 1958, on sales of fuel represented by accounts which during the period covered by the return have been found to be worthless, and actually charged off for income tax purposes. This credit may be taken under rules and regulations prescribed by the board.

The amendment also provides "The board may, at its option, require the seller to submit periodical reports listing accounts delinquent for a 90-day period or over."

The board issued Use Fuel Tax Ruling 1331.6, effective September 4, 1958, which requires licensed vendors to file monthly reports of accounts with customers which are delinquent 90 days or more. It proposes to notify each such customer (all of whom are licensed by the board as users) to show cause why his permit should not be revoked for non-payment of the tax.

There were 780 licensed vendors at June 30, 1958.

Diesel fuel, to which the use fuel tax applies, is currently selling at retail for about 27½ cents per gallon, on an average. This retail selling price includes three cents per gallon federal tax, seven cents per gallon state use fuel tax and approximately one cent as sales tax reimbursement, leaving approximately 16½ cents as the selling price of the fuel, ex-tax.

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

ANALYSIS

Summary of Reductions

	Amount	Budget	
		Page	Line
Headquarters—One intermediate clerk -----	\$3,372	270	29
Districts—Three auditors -----	20,333	270	58
Total -----	\$23,705		
Headquarters			

We recommend deletion of one intermediate clerk position, \$3,372 (budget page 270, line 29).

This position was requested to handle the paper work involved in processing the monthly reports of delinquent customers of use fuel vendors which are required to be filed pursuant to the board's Use Fuel Tax Ruling 1331.6, including notification to each customer.

We are of the opinion that this rule is unnecessary to proper administration of the use fuel tax since its primary purpose appears to be to use the police power of the State to assist use fuel tax vendors to collect their bad accounts.

We believe that it is the responsibility of the vendor to collect accounts from those customers to whom he has extended credit, and that it is no part of the State's responsibility to assist him in this process.

There were 780 licensed vendors in the State on June 30, 1958. The board has estimated that 600 of these will be filing reports of delinquent customers each month, with an average of 3.5 customers per report who are 90 days or more delinquent or 2,100 customers all told and proposes to send notices to each of these 2,100 customers. The objective of this operation is not to collect any unpaid tax due the State on these delinquent accounts, since all taxes on the transactions involved have been paid to the State by the vendors prior to the time the accounts became 90 days delinquent. All vendors are required to file returns monthly and pay taxes on sales made during the prior month, regardless of whether they are for cash or on credit.

We believe the appropriate action for the State to take is to proceed against the user involved at the time the vendor takes a credit on his tax return for a bad debt, rather than act in the role of a collection agency for the vendors.

Districts

We recommend deletion of three existing auditor positions, \$20,333, (budget page 270, line 58), two auditor II and one accountant-auditor I. The amount represents the average salaries as shown in the salary supplement, page 143, lines 8 and 9.

The "Basic Internal Study" previously mentioned at some length under item 117 contains the following comments, Volume II, page 78, which relate to the fuel tax audit program and the beverage tax audit program:

"The study group recognizes that any tax program must include a certain amount of auditing to ensure proper payment of the tax and policing of the accounts involved. However, based upon observations made in other tax programs of the board, it appears that

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

some of the auditing policies used in these two programs might be improved with resulting cost savings.

“The motor vehicle fuel tax audit program requires an audit each six months of all fuel distributors who make any taxable sales. In general, more detailed verification is made than is common in audits under any of the board’s other tax programs, except beverages taxes, as noted above.

“Consideration should be given to the adoption of more up-to-date auditing policies, proven to be effective in other tax programs of the board. The feasibility of using more spot checks, or sampling techniques, should be considered, audit selection methods could be improved so that accounts proven to be accurate in reporting would be eliminated from audit consideration, until a longer period of time elapses or conditions change. Auditing for longer intervals, possibly three years as in other tax programs, should be considered.”

In our 1955-56 analysis, four years ago, we pointed out that the cost of the motor vehicle fuel tax audit program exceeded the revenue which it produced, recommended that particularly in the case of fully licensed distributors the 100 percent coverage be reduced to an appropriate sample and recommended a reduction of three in the audit staff. The reduction here recommended is intended to accomplish the same result, a result which the “Basic Internal Study” regards as desirable.

Table 7 summarizes the motor vehicle fuel tax audits by fiscal year and by type of licensee for the five years ended June 30, 1958. It will be noted that for the fully licensed distributors costs exceeded the revenue during four out of the five years and that for the five-year period total net revenue amounted to \$224,304, while total costs were \$461,797, the revenue per dollar of cost being 49 cents. It should also be noted that during 1957-58 there was no net revenue since the refunds exceeded the deficiencies, while for the combined total of all four types of motor vehicle fuel tax audits the revenue per dollar of cost for 1957-58 was 40 cents, and for the five-year period \$1.26.

Use fuel tax audit results are shown in table 8, transportation tax audit results in table 9, and combined total results for all audit programs in table 10.

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Table 7—Motor Vehicle Fuel Tax Audits, by Type of Licensee and by Years
Five Years Ended June 30, 1958

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
Fully licensed distributors					
1953-54	263	12,666	\$29,088	\$78,022	\$0.49
1954-55	237	13,760	17,919	80,908	.22
1955-56	222	11,381	145,573	80,122	1.81
1956-57	233	16,688	31,973	118,736	.27
1957-58	159	14,042	—249	104,009	--
Totals	1,114	68,537	\$224,304	\$461,797	\$0.49
Unlicensed distributors					
1954-55	1	262	\$181,885	\$1,541	\$118.03
1955-56	7	1,824	233,522	12,841	18.18
1956-57	14	876	43,029	6,233	6.90
1957-58	3	66	482	494	.98
Totals	25	3,028	\$458,918	\$21,109	\$21.74
Liquefied petroleum gas distributors					
1953-54	53	2,115	\$7,336	\$13,028	\$0.56
1954-55	87	2,679	11,260	15,753	.71
1955-56	57	1,959	13,672	13,791	.99
1956-57	49	1,719	4,987	12,231	.41
1957-58	84	3,176	55,248	23,526	2.35
Totals	330	11,648	\$92,503	\$78,329	\$1.18
Producers and brokers					
1953-54	338	3,449	--	\$21,246	--
1954-55	73	1,348	--	7,926	--
1955-56	54	1,416	--	9,969	--
1956-57	14	274	--	1,949	--
1957-58	64	1,554	--	11,511	--
Totals	543	8,041	--	\$52,601	--
Combined total					
1953-54	654	18,230	\$36,424	\$112,296	\$0.32
1954-55	398	18,049	211,064	106,128	1.99
1955-56	340	16,580	392,767	116,723	3.36
1956-57	310	19,557	79,989	139,149	.57
1957-58	310	18,838	55,481	139,540	.40
Totals	2,012	91,254	\$775,725	\$613,836	\$1.26

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Table 8—Use Fuel Tax Audits, by Type of Licensee and Fiscal Years
Five Years Ended June 30, 1958

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
Users					
1953-54	2,397	22,073	\$301,453	\$209,473	\$1.44
1954-55	2,718	27,647	395,078	256,288	1.54
1955-56	2,227	23,373	387,171	226,484	1.71
1956-57	2,307	24,407	483,119	274,516	1.76
1957-58	1,894	24,557	430,142	265,599	1.62
Totals	11,543	122,057	\$1,996,963	\$1,232,360	\$1.62
Vendors					
1954-55	110	1,603	\$4,408	\$14,860	\$0.30
1955-56	184	2,161	5,481	20,940	.26
1956-57	72	1,149	4,602	12,923	.36
1957-58	712	6,592	18,570	71,297	.26
Totals	1,078	11,505	\$33,061	\$120,020	\$0.28
Combined total					
1953-54	2,397	22,073	\$301,453	\$209,473	\$1.44
1954-55	2,828	29,250	399,486	271,148	1.47
1955-56	2,411	25,534	392,652	247,424	1.59
1956-57	2,379	25,556	487,721	287,439	1.70
1957-58	2,606	31,149	448,712	336,896	1.33
Totals	12,621	133,562	\$2,030,024	\$1,352,380	\$1.50

Table 9—Transportation Tax Audits, by Fiscal Years
Five Years Ended June 30, 1958

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
1953-54	5,383	45,873	\$817,284	\$365,608	\$2.24
1954-55	4,053	39,295	719,120	282,138	2.55
1955-56	3,594	38,949	721,575	331,845	2.17
1956-57	3,335	41,407	831,300	407,255	2.04
1957-58	2,468	36,488	946,384	432,910	2.19
Totals	18,833	202,012	\$4,035,663	\$1,819,756	\$2.22

Table 10—Combined Total, All Audits, by Fiscal Years
Five Years Ended June 30, 1958

	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per dollar of cost</i>
1953-54	8,434	86,176	\$1,155,161	\$687,377	\$1.68
1954-55	7,279	86,594	1,329,670	659,414	2.02
1955-56	6,345	81,063	1,506,994	695,992	2.17
1956-57	6,024	86,520	1,399,010	833,843	1.68
1957-58	5,384	86,475	1,450,577	909,346	1.60
Totals	33,466	426,828	\$6,841,412	\$3,785,972	\$1.81

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

ITEM 119 of the Budget Bill

Budget page 271

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

Amount requested	\$17,982
Estimated to be expended in 1958-59 Fiscal Year	17,900

Increase (0.5 percent)	\$82

TOTAL RECOMMENDED REDUCTION None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the law regulating the activities of "itinerant merchants," the expenditures for which are paid out of that fund in the first instance and included in the detailed budget data supporting Item 118 of the Budget Bill.

Under the law regulating itinerant merchants (Sections 16300 to 16451 of the Business and Professions Code), an itinerant merchant is defined as a person who buys "farm products" for sale and transports them upon a public highway in a motor vehicle across county lines for purpose of sale. Such a person is presently required to pay an annual license fee of \$20 for each motor vehicle to be used by him in the conduct of his business, which is placed in the Itinerant Merchants Fund from which all appropriations for administration are made.

**Board of Equalization
DIVISION OF HIGHWAY TAXES**

117
ITEM 120 of the Budget Bill

Budget page 271

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

Amount requested	\$912,911
Estimated to be expended in 1958-59 Fiscal Year	907,661

Increase (0.6 percent)	\$5,250

TOTAL RECOMMENDED REDUCTION None

ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the gasoline tax and the diesel fuel tax, the expenditures for which are paid out of that fund in the first instance and included in the detailed data supporting Item 118 of the Budget Bill.

Any adjustment as the result of our recommendation under Item 118 will also require an adjustment in this item.

DEPARTMENT OF FINANCE

ITEM 121 of the Budget Bill

Budget page 273

FOR SUPPORT OF DEPARTMENT OF FINANCE
FROM THE GENERAL FUND

Amount requested	\$7,498,269
Estimated to be expended in 1958-59 Fiscal Year	6,873,334
Increase (9.1 percent)	\$624,935
TOTAL RECOMMENDED REDUCTION	\$350,000

GENERAL SUMMARY

The financial and management policies of the Governor are executed by the Director of Finance through the Department of Finance. This department, through its 12 divisions, exercises general financial supervision of all the State's financial activities. The 12 divisions are as follows:

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

Purchasing, auditing, budgeting, management analysis, printing, and building maintenance are the principal functions performed by this department.

Four of these divisions serve as technical staffs of three boards and one commission; namely, the Communications Division for the Communications Advisory Board, the Local Allocation Division for the State Allocation Board, the Property Acquisition Division for the State Public Works Board, and the State Lands Division for the State Lands Commission. The Director of Finance is the chairman or a member of each of these boards and commission.

ANALYSIS

Summary of Reductions

	Amount	Budget	
		Page	Line
Creation of Economic Development Agency	\$350,000	280	18

Presently, there has been legislation introduced to establish an "Economic Development Agency" within this department. The Governor has placed \$350,000 in the budget in order to finance this new agency for nine months. It is stated in the Governor's Budget that a commissioner appointed by him will be the head of this agency. According to the introduced legislation, this position will receive \$16,500 per year. The principal functions will be the promotion of additional markets for California products, and development of new industries in the State. It is also to be a function of the proposed office to make studies of business conditions and to offer business information services. The amount placed in the budget is not detailed as to items and the amount required will depend upon the nature of the legislation enacted for this function. In our opinion, if this function is authorized by the Legislature, it is appropriate to place it within the Department of Finance,

Department of Finance—Continued

as is proposed, in order that maximum use can be made of related facilities.

It should be pointed out that appropriations in other states which have created separate agencies at the state level for the promotion of industry cover a very wide range of expenditures depending upon whether emphasis is on advertising and actual subsidies or whether it is confined to centralizing and disseminating information from otherwise available sources. If emphasis is to be placed upon the initiation of major studies and state advertising, the requirements can be far in excess of the amount proposed in the budget. On the other hand, it should be possible, by full utilization of all existing state data and services to realize economies within the amount requested to be appropriated if the principal objective is accumulation of information and assistance to industry. California has carried on for many years programs of industrial information through state, federal and local agencies, and has financed through private industry excellent industrial research and promotional advertising campaigns. Although certain other states have established programs of this nature it is difficult to recommend an expansion in state activity at this time.

We recommend disapproval of this added function as being a cost which more properly should be borne by industry and tailored to its needs.

The budget request for the Fiscal Year 1959-60 shows an increase of \$661,023 over the amount estimated to be expended in the current fiscal year. This increase is due to the addition of 110.3 proposed new positions, salary adjustments, and the inclusion of \$350,000 of operating expense for nine months of operation for a new agency to be created, called "Economic Development Agency." This increase is partially offset by the abolishment of 68 positions in the Buildings and Grounds Division.

The proposed new positions are as follows:

Buildings and Grounds Division	Number of positions	
New buildings		
Sacramento	1	
San Francisco	67.9	
Los Angeles	2	
Oakland	26.4	
Fresno	3	
		100.3
Organization and Cost Control Division		
Tabulating systems technician	1	
Assistant administrative analyst	2	
Associate administrative analyst	2	
		5
Property Acquisition Division		
Junior right-of-way agent	1	
Junior-intermediate stenographer	1	
		2
Purchasing Division		
Assistant purchasing specification analyst	1	
Intermediate stenographer-clerk	1	
Duplicating machine operator II	1	
		3
		110.3

Department of Finance—Continued

The above positions are based on increased workload which we have examined, and find to be justified. We therefore recommend approval of these positions. The new positions in the Buildings and Grounds Division are in the following categories: telephone operators, building engineers, maintenance men, laborers, janitors, window cleaners, storekeepers, intermediate stenographer-clerks, electricians, carpenters, painters, state policemen, groundsmen, and temporary help. The amount of \$311,236 has been budgeted for salaries and wages for the proposed new positions.

The 68 positions to be abolished in the Building and Grounds Division are in the following job classifications:

<i>Location and classification</i>	<i>No. of positions</i>
Sacramento	
State policemen (four effective July 1, 1959; three effective September 1, 1959; three effective January 1, 1960) -----	10
Janitors (12 effective July 1, 1959; 12 effective August 1, 1959; 12 effective September 1, 1959) -----	36
Elevator operators (one effective July 1, 1959; five effective October 1, 1959; two effective January 1, 1960) -----	8
San Francisco	
Janitors (two effective July 1, 1959; three effective August 1, 1959) -----	5
Elevator operators (effective August 1, 1959) -----	2
Los Angeles	
Janitors (three effective July 1, 1959; two effective August 1, 1959; two effective September 1, 1959) -----	7
	<hr/> 68

The savings in salaries and wages resulting from the abolishment of these positions amounts to \$219,282 for the Fiscal Year 1959-60.

Apart from the changes in the Divisions of Buildings and Grounds, Organization and Cost Control, and Purchasing, the other divisions of the Department of Finance will operate at the same level of service during the 1959-60 Fiscal Year. The only changes in other divisions budgetwise are normal salary increases and price increase, reflected in operating expenses and equipment.

General Comments

Auditing. The office of the Auditor General was created in 1955. In part, the establishment of this office was due to recommendations contained in a report on the auditing and accounting functions of the State by the accounting firm of Price Waterhouse and Company.

In this same report, it is expressed that the combining of the audit functions of the State Controller and the Department of Finance would be both desirable and economical. It was estimated that a staff of 80 or 90 would be adequate to do the job. In the current budget, 97 positions are authorized in the Controller's office and 94 in the Department of Finance for these functions, a combined total of 191 positions. It is evident that considerable savings would result if these audit functions were combined.

Automotive Management. Two new positions of assistant director were established in the current fiscal year. It was our understanding

Department of Finance—Continued

that one assistant director was to assume managerial responsibility for the department's service functions. The other was to assume responsibility for the fiscal functions. Both were to report to the deputy director of finance. We concur in the need for these positions and the division of responsibility delegated to them. However, we question the redelegation of the service function of management of state-owned automobiles to the State Purchasing Agent.

The Senate Interim Committee on Public Works, in its report presented to the 1959 General Session of the Legislature, considered this function of sufficient importance to recommend centralized management for all automotive equipment. Top executives of various corporations acted in an advisory capacity to this committee. The many problems of fleet management are stated in this report and recommendations are made to correct the deficiencies in the management of motor vehicles that they encountered in this study. One of these recommendations, taken from the report, is as follows:

“The most constructive way in which the State can capitalize upon all of the opportunities for more effective automotive operation is to establish a single agency, preferably outside the purview of any other agency, to take over these functions and manage them as is done in private industry.”

The State has a large sum invested in automotive equipment and each year considerable sums are appropriated for replacement and purchase of additional motor vehicles. We believe that the problems of fleet operation connected with the large number of state-owned vehicles is too important and complex to leave its management to the State Purchasing Agent, who can give very little of his time to this assignment if he properly carries out the very difficult duties of State Purchasing Agent. Furthermore, the specifications to qualify for State Purchasing Agent do not include the experience and knowledge necessary to carry out properly the many duties connected with the overall management of a large fleet of automobiles.

**Department of Finance
GENERAL ACTIVITIES**

ITEM 122 of the Budget Bill

Budget page 285

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

Amount requested	\$219,667
Estimated to be expended in 1958-59 Fiscal Year	201,262
Increase (9.1 percent)	\$18,405

TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS

The amount of \$87,000 will be spent on the auditing of district and county fairs. In the current fiscal year, \$70,000 was allocated for this activity. The \$70,000 provided for a biennial audit only. The Department of Finance feels that a yearly audit is necessary and the \$17,000

Department of Finance—Continued

additional will permit each district and county fair to be audited once each year. The remainder of \$202,667 is for support of the Fairs and Exposition Division.

We recommend approval of the amount requested.

120

DEPARTMENT OF FINANCE		Budget page 285
ITEM 123 of the Budget Bill		
FOR SUPPORT OF LOCAL ALLOCATIONS DIVISION, DEPARTMENT OF FINANCE, FROM THE SCHOOL BUILDING AID FUND		
Amount requested		\$632,919
Estimated to be expended in 1958-59 Fiscal Year		609,611
Increase (3.8 percent)		\$23,208
TOTAL RECOMMENDED REDUCTION		None
ANALYSIS		

The amount requested for the functions of the Local Allocation Division from this fund is a \$23,308 increase over the amount estimated to be expended in the 1958-59 Fiscal Year. This shows a slight increase of \$2,196 over the anticipated increase of the current year as compared to the prior year. The level of service anticipated for the 1959-60 Fiscal Year remains about the same as the service being provided in the current fiscal year.

As pupil enrollment tends to increase and construction programs are needed to provide space, the work of this division will continue at its present level and perhaps increase in future years.

The slight increase in this budget request over the current year is due to normal salary adjustments, a slight increase in operating expenses and a decrease in equipment.

We recommend approval of the amount requested.

121

DEPARTMENT OF FINANCE		Budget page 285
California State Fair and Exposition		
ITEM 124 of the Budget Bill		
FOR SUPPORT OF STATE FAIR AND EXPOSITION FROM THE STATE FAIR FUND		
Amount requested		\$2,130,107
Estimated to be expended in 1958-59 Fiscal Year		2,097,457
Increase (1.6 percent)		\$32,650
TOTAL RECOMMENDED REDUCTION		\$151,253
GENERAL SUMMARY		

The California State Fair and Exposition is authorized under the provisions of Article 1, Sections 70 through 77, of the Agricultural Code, Statutes of 1953. Funds for operation are furnished as set forth in Sections 19622 and 19625 of the Business and Professions Code which makes allocations from the Fair and Exposition Fund. Presently, the statutes provide support for the California State Fair in the amounts of \$250,000 and \$15,000 for the junior show.

State Fair and Exposition—Continued

In process now is a major change in the California State Fair involving the disposal of the present location and construction of a new fair facility on the American River site. Estimates of the cost of this enterprise have varied enormously and we will discuss the feasibility of the proposal from a fiscal standpoint in the analysis.

ANALYSIS

Summary of Reductions

	Amount	Budget	
		Page	Line
Salaries and wages.....	\$30,358	286	82-83
Increase in items having over \$1,000 in direct fair operating expense.....	24,395	287	4
Advertising and public relations.....	96,500	287	17
Total	\$151,253		

The following table has been prepared to show the relationship of expenditures to revenues. In a period of eight years, revenues have never risen above 71.3 percent of expenditures, an indication that a revision in management approach is much overdue.

Comparison of Total Expenditures and Revenues

Fiscal year	Expenditures	Revenues	Deficit	Revenues as percent of expenditures
1952-53.....	\$1,890,797	\$1,265,236	\$625,561	66.9
1953-54.....	1,895,223	1,352,177	543,106	71.3
1954-55.....	1,964,428	1,281,100	683,328	65.2
1955-56.....	1,876,802	1,264,887	611,915	67.4
1956-57.....	2,104,397	1,470,357	634,040	70.0
1957-58.....	2,156,394	1,432,477	723,917	66.4
1958-59.....	2,151,549	1,458,640	692,909	68.0
1959-60.....	2,185,003	1,460,800	724,203	67.0

We point out once again as in last year's analysis that the statutory support for the state fair is only a portion of its cost since the deficits shown above are covered by additional allocations from the Fair and Exposition Fund so that this agency can continue to operate.

To underscore the continuing drain on state finances resulting from present operating procedures, the following table represents the deficit figures which have risen steadily since 1951-52 against paid attendance on a per capita cost basis:

Fiscal year	Deficit	Total paid adult attendance	Per capita cost of deficit
1951-52.....	\$587,300	481,862	\$1.22
1952-53.....	625,561	481,575	1.30
1953-54.....	543,106	473,099	1.15
1954-55.....	683,328	505,567	1.36
1955-56.....	611,915	373,363	1.64
1956-57.....	634,040	463,779	1.37
1957-58.....	723,917	458,300	1.58
1958-59 *.....	692,909	457,200	1.52
1959-60 *.....	724,203	400,000	1.81
Totals.....	\$5,826,279	4,094,745	\$1.42

* Estimate.

State Fair and Exposition—Continued

The above figures clearly show the rising annual deficit. In fairness to the agency, we should like to point out, however, that the figure of 400,000 attendance, estimated for 1959-60, is a conservative guess because they have not yet been informed whether an admission price increase will be effected at the next fair.

Over a long period of time, this office has contended that a change in management policies is essential if the fair is to reach a self-supporting basis. Fair management, on the contrary, has asserted in the last few fiscal periods that the lack of an adequate plant and poor location has accounted for the fair's failure to produce either attendance or revenue to offset the deficit. The agency indicates that the present location is hopeless and now is implementing plans to move to the American River property as their answer to the problem.

New California State Fair and Exposition

The present financial condition of the new fair consists of the following amounts:

Legislative appropriation, 1957-58 Fiscal Year	\$3,747,843
Legislative appropriation, 1958-59 Fiscal Year	3,747,843
Authorization to sell certificates or bonds	13,000,000
Estimated value of the present fair site	5,000,000
Total	\$25,495,686

Administrative authority over the legislative appropriations has been given to the Department of Finance which has taken the position to date that no construction money will be advanced to the fair until the sale of the \$13,000,000 worth of bonds and/or certificates is committed.

At this writing, brokerage houses have advised fair management that " * * * an offer to bidders will be undertaken at some time in the future when there will be visible, physical progress in the preparation of the fair site."

Once again, the agency is leaning heavily upon certain selected portions of the Stanford Research Institute Report as evidenced in the minutes of the August 29, 1958, meeting of the fair board submitted to the Director of Finance. Some of the salient points the fair wishes to adopt at the new site in one form or another are the following:

1. All pay, no pass gate.
 2. Increased admission fee. (Increases considered range from \$1 for adults and 50 cents for juniors over 10 years to \$2 and \$1 in the same order.)
 3. Revise the management into a corporation—either profit or non-profit—directors to be selected by election, to remove any aspect of political pressure, similar to the procedure found at successful fairs which have been studied.
 4. Broadening the law with respect to the fair's objectives.
 5. Increase industrial representation.
 6. Extending fair dates.
 7. Designing a special attraction unique to the California State Fair.
- These are only a few of the ideas which the agency supports and will implement at the American River site.

State Fair and Exposition—Continued

It should be noted that a substantial number of these recommendations, plus many more the agency has taken from the Stanford report, have been consistently urged by this office in prior appraisals of the fair program.

Our primary question involves management's reasons for failure to effect the changes at the present fair site. Few if any of them are precluded because of the plant itself.

An analysis of potential revenue for the 1961 California State Fair and Exposition was prepared for the agency. All of the projections are based upon an attendance figure of a million persons. Based upon past attendance experience coupled with the fact that only 2.2 percent of fair visitors are from the southern and most densely populated area of the State, the attendance estimate is another very speculative projection.

In 1952 a survey, conducted by the John B. Knight Company to determine the number of paid admissions from the various localities in California, revealed that 44.6 percent were visitors from Sacramento County.

The total paid attendance at the 1952 fair was 481,575 and, based upon the survey, the admissions from Sacramento County were 214,782.

In 1952 the population of the county was 323,200 which, by 1957, had increased to 427,100 or an advance of 32.1 percent.

If the fair had merely kept pace with the growth of the county, it should have developed an additional 46,339 paying visitors for a total attendance of 527,914. Instead, the 1957 paid attendance was 7,796 less than in 1952 or 463,779. Based upon the 44.6 percent formula, the loss in Sacramento County visitors was 64,135 or 13.3 percent over a six-year period.

It is clear that, despite the annual management objective of producing a newer and better attraction, the fair fell behind at the rate of over 2.0 percent per year in inducing visitors from its best potential attendance source.

With this experience in an area where the fair should have the greatest appeal from the standpoint of both local interest and accessibility, it is difficult to reconcile the validity of the agency's forecast of at least one million persons for a new fair.

The entire fair program (district and county, and agricultural associations specially allocated from the Fair and Exposition Fund) requires close legislative review. Reference to them is appropriate in this analysis because there are 36 district and county fairs within a 100-mile radius of the State Fair. Included are relatively large attendance-producing expositions such as the 1-A District, San Francisco, the 2d District at Stockton and the Alameda County Fair at Pleasanton. No consideration has been given in the proposals and studies relating to the removal of the State Fair to the effect of this multiplicity of attractions within its trading area. As a matter of fact, the 52d District, commonly called the Sacramento County Fair, has its annual production on the State Fair Grounds usually within a month of the State Fair itself. These other fairs are vitally interrelated to the success of the State Fair

State Fair and Exposition—Continued

and, consequently, their continued operation under present conditions should be carefully reviewed.

With all these factors in mind, we regard any proposed further expenditures for a new State Fair as having the lowest priority in the budget and of doubtful prudence in a year when the State is searching every available avenue for tax dollars to sustain its most essential public service programs.

We recommend, in conformity with our discussion above, that the American River property now estimated to be worth about \$5,000,000 be considered for sale and the proceeds deposited in the General Fund.

It is further recommended that funds budgeted for 1959-60 under the function of new state fair planning be utilized in such amounts as may be necessary, but in no event to exceed the amount budgeted, for the purpose of planning for the rehabilitation of the present fair site.

Salaries and Wages

Salaries and wages for 1959-60 are scheduled at \$1,015,012 for 214.1 authorized positions. This is an increase of \$22,031 or 2.2 percent above the \$993,071 figure for 214.4 authorized positions in 1958-59.

The actual difference in the gross total budgeted amounts for salaries and wages is an increase of \$11,329. However, the agency estimates salary savings to be only \$2,350 in 1959-60 as compared to \$13,142 for 1958-59. This paper adjustment results in the net increase of \$22,031.

A net reduction of \$12,389 for salaries and wages occurs in the buildings and grounds function.

Two of the major increases in the salary and wage category are noted under the function of direct fair expense. Temporary help is increased \$18,158, while services rendered by buildings and grounds is increased \$12,200 for a combined total of \$30,358.

There appears no justification to increase the level of service or expenditure in either of these categories. For example, the number of positions budgeted for temporary help reflects an increase of 8.2 percent over those actually filled in 1957-58.

We, therefore, recommend the deletion of \$30,358 in salaries and wages as applied to the items above indicated.

Operating Expenses

Total operating expenses are scheduled at \$1,189,612 for 1959-60. This is a decrease of \$181,000 or 13.2 percent under the 1958-59 figure of \$1,370,612.

This decrease occurs primarily because of two budgetary adjustments for 1959-60 as compared to 1958-59. Some larger items comprising this total are the elimination of an expense entry for capital outlay—stores, formerly budgeted at \$69,427 along with several expenditure reductions in new state fair planning; printing \$11,500, communications \$2,000, instate travel \$5,000, out-of-state travel \$15,000, and program development \$44,000.

State Fair and Exposition—Continued

The following table, however, indicates individual increases in excess of \$1,000:

Item	Items of Increase in Operating Expense Over \$1,000	
	Increase 1959-60 over 1958-59	
	Amount	Percent
General expense -----	\$1,435	11.8
Rent—equipment -----	1,040	4.8
Decorations and preparations -----	2,951	26.4
Printing -----	3,055	11.1
Premiums and awards -----	4,826	1.9
Judges -----	3,095	14.3
Night show -----	3,403	7.6
Fireworks -----	1,125	7.6
Racing expense -----	1,372	5.4
Totalizer fee -----	2,096	9.2
Total in items having over \$1,000 increase -----	\$24,395	

Since there is no evidence that the increases applying to the above listed items have any particular effect on improving either the attendance or the revenues at the fair, there seems little justification that last year's level of service in these categories should be enhanced.

We, therefore, recommend deletion of \$24,395 in operating expense from the agency's budget.

Advertising and Public Relations

Management has introduced a figure of \$96,500 for advertising and public relations, and has consistently devoted a good percentage of their advertising expenditures to the southern part of the State where, as we have already pointed out, only 2.2 percent of fair attendance originates.

We cannot reconcile this kind of disbursement for a public agency which consistently receives extensive free attention from the press each year. It is not valid to assert that the newspapers print publicity for the California State Fair only because they enjoy paid advertising from the agency. The fair is both news and big business and, as such, its various activities can expect the same coverage afforded to any other enterprise of general public interest. We are confident that where press, radio and television are concerned, management can initiate the necessary relationship to receive ample attention without cost.

It is, therefore, recommended that the amount of \$96,500 budgeted for advertising and public relations be deleted, thus further reducing the deficit.

DEPARTMENT OF FINANCE
California State Fair and Exposition

ITEM 125 of the Budget Bill

Budget page 289

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

Amount requested	\$424,000
Estimated to be expended in 1958-59 Fiscal Year	269,450
Increase (57.4 percent)	\$154,550
TOTAL RECOMMENDED REDUCTION	\$151,253

ANALYSIS

Annually, an appropriation is made from the remainder of the 42 percent balance in the distribution of the Fair and Exposition Fund revenues for the augmentation of the special fund of the State Fair and Exposition, otherwise called the State Fair Fund.

This item shows consistency with the general increase of the deficit in the operation of the California State Fair and Exposition as discussed in the previous item.

In line with the deletions shown in our analysis of the State Fair, we recommend that \$151,253 be deducted from the requested \$424,000, resulting in a transfer from the Fair and Exposition Fund of \$272,747.

123
DEPARTMENT OF FINANCE
Sixth District Agricultural Association

ITEM 126 of the Budget Bill

Budget page 289

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

Amount requested	\$529,914
Estimated to be expended in 1958-59 Fiscal Year	405,655
Increase (30.6 percent)	\$124,259
TOTAL RECOMMENDED REDUCTION	\$11,439

GENERAL SUMMARY

The Sixth District Agricultural Association has for operational authority Article 2, Sections 80 through 92, of the Agricultural Code with amendments by the Statutes of 1957.

Historically, the function of the Sixth District has been the operation and maintenance of the California Museum of Science and Industry in Los Angeles.

In 1957, the Legislature added, at the agency's request, another function: the Industrial Trade Fair and Exposition on a two-year basis. The agency has asserted that support for this enterprise will be sought from state resources for the two-year period only. Unless the Industrial Trade Fair and Exposition is self-supporting within the two years in which it is produced, the project will be abandoned.

Sixth District Agricultural Association—Continued
ANALYSIS Summary of Reductions

	Amount	Budget Page Line	
Salaries and wages:			
Administration -----	\$1,815	290	13
Museum operation -----	1,815	290	48
Subtotal -----	\$3,630		
Equipment			
Administration -----	\$319	290	27
Museum operation -----	595	290	63
Subtotal -----	\$914		
Industrial and Trade Exposition			
Travel -----	\$7,170	291	21
Total recommended reduction -----	\$11,439		

Total expenditures contemplated for 1959-60, including retirement costs, are proposed at \$672,335 and represent an increase of \$93,628 or 16.2 percent of the expenditure program for 1958-59.

In the table which follows, we show the comparison between total expenditures and revenues for five budget years:

	1955-56	1956-57	1957-58	1958-59	1959-60 (est.)
Total expenditures* ---	\$155,645	\$193,176	\$263,401	\$578,707	\$672,335
Total revenues -----	147,686	158,421	258,303	558,926	798,900
Excess of expenditures over revenues ----	\$7,959	\$34,755	\$5,098	\$19,781	—\$126,565

Revenues as percent of total expenditures ---	94.8	82.0	98.0	96.6	118.8
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* Includes funds for state retirement.

Trade Fair

It should be borne in mind that the very favorable improvement in revenues forecast for the 1959-60 Fiscal Year is based upon the estimated success of the trade fair.

The Sixth District does not have available accommodations for the trade fair and proposes to launch this venture for the first time at the facilities of the 48th District Agricultural Association at Los Angeles.

It is commonly known that the barn at the 48th District is highly unsavory and, however exemplary a production the first trade fair might be, it could not help but suffer due to an environment out of rapport with its program. If this results in the bad public impression which can be anticipated, then the second year of operation will be harder to sell.

While the trade fair is specifically budgeted as a separate portion of the Sixth District's operation with a co-ordinator in charge, the executive secretary of the Sixth District indicates that a proportion of his time is devoted to the promotion of this new enterprise.

Therefore, in addition to the time spent by him, and not charged against the financing of the trade fair, one position of intermediate stenographer-clerk in a salaries and wages figure of \$3,630 plus equipment priced at \$639 is requested.

The executive secretary states that, at present, his time is devoted to the museum and trade fair at a proportion of 50 percent each. In addition, he has reported that this has resulted in an equal amount of

Sixth District Agricultural Association—Continued

his secretary's time being contributed to this new and separately budgeted function.

If this is an accurate breakdown in the division of time, then we recommend that \$6,300 or 50 percent of the executive secretary's salary should be reflected in the trade fair budget and \$2,148 or one-half of his secretary's salary also be appropriately so charged.

Salaries and Wages

0.5 Intermediate stenographer-clerk, part-time (Budget page 290, line 12)	\$1,815
0.5 Intermediate stenographer-clerk, part-time (Budget page 290, line 47)	\$1,815

The justification for this position has been on the basis of workload and we quote, with reference to the presently authorized Supervisor of Exhibit Installation and the Museum Information Representative:

"It is no longer possible for these two departments to function properly without secretarial assistance. On many occasions previously, there was always the possibility of asking other clerical employees to help out now and then. * * * With the creation of the Industrial and Trade Exposition, the workload of all the positions in the Sixth District has increased. Where the two positions * * * were able to call upon other clerical people to do their correspondence, these clerical positions are not now available."

We therefore recommend the deletion of the 0.5 intermediate stenographer-clerk, administration, and the 0.5 intermediate stenographer-clerk, museum operation, for a saving in salaries and wages of \$3,630.

We cannot escape the conclusion that the major workload increase factor involved here is the industrial and trade fair and point out once more that it was to be entirely self-supporting within its own allocation over the two-year period. It is not possible for this office to recommend increases in the Sixth District staffing when they are chiefly accounted for by a drain of presently assigned personnel time due to the overlapping of this separate function.

Operating Expenses

In furtherance of the objectives of the trade fair and, secondarily, of the Museum of Science and Industry, the agency has budgeted \$7,170 for foreign travel extending to countries around the world and \$1,230 in other areas of the United States outside California.

We recommend that the \$7,170 budgeted for foreign travel be deleted.

We question the magnitude envisioned by fair management in producing this attraction. The travel under discussion is the third trip in behalf of the second trade fair before the success of the first one can be assessed.

Sixth District Agricultural Association—Continued

It would be well to quote the authority in Chapter 2387 of the Statutes of 1957 in which the Legislature defined the purpose and scope of the trade fair:

" * * * and (vi) one hundred twenty-five thousand dollars (\$125,000) during each of the 1957-58 and 1958-59 Fiscal Years, which notwithstanding any other provision of this section shall be available in accordance with Section 16304 of the Government Code, to the Sixth District Agricultural Association of the State of California, for the purpose of holding an annual industrial and trade exposition to demonstrate and promote *the trade and industrial progress of the State by means of displays of the industrial products and techniques of the State*, such other displays and exhibits as will illustrate the importance of trade and industry as a vital factor in California's economy and California's standing as an important industrial state, and such other activities as will encourage and stimulate further development of trade and industry in this State." (Italics ours.)

The language above would seem to indicate that the Industrial and Trade Fair is to be a California fair. We are unable to reconcile the extensive out-of-state and foreign travel with this objective. Moreover, the agency has not provided detailed justification for this travel in terms of specific benefits to be produced, what objectives are to be pursued, and how it is related to the State of California.

Equipment

The total equipment request to supply a desk, chair, typewriter, and filing cabinet for the proposed new position is \$639 of which \$319 has been charged to administration, and \$320 charged to museum operation.

We recommend this be deleted for a saving of \$639 in the agency's equipment budget in line with the recommended deletion of the requested position.

Total net reduction for the Sixth District Agricultural Association is \$11,439, the amount recommended to be deleted from the transfer item.

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Department of Finance Sixth District Agricultural Association	
ITEM 127 of the Budget Bill	Budget page 292
FOR SUPPORT OF SIXTH DISTRICT AGRICULTURAL ASSOCIATION FROM THE FAIR AND EXPOSITION FUND	
Amount requested	\$194,000
Estimated to be expended in 1958-59 Fiscal Year	154,000
Increase (26.0 percent)	\$40,000
TOTAL RECOMMENDED REDUCTION	\$11,439

ANALYSIS

In accordance with our review of the fiscal position of the Sixth District and the trade fair in the foregoing item, *we recommend the deletion of \$11,439 from the amount requested by this transfer item.*

Department of Finance
FAIRS CLASSIFICATION COMMITTEE

ITEM 128 of the Budget Bill

Budget page 294

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

Amount requested	\$8,000
Estimated to be expended in 1958-59 Fiscal Year	8,000

Increase	None
TOTAL RECOMMENDED REDUCTION	\$8,000

GENERAL SUMMARY

Chapter 1717, Statutes of 1955, created the Fairs Classification Committee with a membership consisting of the Director of Finance, the Chief of the Fairs and Expositions Division and seven appointed members as designated in the law.

The committee studies and classifies the district and county fairs which receive partial support in allocations from the Fair and Exposition Fund as set forth in Section 92 of the Agricultural Code.

ANALYSIS

The committee reviews the statements of operations of the fairs and all other available statistical data applying to management, attendance, population and other factors involved in the production of the fairs. Four regions were established in 1956 consisting of: (1) Northern Region, (2) San Francisco and Central Coast Region, (3) San Joaquin Region, and (4) Southern Region. The committee further breaks down classifications into sectional-regional, sectional fairs No. 1, sectional fairs No. 2, special feature fairs No. 1 and special feature fairs No. 2.

Beyond the fact that 72 fairs have now been classified within the above-listed categories, it is difficult to determine what practical values ensue now that such classifications have been made.

Any review of operating statements, or other statistical data such as trends in attendance and population, can be made by the Division of Fairs and Exposition within the scope of expenditure of their present budget.

We are forced to conclude that continuance of this particular entity and its allied expenditures are of low priority in comparison with other state fiscal needs.

We recommend deletion of the \$8,000 budget request and legislative action to abolish the entity.

Department of Finance
STATE LANDS DIVISION

ITEM 129 of the Budget Bill

Budget page 295

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

Amount requested	\$988,468
Estimated to be expended in 1958-59 Fiscal Year	893,028

Increase (10.7 percent)	\$95,440
TOTAL RECOMMENDED REDUCTION	None

State Lands Division—Continued

GENERAL SUMMARY

The Division of State Lands, the operations staff for the State Lands Commission, is responsible for the management of the state-owned tide and submerged land, swamp and overflow land, school land and other sovereign lands.

The primary functions of the division are selling and leasing proprietary lands, administering the gas and oil leases, the mineral leases, and the grazing, agriculture, commercial and recreational leases of state-owned land under their jurisdiction. Revenues from these operations are deposited in several funds, namely, the State Lands Act Fund, the School Land Fund, the School Fund and the Investment Fund.

Due to the commission's jurisdiction over the State's sovereign lands, it is the defendant state agency in litigations brought against the State involving these sovereign lands and reimburses the Attorney General for services rendered in these instances.

ANALYSIS

The major increases in the division's budget are confined to the following areas:

Pro rata charges to the Attorney General.....	\$41,129
Determination of boundaries of the tide and submerged lands of City of Long Beach.....	28,690
New positions and salary and wage adjustments.....	32,881

These increases were offset to a degree by a single major reduction in operating expenses of \$19,000 in audit services.

The pro rata charges of the Attorney General for services performed in regard to legal actions are beyond the control of the agency.

The increase in the cost for determination of the boundaries of the tidelands of the City of Long Beach is due to the urgency of the problem. The agency considers it imperative that this project be completed in Fiscal Year 1959-60.

While the increase in salaries and wages is for the most part due to the four new positions the division is requesting, we believe the true additional cost of \$18,104, of which \$8,184 is salary adjustments, is warranted in that it gives management the necessary tools by which it can truly accept the full authority and responsibility assigned to it by law.

Three of these positions, one supervising state financial examiner, one general auditor II, and one accountant-auditor I, are necessary to complete the staffing of a new audit section within the division in order that it may properly assume the full responsibility and authority for the audit function associated with the Long Beach tidelands as set forth in statute. Heretofore, this responsibility has been divided, in that the Audits Division of the Department of Finance was engaged on a reimbursable basis to accomplish certain portions of the audit function, working with three members of the division staff. By establishing a new section of audits within the division, staffed by the three new positions and three positions at present in the Mineral Resources Section, this divided responsibility is ended and a more efficient, co-ordinated operation will result. The over-all increase in costs as determined by the decrease in

State Lands Division—Continued

reimbursement cost for the auditing services (\$19,000) shown in the operating expenses and the increase in salaries and wages portion of the budget for these three positions (\$19,980) amounts to \$980. In other words, the shifting of the costs of the function from operating expenses to salaries and wages increases the cost of audits by \$980 this budget year.

The remaining new proposed position is that of a petroleum geologist (\$8,940 per year) who will be the nucleus of a new technical subsection in the Mineral Resources Section. We believe that this new service will insure and protect the State's interest in the area of future oil and gas leases by providing an independent interpretation of seismic and geological explorations and of well bores in regard to potential productivity of the area in question.

We note that in Fiscal Year 1957-58 an item in the amount of \$27,000 appeared in the division's budget to accomplish the indexing of lands over which the United States acquired jurisdiction as required by Section 127 of the Government Code. These funds were not used nor was the task accomplished, by reason of a policy directive and as an economy measure. No funds were provided in the 1958-59 budget to carry on this function and the same is true of the budget under consideration. It is pointed out that the statute, expressed in mandatory language, has been effective since September, 1951.

With the reservation noted above, we recommend approval of this budget item.

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FRANCHISE TAX BOARD

ITEM 130 of the Budget Bill

Budget page 298

FOR SUPPORT OF FRANCHISE TAX BOARD
FROM THE GENERAL FUND

Amount requested	\$6,632,852
Estimated to be expended in 1958-59 Fiscal Year	6,116,818
Increase (8.4 percent)	\$516,034

TOTAL RECOMMENDED REDUCTION	None
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GENERAL SUMMARY

The Franchise Tax Board was created by Chapter 1188, Statutes of 1949 (the provisions of which are now incorporated in Government Code Sections 15700-15702), and consists of the State Controller, the Director of Finance and the chairman of the State Board of Equalization. It administers all provisions of the State Personal Income Tax Law and the Bank and Corporation Tax Law. Administrative appeals from its decisions on tax matters are made to the Board of Equalization. Two of the three members of the Franchise Tax Board are also members of the latter board, a condition which raises a serious question as to the soundness of the administrative appeals process.

The chief administrative officer is the executive officer, appointed by the board with the approval of two-thirds of the Senate.

Franchise Tax Board—Continued

The agency maintains cost records for each of its programs, bank and corporation tax, and personal income tax on a functional or activity basis which show number of items processed, total hours spent, total costs including overhead and net revenue attributable to each function. Tables 1, 2, 3, and 4, which are included herein, summarize the results of these activities for 1957-58 and for the seven years ended June 30, 1958. In these tables the activities are shown in three groups: basic, nonaudit enforcement and audit.

The basic activities are those which we regard as the bare minimum which the agency would be required to perform if it had no enforcement program whatever. They are to a large degree uncontrollable as to cost since they are directly related to workload, such as number of returns received.

The other two classes are what we would term enforcement activities, the nonaudit enforcement activities being those carried on largely by clerical personnel while the audit activities are enforcement activities requiring technically trained audit personnel. Both classes of enforcement activities are controllable as to volume and cost, and the extent to which they are justified is governed largely by the additional revenue produced, in excess of cost, the index of which is indicated in the "Revenue per \$1 of Cost" column in the tables.

The basic workload of the agency is closely related to the numbers of tax returns received, which are shown in the following, for recent years:

	<i>Personal income tax</i>	<i>Bank and corporation tax</i>
1955-56 (actual) -----	3,338,282	67,268
1956-57 (actual) -----	3,610,925	78,526
1957-58 (actual) -----	3,776,700	87,720
1958-59 estimated -----	4,025,000	93,915
1959-60 estimated -----	4,275,000	100,008

One of the serious administrative problems confronting the agency is the processing of the personal income tax returns, both because of the large volume and because most are received within a relatively short period of time, around the statutory due date of April 15. The agency has met this problem by the extensive use of temporary clerical help at certain times of the year, the equivalent of 194.6 man-years being employed during 1957-58.

The employment of large numbers of temporary help in the lowest clerical levels on a seasonal basis is not conducive to the most efficient type of operation.

The Auditor General, in a report on "Review of the System of Internal Control, Franchise Tax Board," dated January 27, 1958, pointed out that the United States District Director of Internal Revenue at San Francisco has a similar problem and appears to have made effective use of mechanized punched card procedures as a partial solution. The Auditor General's Report makes the following recommendation:

"We recommend that a study be made of the processing and filing of tax returns by the Franchise Tax Board to develop procedures that will reduce the large volume of clerical work now required."

Franchise Tax Board—Continued

We concur in this recommendation. It is our belief that a comprehensive study looking toward mechanization of certain of the operations of the Franchise Tax Board is long overdue.

Another problem which the Auditor General recognizes as meriting further study has to do with maintaining proper records of accounts receivable in connection with installment payments, which are permitted under both tax laws. The elimination of installments would have significant revenue implications and would also reduce administrative costs in the agency.

ANALYSIS

The following additional positions are proposed for 1959-60:

	<i>Number</i>	<i>Salaries</i>	<i>Budget page</i>	<i>Line number</i>
Temporary help:				
Administration -----	2.8	\$8,650	299	16
Operations—Sacramento -----	17.0	49,891	300	6
Los Angeles -----	0.7	2,002	300	51
San Francisco -----	0.6	1,750	301	7
Total -----	21.1	\$62,293		
Intermediate clerical:				
Administration -----	3	\$10,368	299	12-15
Junior accountant-auditor:				
Operations—Sacramento -----	9	\$43,740	300	5
Los Angeles -----	8	38,880	300	50
San Francisco -----	3	14,580	301	6
Total -----	20	\$97,200		
Out-of-state examiner II:				
Chicago -----	5	\$30,300	300	9
New York -----	5	30,300	300	12
Total -----	10	\$60,600		
Total -----	54.1	\$230,461		

The additional temporary help and the three additional intermediate clerical personnel are proposed because of anticipated increases in workload resulting from an increase in the number of returns filed. We recommend approval of these additional positions on the condition that comprehensive studies be made on a continuing basis looking toward possible mechanization of many of the routine operations involved in return processing.

Of the 20 additional junior accountant-auditor positions requested, nine are for office audit in the "drawer audit" activity on personal income tax in Sacramento and 11 for field audit work in the regional offices in Los Angeles and San Francisco.

The 10 additional out-of-state examiner II positions are to augment an existing staff of 18 examiners now divided equally between New York and Chicago who are engaged in audits of corporations doing business both inside and outside California where the method used in calculating the tax base attributable to the California operations is

Franchise Tax Board—Continued

an important factor. These are termed "allocation audits" by the agency and the results are shown under that heading in Tables 1 and 2 and in Table 5.

Table 1—Bank and Corporation Tax, Summary of Activities, 1957-58

Class of activity	Cases	Hours	Net revenue	Cost	Revenue per \$1 of cost
Basic:					
Service operation	79,365	108,217	\$179,794,399	\$331,551	\$542.28
Formal refund claims	1,023	14,891	—1,146,298	49,149	—22.32
Exempt corporations		3,993		11,640	
Processing nonsubversive declarations		20,709		57,093	
Totals	80,388	147,810	\$178,648,101	\$449,433	\$397.50
Nonaudit enforcement:					
Assessments corrected	4,609	15,998	507,778	\$45,039	\$11.27
New accounts	660	7,786	240,438	26,697	9.01
Totals	5,269	23,784	\$748,216	\$71,736	\$10.43
Audit:					
General audit	82,394	103,765	\$3,851,693	\$379,357	\$10.15
Allocation audit	9,272	102,057	7,378,100	420,708	17.54
Totals	91,666	205,822	\$11,229,793	\$800,065	\$14.04
Grand totals	177,323	377,416	\$190,626,110	\$1,321,234	\$144.27

Table 2—Bank and Corporation Tax, Summary of Activities, Seven Years Ended June 30, 1958

Class of activity	Cases	Hours	Net Revenue	Cost	Revenue per \$1 of cost
Basic:					
Service operation	425,623	631,934	\$942,011,017	\$1,706,105	\$552.14
Formal refund claims	6,441	67,024	—7,996,513	190,398	—45.50
Exempt corporations		72,207		168,407	
Processing nonsubversive declarations		50,076		135,702	
Totals	432,064	821,241	\$934,014,504	\$2,200,612	\$424.43
Nonaudit enforcement:					
Assessments corrected	11,348	132,587	\$2,522,187	\$311,507	\$8.10
New accounts	3,998	44,342	1,213,701	113,305	11.24
Totals	15,346	176,929	\$3,735,888	\$424,812	\$8.79
Audits:					
General audit	405,976	498,077	\$15,154,476	\$1,678,334	\$9.03
Allocation audit	48,341	546,262	37,614,613	1,985,205	18.95
Delinquents and arbitraries (5 years)	44,079	54,308	1,808,771	156,083	11.59
Totals	498,396	1,098,647	\$54,577,860	\$3,819,622	\$14.29
Grand totals	945,806	2,096,817	\$992,328,252	\$6,445,046	\$153.96

Generally speaking the justification for all of these additional auditor positions is that currently all audit activities of the Franchise Tax Board are showing recoveries substantially in excess of costs; \$14.04 for each \$1, for corporation audits during 1957-58 (Table 1), \$4.03 for each \$1 for personal income tax audits during 1957-58 (Table 3), and that the rate of recovery has been at substantially these levels for the last seven years (Table 2 and Table 4).

Franchise Tax Board—Continued

Table 3—Personal Income Tax, Summary of Activities, 1957-58

Activity	Cases	Hours	Net revenue	Cost	Revenue per \$1 of cost
Basic:					
Service operations -----	3,540,378	662,334	\$138,658,316	\$1,830,571	\$73.73
Refund claims allowed -----	6,645	39,329	—396,942	128,792	—5.10
Totals -----	3,547,023	701,663	\$138,259,374	\$2,009,363	\$68.81
Nonaudit enforcement:					
Sacramento:					
Information at source -----	7,942	41,281	\$169,158	\$100,105	\$1.69
Federal comparison project -----	6,794	37,165	227,616	100,454	2.27
Preliminary examination -----	79,279	69,423	89,025	178,305	.50
Los Angeles:					
Information at source -----	74,981	174,148	1,564,554	433,400	3.61
Federal comparison project -----	30,910	144,314	991,434	392,840	2.52
San Francisco:					
Information at source -----	29,185	88,837	614,532	220,826	2.78
Federal comparison project -----	10,172	84,856	262,609	232,321	1.13
Totals -----	239,263	640,029	\$3,918,928	\$1,658,251	\$2.36
Audit:					
Headquarters:					
Drawer audit -----	3,060,139	155,790	\$1,278,119	\$504,554	\$2.53
RAR unit -----	9,671	42,829	854,485	138,839	6.15
Specialist section -----	24,996	32,459	445,570	108,199	4.12
Los Angeles:					
Field audit -----	9,109	89,540	1,481,012	325,876	4.54
Residence and withholding -----	771	15,839	934,953	61,651	15.17
San Francisco:					
Field audit -----	9,232	80,681	860,764	280,975	3.06
Residence and withholding -----	799	17,933	106,306	63,153	1.68
Sacramento:					
Field audit -----	1,851	11,148	188,275	41,050	4.59
Totals -----	3,116,568	446,224	\$6,149,484	\$1,524,302	\$4.03
Grand totals -----	6,902,854	1,787,916	\$148,327,786	\$5,191,916	\$28.57

We are recommending approval of these additional positions, largely on this ground, but believe they should be approved only on the following conditions:

1. That the agency channel the additional audit manpower into the most profitable audit activities at the earliest possible date. Adequate information is available in the accompanying tables as to which activities are the most profitable.

2. That immediate steps be taken by the agency to compile information as to the extent of the nonproductive time spent in each audit activity, i.e., how many audits in each activity group produce revenue of less than cost, how much time was spent on such audits, what did they cost to make and what did they produce? This type of analysis has never been prepared by the Franchise Tax Board for any of its audit programs, although it has been developed in connection with the sales tax audit program, as indicated by Tables 4, 5 and 6 in the section under Budget Bill item 117. We believe such an analysis to be extremely valuable in evaluating the selectivity of the program and the extent of its submarginal activities, something of which there is no direct indication from the overall ratio of recovery to cost.

3. That continuing studies be made looking toward the substitution of a more selective process than that now used in the "drawer audit" activity. This activity involves an examination of returns in alphabetical order a considerable time after the filing date and stems from the fact that some years ago, when chief reliance was placed on the federal

Franchise Tax Board—Continued

Table 4—Personal Income Tax, Summary of Activities,
Seven Years Ended June 30, 1958

Activity	Cases	Hours	Net revenue	Cost	Revenue per \$1 of cost
Basic:					
Service operations -----	20,134,801	3,887,995	\$765,407,377	\$9,841,298	\$77.78
Refund claims allowed -----	44,837	238,580	—3,601,936	692,729	—5.20
Totals -----	20,179,638	4,126,575	\$761,805,441	\$10,534,027	\$72.32
Nonaudit enforcement:					
Sacramento:					
Information at source -----	80,298	214,960	\$1,561,162	\$530,075	\$2.95
Federal comparison (4 years) -----	28,394	85,843	915,878	240,455	3.81
Preliminary examination -----	327,344	550,520	1,835,896	1,154,089	1.59
Los Angeles:					
Information at source -----	554,575	1,027,044	10,492,633	2,251,780	4.66
Federal comparison (4 years) -----	93,004	340,184	2,373,953	330,056	2.86
Miscellaneous (5 years) -----	20,629	80,771	542,216	173,534	3.12
San Francisco:					
Information at source -----	326,048	595,956	6,022,885	1,316,535	4.57
Federal comparison (4 years) -----	67,602	252,514	1,518,210	602,761	2.52
Miscellaneous (5 years) -----	9,222	110,642	329,408	260,909	1.26
Totals -----	1,507,116	3,258,434	\$25,592,241	\$7,360,194	\$3.48
Audit:					
Headquarters:					
Drawer audit -----	12,254,020	1,126,059	\$8,675,243	\$2,994,592	\$2.90
RAR unit -----	58,543	322,875	5,784,136	860,949	6.72
Specialists section -----	237,237	209,139	2,830,812	592,459	4.78
Primary audit (5 years) -----	34,106	59,288	292,388	147,838	1.98
Los Angeles:					
Field audit -----	64,772	641,336	8,956,726	1,910,278	4.69
Residence and withholding -----	5,845	141,853	5,945,241	448,428	13.41
San Francisco:					
Field audit -----	47,385	566,421	3,915,845	1,750,985	2.24
Residence and withholding -----	4,366	90,244	2,124,748	290,902	7.30
Sacramento:					
Field audit -----	8,419	60,920	636,222	196,276	3.24
Totals -----	12,714,193	3,218,135	\$39,161,361	\$9,187,677	\$4.26
Grand totals -----	34,400,947	10,603,144	\$826,559,043	\$27,081,898	\$30.52

audit for state enforcement purposes, it was deemed desirable to file the returns and delay the state audit until after completion of the federal audit. This procedure involves a duplicate handling of returns and is not conducive to selectivity. Currently, chief alliance is placed on the State's own audit program and it would appear that the need for delay no longer exists.

The "drawer audit" activity has produced at the rate of \$2.90 for \$1 over the last seven years, which is below the average of \$4.26 for all audit activities under personal income tax, as shown in Table 4. It will be noted, in Tables 3 and 4, that the "drawer audit" activity accounts for about one-third of the total audit hours expended on personal income tax audit activities both during 1957-58 and during the last seven years.

Elsewhere in this analysis we have recommended the creation of a single department of revenue, headed by a director appointed by the Governor, to have responsibility for administration of all state taxes. One of the advantages of such an arrangement would be that it would facilitate the pooling of all audit staff and their use where most effective as between various tax programs. We believe that this principle should be recognized and followed by all existing tax agencies within the limits of their existing organizational structure.

Franchise Tax Board—Continued

Table 5—Bank and Corporation Tax, Allocation Audit Activity by Location and Fiscal Year, 1952-53 to 1957-58

Location	Cases	Hours	Net revenue	Cost	Revenue per \$1 of cost
Sacramento					
1952-53	2,487	36,487	\$1,347,027	\$114,243	\$11.79
1953-54	2,845	43,539	1,508,624	135,076	11.17
1954-55	2,742	38,072	2,530,981	128,031	19.77
1955-56	11,413	40,737	2,229,138	142,012	15.70
1956-57	11,485	36,069	2,014,210	131,842	15.28
1957-58	7,983	39,399	3,303,621	150,041	22.02
Total	38,955	234,303	\$12,933,601	\$801,245	\$16.14
Los Angeles					
1952-53	397	11,997	\$964,076	\$39,114	\$24.65
1953-54	268	11,038	550,428	37,068	14.85
1954-55	252	12,989	548,367	45,679	12.00
1955-56	403	14,427	1,846,776	54,946	33.61
1956-57	307	13,370	726,659	51,429	14.13
1957-58	515	17,943	2,391,036	74,145	32.25
Total	2,142	81,764	\$7,027,342	\$302,381	\$23.24
San Francisco					
1952-53	251	8,536	\$835,522	\$28,180	\$29.65
1953-54	344	8,411	2,124,635	30,278	70.17
1954-55	371	9,674	1,131,694	35,799	31.61
1955-56	312	9,779	736,753	39,542	18.63
1956-57	313	15,515	888,773	60,925	14.59
1957-58	414	19,187	880,577	82,615	10.66
Total	2,005	71,102	\$6,597,954	\$277,339	\$23.79
New York					
1952-53	173	3,347	\$589,153	\$17,225	\$34.20
1953-54	146	4,303	751,601	21,656	34.71
1954-55	163	7,122	192,620	22,559	8.54
1955-56	249	9,452	454,547	36,347	12.51
1956-57	195	12,908	1,884,537	52,316	36.02
1957-58	147	14,121	269,111	60,384	4.46
Total	1,073	51,258	\$5,141,624	\$210,487	\$24.43
Chicago					
1952-53	134	2,792	\$616,492	\$11,800	\$52.25
1953-54	174	6,141	678,927	28,944	23.46
1954-55	109	5,902	395,423	18,815	21.02
1955-56	161	9,368	1,765,815	36,432	48.47
1956-57	188	12,053	416,590	51,774	8.05
1957-58	213	11,407	533,755	53,523	9.97
Total	979	47,663	\$4,407,002	\$201,288	\$21.89
All Locations					
1952-53	3,442	63,159	\$4,352,275	\$210,562	\$20.67
1953-54	3,777	73,437	5,614,215	253,022	22.19
1954-55	3,637	73,759	4,799,085	250,833	19.13
1955-56	12,538	83,763	7,033,029	309,279	22.74
1956-57	12,488	89,915	5,930,819	348,286	17.03
1957-58	9,272	102,057	7,378,100	420,708	17.54
Grand total	45,154	486,090	\$35,107,523	\$1,792,740	\$19.58

In our analysis of the budget of the Board of Equalization, Budget Bill, item 117, we have recommended a reduction in the audit staff of that agency of approximately 30 auditors with total salaries of \$157,800, which is the exact amount of the increase which we recommend for approval for the 30 additional audit positions in the Franchise Tax Board. It was the intent of this recommendation to accomplish a shift in audit manpower from the sales tax audit program to the bank

Franchise Tax Board—Continued

and corporation and personal income tax audit programs in the Franchise Tax Board, and if the Legislature should approve our recommendation the increase in the audit staff of the Franchise Tax Board can be accomplished without any overall increase in state costs.

Our reason for this recommendation, as we point out in some detail in our analysis under item 117, is that a comparison of the results of the audit programs of the two agencies over a seven-year period indicates that the program of the Franchise Tax Board has been approximately four and one-half times as productive as that of the sales tax division and we believe that a shift between the two programs is good business since it can be expected to produce additional revenue for the State at no increase in overall cost. The sales tax audit program has averaged \$1.66 in revenue over the last seven years, while that of the Franchise Tax Board has averaged about \$7. For 1957-58, the averages calculated on a comparable basis were \$1.68 and \$7.22.

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ITEM 131 of the Budget Bill

STATE TREASURER

Budget page 302

FOR SUPPORT OF STATE TREASURER FROM THE GENERAL FUND

Amount requested	\$353,501
Estimated to be expended in 1958-59 Fiscal Year	428,777
Decrease (17.4 percent)	\$75,276
TOTAL RECOMMENDED REDUCTION	\$18,780

ANALYSIS

The State Treasurer, an elective constitutional officer since 1849, has as his principal function the receiving, depositing, safekeeping, and disbursement of state moneys.

This budget request is predicated upon the assumption that certain proposed legislation will be enacted during the current session. This legislation is intended to result in substantial savings (\$86,115) as it will: (a) eliminate provisions of law requiring a 24-hour watchman in the vault area and use instead an efficient, modern alarm system; and (b) provide for reimbursement to the Treasurer for servicing matured bonds of special fund agencies of the State.

Contingent upon the passage of legislation, the decrease in total support for the Fiscal Year 1959-60 is largely due to increased reimbursements from bond service expenses of \$71,079, a decrease of \$10,178 in equipment, and the elimination of three guard clerk positions. This is offset by an increase in operating expenses of \$11,597, the major portion of which is an increase in fees paid to the fiscal agent.

Analysis of Recommended Reductions

Summary of reductions	Amount	Budget	
		Page	Line
1 Assistant State Treasurer	\$13,800	302	58
1 Senior stenographer-clerk	4,980	302	60
Total reduction	\$18,780		

State Treasurer—Continued

The positions of assistant state treasurer and his senior stenographer-clerk were added by executive action in January, 1957. We recommended against these positions in our analysis of the 1957-58 budget request. The retention of the assistant state treasurer was asked for to assist in preparing special materials surrounding increased offering of bonds and the work involving the reorganization of the office following statutory changes in the investment functions of the office. The temporary justification for this position has been removed and we again recommend its elimination, together with the position established to provide necessary clerical assistance to it.

158 DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL
 ITEM 132 of the Budget Bill Budget page 305

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

Amount requested	\$28,162,109
Estimated to be expended in 1958-59 Fiscal Year	25,839,796
Increase (9.0 percent)	\$2,322,313

TOTAL RECOMMENDED REDUCTION **\$623,568**

GENERAL SUMMARY

The principal duties of the California Highway Patrol are to enforce the traffic laws and the statutes pertaining to equipment, size, weight and loading of motor vehicles. The Commissioner of the Highway Patrol is required to make "adequate provision for patrol of the highways at all times of the day and night." The patrol is a quasi-military organization which operates through a military command structure. It differs from modern military organizations in that the rank and file of traffic officers are career personnel who will ordinarily spend about 30 years with the organization. These men operate with a minimum of immediate supervision.

Members of the Highway Patrol have the powers of peace officers under the following conditions only:

- "(1) When in pursuit of any offender or suspected offender,
- "(2) To make arrests for crimes committed in their presence or upon any highway."

The definition of "highway" applicable is neither that of common speech, which distinguishes between main traveled routes and byways, nor is it the public works definition which distinguishes state-built and maintained routes from county roads. "* * * 'highway' is a way or place, of whatever nature, publicly maintained and open to the use of the public for purposes of vehicular travel." (Vehicle Code Section 81.) This covers over 80,000 miles of state highways, streets in suburban real estate developments, and rural roads.

Organization

Administration. The Sacramento headquarters consists of the Administration Division with a staff of 111, the Field Operations staff of