

State Scholarship Commission—Continued

taining such a special program is established. *Therefore we recommend that funds in the commission's 1962-63 budget be limited to the expenses necessary to meet the State's commitment to the present agricultural award holders with no provision for the issuance of further new agricultural awards, but that current recipients continue to be eligible for renewals as long as they meet present qualifications.*

This recommendation is made as an interim recommendation capable of being acted upon by the Legislature at a budget session. We further recommend, in view of the experience under the Agricultural Scholarship Program and the availability of scholarships for deserving students including agricultural students under the general scholarship program, that the Legislature at the 1963 session consider legislation terminating the special program upon completion of outstanding commitments to award winners.

With the exception of the deletions noted above, we recommend approval as budgeted.

BOARD OF CONTROL

ITEM 118 of the Budget Bill

Budget page 301

FOR SUPPORT OF BOARD OF CONTROL
FROM THE GENERAL FUND

Amount requested	\$16,758
State employees' retirement	1,049
State employees' health and welfare	120
Total	\$17,927
Estimated to be expended in 1961-62 fiscal year	16,959
Increase (5.7 percent)	\$968
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

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

Its jurisdiction relates mainly to:

1. Making rules respecting such matters as travel expenses of employees, use of state cars, claims against the State and headquarters of appointive and elective officials.
2. Acting as an administrative tribunal in connection with employee merit awards, claims against the State, the discharge from accountability for collecting or refunding small amounts of money, and the approval of refunds, credits and cancellations of certain taxes.

Board of Control—Continued

With respect to the function of approving refunds, credits and cancellations of taxes, in our analyses for 1952-53, page 215, and 1961-62, page 292, we suggested that the requirement of such approval be eliminated. Such opinion is supported by two additional facts:

1. In the memory of the board's staff it has never disapproved such an item which indicates to us that the function is wholly perfunctory and unnecessary.

2. Our position is substantially the same as that of the Organization and Cost Control Division of the Department of Finance as stated in its Survey No. 852, dated November 1, 1957, i.e., "... a substantial part of board actions is concerned with its function of approval of tax refunds. It appears that authority to grant tax refunds could be delegated to the various tax collecting agencies. This authority could be restricted to refunds within broad limits without prior board approval, if such control is found to be necessary or advisable. The board's approval could then be required for exceptional cases where adjudication is required."

The proposed expenditures of \$17,927 do not truly represent the cost of the agency as technical assistance is performed by the staff of the Department of Finance on a nonreimbursable basis. We estimate the cost of these services at in excess of \$35,000 so that the true cost of the agency is probably about \$55,000 per annum.

The principal item making up the budget increase of \$968 is rent of \$1,062 due to transfer of the agency's office from the State Capitol to a privately owned building.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 119 of the Budget Bill

Budget page 302

FOR SUPPORT OF STATE CONTROLLER
FROM THE GENERAL FUND

Amount requested	\$3,803,906
State employees' retirement	193,692
State employees' health and welfare	25,895

Total	\$4,023,493
Estimated to be expended in 1961-62 fiscal year	4,223,358

Decrease (—4.7 percent)	\$199,865
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TOTAL RECOMMENDED REDUCTION	\$133,895
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Summary of Recommended Reductions

Inheritance and Gift Tax Division	Amount	Budget	
		Page	Line
1 Existing inheritance and gift tax examiner II, L.A.	\$6,672	307	19
1 Proposed inheritance and gift tax examiner II, L.A.	6,672	307	31
Equipment for proposed examiner II, L.A.	1,337	307	49
Equipment for proposed junior counsel, L.A.	318	307	49

State Controller—Continued

Tax-Deeded Lands Division

7 District manager	59,640	309	56
2 Assistant district manager	12,720	309	56
4 Intermediate stenographer	19,920	309	57
1 Intermediate clerk	4,648	309	57
Salary savings	—600	309	63
Total salary and wages	\$96,328	309	65
Operating expenses	22,068	309	78
Equipment	500	310	4
Total	\$133,895		

ANALYSIS

The State Controller is an elected constitutional official who is the accounting and disbursing officer of the State. In addition to these functions, the Controller administers the inheritance and gift taxes and collects the motor vehicle fuel, the motor vehicle transportation (truck) and the insurance premium taxes. This office also administers the motor vehicle fuel tax refund program and reports on the highway financial transactions of local governments. One of the divisions in the Controller's office advises local governments on property tax delinquencies, and supervises tax-deeded lands. We have examined the functions of this division in detail, especially their field office operations, and our recommendations are contained in the last part of this analysis.

Table 1 shows the eight divisions in the Controller's office and the proposed man-years and expenditures for 1962-63. The disbursement's division accounts for about 29 percent of the Controller's budget before computing retirement and health expenditures. Budgets next in importance are the inheritance and gift tax, tax collection and refund, and audits divisions.

Table 1—1962-63 Expenditures by Division, Fund and Proposed Man-Years

Division	Proposed man-years	Proposed Expenditures		
		Total	General Fund	Special funds
Administration	31.2	\$272,939	\$272,939	—
Accounting	54.3	498,091	451,690	\$46,401
Audits	69.3	560,823	431,546	129,277
Disbursements	139	1,386,419	1,386,419	—
Inheritance and gift tax	100.9	872,528	872,528	—
Local government fiscal affairs	28.7	342,222	159,852	182,370
Tax collection and refund	78.9	632,483	31,576	600,907
Tax-deeded lands	23.6	197,356	197,356	—
Total	525.9	\$4,762,861	\$3,803,906	\$958,955
Retirement	—	\$251,987	\$193,692	\$58,295
Health and welfare	—	32,540	25,895	6,645
	525.9	\$5,047,388	\$4,023,493	\$1,023,895
Percent of total expenditures	100%		79.7%	20.3%

Table 2 shows the proposed 1962-63 expenditures by fund. All eight divisions receive some General Fund money. Thirty-two percent of the appropriation from the Motor Vehicle Fund is used to support the

State Controller—Continued

local government fiscal affairs division and the remainder, plus the entire amount from the Motor Vehicle Transportation Tax Fund, is used to support the tax collection and refund division. Twenty-six percent of the appropriation from the State School Building Aid Fund goes to the accounting division, and the remaining 74 percent to the audits division. Prior to July 1, 1961, the tax-deeded lands division was supported entirely from the Redemption Tax Fund. However, this fund was abolished by the 1961 Legislature, and its proceeds transferred to the General Fund.

Table 2—Proposed Appropriations and Total Expenditures, 1962-63, by Fund

Fund	Budget Act appropriation		Retirement	Health and welfare	Total expenditures
	Item No.	Amount			
General	119	\$3,803,906	\$193,692	\$25,895	\$4,023,493
Motor Vehicle Transportation Tax	120	208,729	12,504	1,556	222,789
Motor Vehicle Fuel Fund	121	574,548	33,468	3,785	611,801
State School Building Aid	122	175,678	12,323	1,304	189,305
Total		\$4,762,861	\$251,987	\$32,540	\$5,047,388

Table 3 compares the total expenditures, by division, for 1961-62 and 1962-63. This table shows that the proposed budget is \$157,314, or 3 percent less than the current budget. However, the reduction consists of an increase of \$42,551 in special funds and a decrease of \$199,865 from the General Fund.

Table 3—Total Expenditures 1961-62 and 1962-63 by Division and Comparison

Division	Total expenditures		Increase or (—) decrease		
	Estimated 1961-62	Proposed 1962-63	Total	General Fund	Other funds
Administration	\$267,472	\$272,939	\$5,467	\$5,467	—
Accounting	552,283	498,091	—54,192	—55,364	\$1,172
Audits	556,677	560,823	4,146	—1,135	5,281
Disbursements	1,538,688	1,386,419	—152,269	—152,269	—
Inheritance and gift tax	853,150	872,528	19,378	19,378	—
Local government fiscal affairs	337,438	342,222	4,784	—5,155	9,939
Tax collection and refund	609,577	632,483	22,906	1,145	21,761
Tax-deeded lands	198,491	197,356	—1,135	—1,135	—
Total	\$4,913,776	\$4,762,861	—\$150,915	—\$189,068	\$38,153
Retirement	273,166	251,987	—21,179	—22,308	1,129
Health and welfare ..	17,760	32,540	14,780	11,511	3,269
Total	\$5,204,702	\$5,047,388	—\$157,314	—\$199,865	\$42,551

State Controller—Continued

During 1961-62, the Controller initiated four new programs and accelerated two others which required an allocation of \$388,538 from the Emergency Fund. The programs were:

1. Screening the unclaimed property in safe deposit boxes. This is part of the Controller's responsibilities under the Uniform Disposition of Unclaimed Property Act. This screening is a test study to determine if the resulting revenues will be sufficient to warrant the inspection of all such safe deposit boxes.

2. Conversion of the disbursements division to an electronic data processing operation (EDP). This program has been under study and partial implementation for the last few years. On July 1, 1961, the state payroll and warrant system was converted to an EDP process.

3. Integration of Federal Old Age and Survivors and Disability Insurance with the State Employees' Retirement System. This change, which took effect January 1, 1962, resulted from legislation enacted during the 1961 Session.

4. Medical Care Act. Under this program which was enacted by the Legislature in 1961, the State will pay part of the health insurance premiums of its employees. This process was also started on January 1, 1962.

5. Gift tax compliance program. During the current budget year the inheritance and gift tax division embarked upon a pilot study of checking local property transfer records, where no compensation was indicated, to determine if such transfers were reported on gift tax returns. If this program produces sufficient revenue, very likely it will be continued in the future.

6. Research program for the inheritance and gift tax division. This program consists of analyzing the incidence of these taxes, developing information on possible "loopholes" in the laws, and compiling statistics for evaluating proposed or actual legislative changes.

Table 4 shows the allocations of these emergency funds, by division, program, and budget category:

Controller

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State Controller—Continued

Table 4—1961-62 Allocation from Emergency Fund for State Controller
Accounting Division

<i>Program</i>	<i>Item</i>	<i>Amount</i>	<i>Total</i>
Unclaimed property	Temporary help, 11.5 man-years, to screen safe deposit boxes.		
	Salaries and wages-----	\$50,491	
	Legal advertising costs-----	13,600	
	Operating and equipment expense-----	3,164	
			\$67,255
<i>Disbursements Division</i>			
EDP conversion	Temporary help, 23.5 man-years		
	Net salary and wages-----	\$98,718	
	Operating expenses-----	60,541	
	Reimbursements-----	—615	
			158,644
OASDI/SERS Integration	Temporary help, 24.7 man-years		
	Net salary and wages-----	\$123,163	
	Operating expenses-----	41,333	
	Equipment-----	47,950	
	Reimbursements-----	—87,966	
			124,450
Medical care program	Temporary help, 13.4 man-years		
	Net salary and wages-----	\$62,870	
	Operating expenses-----	30,532	
	Equipment-----	20,550	
	Reimbursements-----	—93,402	
			20,550
<i>Inheritance and Gift Tax Division</i>			
Gift tax compliance	Temporary help, 1.8 man-years, for pilot study on reporting of property transfers.		
	Salaries and wages-----	\$7,047	
	Operating expenses-----	1,992	
			9,039
Research	Temporary help, 1.1 man-years, to compile statistics for possible changes in inheritance and gift tax laws.		
	Salaries and wages-----	\$6,486	
	Operating expenses-----	2,114	
			8,600
Total Emergency Fund Allocation-----			\$388,538

Comments on each of the eight divisions in the Controller's office, with our budget recommendations, follow:

Administration Division

This division provides general housekeeping and staff services for the entire agency as well as technical assistance to the Controller relating to his responsibilities as a member of boards and commissions.

State Controller—Continued

No new positions are requested, and no increase in the level of services are proposed.

We recommend approval of the amount requested.

Accounting Division

This division had a staff of 54 permanent and 12.5 temporary help positions, for a total of 66.5, in 1961-62. All except one of the temporary help positions was used in the screening of safe deposit boxes, upon which we have commented earlier. The proposed budget consists of 54 permanent positions, one man-year of temporary help, and one new accountant I position for the Bureau of Control Accounts.

We recommend approval of the new accountant I position for the accounting division, \$5,232, budget page 304, line 30.

The Bureau of Control Accounts maintains records covering all funds in the State Treasury. These accounts record the receipts and disbursements on about 150 funds, together with statements showing their resources, liabilities and balances. The new position appears justified on the basis of increased workload.

While the accounting division has not asked for additional temporary help to continue the program of screening safe deposit boxes, if the results during the current budget year prove successful, then the Controller probably will ask for a new allocation from the Emergency Fund during 1962-63.

Audits Division

During 1961-62, this division had 71.7 positions. Included in this total were two temporary audit positions which were financed on a reimbursable basis by the California Disaster Office to audit the federal civil defense program of assistance to local governments. The Controller proposes to make these two positions permanent in the 1962-63 budget, but they will still be financed on a reimbursable basis by California Disaster Office. Therefore, in effect, no change in the staffing pattern of this division has been made.

We recommend approval of the two new permanent governmental auditor II positions for the audits division, \$14,052, budget page 305, line 14.

Disbursements Division

During 1961-62, 82.5 new temporary help positions, financed mainly from emergency funds, were added to this division's staff to handle the increased workload resulting from the conversion of their operations to electronic data processing, and to carry out the new programs enacted by the 1961 Legislature for which no funds specifically were included in the budget. These new programs were: (1) the integration of the State Employees' Retirement System with the Federal Old Age and Survivors Disability Insurance program, and (2) the Medical Care Act for state employees.

An inspection of Table 5 shows how the staff was increased in 1961-62 to handle these new programs, and how the current staff compares with the proposed 1962-63 Budget.

State Controller—Continued

Table 5—Comparison of Disbursements Division Staff

	1961-62		1962-63	Change From
	Enacted Budget	Revised Budget	Proposed Budget	Revised Budget
Permanent positions --	111.0	112.5	112.5	—
Temporary help -----	4.0	86.5	8.0	—78.5
New positions -----	—	—	26.0	+26.0
Salary savings -----	—6.9	—8.0	—7.5	+0.5
Total -----	109.0	191.0	139.0	—52.0

In effect, the Controller's proposal for 1962-63 is to convert 26 existing temporary positions to permanent, and to eliminate 52 other temporary positions. This reduction in temporary help is possible because the disbursements division has completed the most difficult part of the conversion process.

We recommend approval of the following 26 new permanent positions for the disbursements division.

Number	Position	Salary	Budget Page	Line
<i>Sacramento Office</i>				
2	Supervisor, electronic data processing -----	\$15,540	306	15
5	Programmer II, electronic data processing -----	36,345	306	17
3	Programmer I, electronic data processing -----	17,388	306	19
2	Programmer trainee -----	9,960	306	20
1	Senior clerk -----	4,740	306	21
1	Accounting technician II -----	4,980	306	22
1	Intermediate account clerk -----	4,296	306	23
1	Intermediate typist-clerk -----	4,194	306	24
2	Intermediate clerk -----	8,592	306	25
2	Key punch operator -----	8,490	306	26
<i>San Francisco Office</i>				
1	Accounting technician II -----	4,980	306	28
1	Intermediate account clerk -----	4,296	306	29
1	Intermediate clerk -----	4,194	306	30
<i>Los Angeles Office</i>				
1	Accounting technician II -----	4,980	306	32
1	Intermediate account clerk -----	4,296	306	33
1	Intermediate clerk -----	4,194	306	34
26		\$141,465		

Inheritance and Gift Tax Division

This division has three offices, Sacramento, San Francisco, and Los Angeles. The Sacramento headquarters office handles the gift tax returns for the entire State, plus the inheritance tax returns from the Northern California counties under its jurisdiction. The San Francisco and Los Angeles offices handle the inheritance tax returns from the geographic areas under their jurisdiction. This division is unique in that each of these offices is almost totally autonomous with respect to the administration of the inheritance tax. There are no regular procedures whereby inheritance tax cases completed in either San Francisco or Los Angeles are reviewed by the headquarters staff in Sacramento.

The inheritance and gift tax division had a staff of 97 permanent and 6.2 temporary positions, for a total of 103.2, during 1961-62. Two of these temporary positions were authorized on October 1, 1961, and they were used to conduct a temporary gift tax compliance program. The

State Controller—Continued

proposed budget does not authorize permanent status for these positions. Another of the temporary positions consisted of an intermediate clerk (male) for use in the stock room in the Los Angeles office. This position is being requested on a permanent basis for 1962-63. The fourth temporary position consisted of an intermediate typist-clerk to work in the regular gift tax audit section. This position also is being requested on a permanent basis for 1962-63. One of the remaining temporary positions was a research technician employed in collecting statistics for evaluating the inheritance tax law. We have commented on this program earlier in the analysis. This position also is being requested on a permanent basis for 1962-63.

The proposed staff of this division for 1962-63 consists of 97 permanent positions, two man-years of temporary help, and five new positions, for a total of 104. As we mentioned earlier, three of the five new positions currently are temporary help. The exceptions are one new junior counsel and one inheritance and gift tax examiner II, for the Los Angeles office.

Comments on each of these new positions follow:

We recommend approval of one new assistant research technician, for the Sacramento office, \$7,573, budget page 307, line 26.

The inheritance and gift taxes produced \$71.6 million during 1960-61. Unlike the Franchise Tax Board, the Controller has not compiled annual statistics on the diverse components of these tax bases, their effective rates, the amounts and details on exemptions, etc. This type of information is needed to intelligently evaluate these taxes and the revenue effects of possible changes.

We recommend approval of one new intermediate typist-clerk for the gift tax audit section in the Sacramento office, \$4,548, budget page 307, line 27.

This position will help reduce the clerical backlog incident to unaudited gift tax returns which amount to an estimated 10,800 cases as of June 30, 1962.

We recommend approval of one new junior counsel for the Los Angeles office, \$6,516, budget page 307, line 29.

This position was requested to meet the increased workload in this office.

We recommend that: (1) the proposed new inheritance and gift tax examiner II position for the Los Angeles office be deleted, \$6,672, budget page 307, line 31, (2) an existing examiner II position in the Los Angeles office be deleted, \$6,672, budget page 307, line 19, and (3) the San Francisco office discontinue the practice of preparing valuations of partnerships and closed corporations for the inheritance tax appraisers.

Inheritance tax appraisers are appointed by the Controller to value decedent's estates for both inheritance tax and probate purposes. These appraisers receive adequate compensation, both from the estates and the State for performing these functions.

The Los Angeles office of the Inheritance Tax Division is unique in that its examining staff spends considerable time on preparing valua-

State Controller—Continued

tions of partnerships and closely held corporations for some of the local inheritance tax appraisers. Table 6 shows that the Sacramento office does not perform this service, and only a few such valuations are prepared by the legal staff in the San Francisco office.

Table 6—Number of Valuations of Partnerships and Closely Held Corporations Prepared for Inheritance Tax Appraisers by the Staff of the Inheritance Tax Division

Year	Los Angeles	San Francisco	Sacramento	Total
1962-63 estimate_____	301	16	0	317
1961-62 estimate_____	276	15	0	291
1960-61_____	258	14	0	272
1959-60_____	321	26	0	347
1958-59_____	335	34	0	369

We believe that it is inappropriate for state employees to perform this service because:

1. The inheritance tax appraisers are paid to do this work.
2. The appraisers do not reimburse the State for the expenses connected with performing this service.
3. This service is provided for only some of the appraisers in the Los Angeles region, none in the Sacramento area, and very few in the San Francisco region. As a result, there is unequal treatment not only among appraisers, but also among the different offices of the Inheritance Tax Division.

We believe that if the examining staff in the Los Angeles office discontinues this service, then six rather than the existing seven positions will be sufficient to handle the present workload.

We also recommend that: (1) the equipment for the proposed examiner position in Los Angeles, consisting of a chair, desk, calculator and side table be deleted, \$1,337, budget page 307, line 49. (2) The desk and chair now used by the existing examiner position which we suggested be abolished, be transferred to the new junior counsel position. (3) The desk and chair for the new junior counsel position be deleted, \$318, budget page 307, line 49.

We recommend approval of the new intermediate clerk position for the Los Angeles office, \$3,996, budget page 307, line 31.

This is an existing temporary help position which is employed in the stock room to process incoming mail, handle heavy supplies, and maintain inventory control of the files.

Local Government Fiscal Affairs Division

This division is primarily concerned with the review and publication of information relating to financial transactions of political subdivisions. There are no requests for additional staff or increased services.

We recommend approval of the amount requested.

Tax Collection and Refund Division

This division has two major functions, refund of gasoline taxes to nonhighway users, and the collection of five taxes assessed by other agencies. An estimated \$17.6 million in gasoline taxes will be refunded during 1962-63, based upon 77,000 claims.

State Controller—Continued

This division is abolishing three intermediate clerk positions, \$11,892, because a reduction in delinquent accounts was achieved by a better billing procedure, and gasoline tax refunds are now processed by electronic data processing equipment.

We recommend approval of the amount requested.

Tax Deeded Lands Division

Prior to July 1, 1961, the tax-deeded lands division was supported from the Redemption Tax Fund, revenue for which consisted of fees of \$1.50 per parcel paid to the State at the time any tax delinquent or deeded property was redeemed. These fees amounted to \$203,211 in 1960-61.

Chapter 881, Statutes of 1961, in effect July 1, 1961, abolished the Redemption Tax Fund, provided that the revenues from redemption fees shall accrue to the General Fund in future, that the balance in the Redemption Tax Fund at June 30, 1961, which amounted to \$723,275, be transferred to the General Fund, and, in effect, that the future activities of the tax-deeded lands division be supported by the General Fund.

Accordingly the 1962-63 budget request for support of the tax-deeded lands division will be the first such request subject to legislative review since the division has become a General Fund agency.

We recommend that the 7 field offices of the Tax Deeded Lands Division be abolished, with an annual savings of \$118,896, and that the county tax collectors be given the function of renting and managing tax-deed property.

This budget reduction consists of the following items:

	Amount	Budget	
		Page	Line
Salaries and Wages			
7 district managers -----	\$59,640	309	56
2 assistant district managers -----	12,720	309	56
4 intermediate stenographers -----	19,920	309	57
1 intermediate clerk -----	4,648	309	57
salary savings -----	—600		
14 Total salaries and wages -----	\$96,328	309	65
Operating Expenses			
General -----	\$1,185	309	68
Communications -----	1,438	309	70
Travel—in-state -----	9,900	309	71
Rent -----	9,545	309	73
Total operating expenses -----	\$22,068	309	73
Equipment -----	\$500	310	4
Total, field offices -----	\$118,896	310	9

These recommendations were made because the field staff is performing duties which are duplications of the work of county governments, consist of functions which even local governments consider as an uneconomical expenditure of public funds, and in some respects are iden-

State Controller—Continued

tical to services performed by the headquarters staff of the tax-deeded lands division.

Distribution of the field staff, by location and class is shown in Table 8.

An Explanation of Tax-Deeding

The term tax-deeded refers to property which the State now owns because the former owner did not pay the delinquent local property taxes. As Table 7 shows, there is a waiting period of over five years between the date the property first becomes delinquent and when it is deeded to the State. At any time prior to deeding the taxpayer can redeem his property, and thus prevent deeding, by paying the outstanding taxes, interest, penalties and a \$1.50 redemption fee to the county tax collector. After deeding, the owner loses his rights in the property but he still can reclaim it by paying the above costs up until the hour the property is sold at public auction by the local tax collector. All taxes, interest and penalties on delinquent and deeded property go to local governments. The \$1.50 redemption fee goes to the State General Fund.

Table 7—The History of Property Deeded to the State in 1961

<i>Date</i>	<i>History</i>
1. First Monday in March, 1955 ----	County assessor values property for fiscal year 1955-56.
2. September, 1955-----	County board of supervisors set property tax rates for 1955-56.
3. December, 1955-----	First installment of 1955-56 taxes due.
4. April, 1956-----	Second installment of 1955-56 taxes due.
5. May, 1956-----	Delinquent property tax roll sent to county tax collector.
6. June, 1956-----	County tax collector publishes delinquent property tax roll.
Five-year waiting period during which delinquent property taxes were not paid.	
7. June 8, 1961-----	County tax collector publishes list of properties which will be deeded to the State on July 1, 1961. Also sends registered letters to these delinquent taxpayers, so called pre-deed notices.
8. June 30, 1961-----	Last date delinquent taxpayers can make arrangement with county tax collector to pay their 1955-56 taxes in installments.
9. July 1, 1961-----	1955-56 delinquent properties deeded to the State for nonpayment of local property taxes.

The pre-deed notices sent by the county tax collectors on June 8, 1961, are designed to notify the 1955-56 delinquent taxpayer that he will lose the rights in his property unless either the delinquent taxes and costs are paid in full by July 1, 1961, or he makes a contract with the tax collector to pay in installments.

State Controller—Continued

Activities of the Field Office Staffs

The field staffs of the division are engaged in three main types of activities:

1. Encouraging the present owners of delinquent property and the former owners of deeded property to pay their outstanding local property taxes.

2. Renting and managing tax-deeded property.

3. Advising local tax officials on procedures and the law relating to tax delinquent and deeded property.

We do not believe these activities justify the existence of the seven field offices, for the following reasons:

1. The pre-deed notices sent by the field offices to delinquent taxpayers, which are designed to encourage them to pay their outstanding property taxes, have only limited value because:

- a. They are duplications of the letters sent by the county tax collectors.

- b. They covered only 21 percent of the pre-deeded property in 1961, whereas county letters were sent to the owners of all properties for which a mailing address was available.

- c. Even the Controller does not believe these state notices are important, because none were sent to delinquent taxpayers in the eight Bay Area counties in 1961.

2. There were only 38 pieces of property rented by the seven field offices in the entire State of California on August 1, 1961. Los Angeles, with seven rentals, had the largest number for an individual county. Twenty counties have not had any rentals during the last four years. Since the entire amount of the rental receipts are given to the counties, they should be willing to assume the management of the very few rental properties within their jurisdictions.

3. Field offices are not required in order to provide advice to local tax officials. This service can be obtained, and currently is being provided, by the headquarters staff of this division in Sacramento.

4. The field offices are performing functions pertaining to local property taxes which even county governments consider as obsolete. For example, these field personnel, who are state employees, personally contact local taxpayers to encourage them to pay their outstanding property taxes. County governments, which rely upon the property tax for their main source of revenue, and therefore should be the ones most interested in delinquencies, do not believe it is feasible to personally contact delinquent taxpayers.

A brief description of the headquarters operations of this division follows.

Headquarters Office

The Sacramento headquarters office has a staff of two administrative and 7.8 clerical positions. Its proposed budget for 1962-63 amounts to \$78,460 out of a total of \$197,356. The main functions of the headquarters staff, by type of program, are:

1. *Tax delinquent property.* During the budget year this office expects to receive from the county tax collectors lists containing 155,000

State Controller—Continued

pieces of tax-delinquent properties. The headquarters staff checks these lists for accuracy of property descriptions and legal format. They also make adjustments on their records when these properties are redeemed. From past experience it is evident that about 97 percent of these delinquent properties will be redeemed during the five-year waiting period before the property can be deeded to the State for the non-payment of local property taxes.

2. *Tax-deeded property.* During 1962-63, the county tax collectors will prepare and transmit to Sacramento deeds on about 3,800 pieces of property that have been delinquent over five years. This office maintains a file of these deeds, checks them for accuracy and gives clearances to county tax collectors to sell tax-deeded property at public auction. When such property is sold this office makes the necessary clerical adjustments on its records.

3. *Advising local tax officials.* The headquarters office advises county tax officials on procedures and the law pertaining to tax delinquent and deeded property. It also conducts annual conferences and serves as a source of information on pending and enacted legislation.

During the current year this division started preparing a manual covering all the operations in county tax collectors' offices, not just those related to tax delinquent or deeded property. This manual is being prepared at the request of the County Tax Collectors' Association. It is financed entirely from state funds, and no mention was made of this program when the current budget was reviewed by the Legislature.

The district manager of the Fresno field office has been preparing this manual, and during the last six months of 1961, this activity amounted to about 58 days. The 1962-63 headquarters budget contains \$1,902 in travel expenses and \$525 for binders which are related to the manual. The Controller does not have a precise estimate of when this manual will be completed, or its total cost.

Field Offices

The staffing pattern and location of the seven field offices in this division are as follows:

Table 8—Field Staff of Tax Deeded Lands Division

<i>Location</i>	<i>District manager</i>	<i>Assistant district manager</i>	<i>Clerical</i>	<i>Total</i>
Eureka -----	1	--	--	1
Sacramento -----	1	--	--	1
Oakland -----	1	1	1	3
Fresno -----	1	--	1	2
Santa Barbara -----	1	--	--	1
Los Angeles -----	1	--	2	3
Riverside -----	1	1	1	3
Total -----	7	2	5	14

State Controller—Continued

The district managers in Eureka and Santa Barbara, which are one-man locations, operate out of their homes with no state offices maintained for the positions in these communities. The Sacramento field office is located in the same facilities as the headquarters office.

A detailed explanation of the three main functions of the field office personnel, with indications of existing workload, follows.

Encouraging Taxpayers to Pay Delinquent Local Property Taxes

The county tax collectors are required by Section 3358 of the Revenue and Taxation Code to send a registered letter in early June to taxpayers whose property will be deeded to the State on the following July 1. This pre-deed letter is sent to all taxpayers, both the owners of improved and unimproved property, if the county has a mailing address. The county tax collectors also are required to publish a legal notice in a general circulation newspaper calling attention to properties which will be deeded to the State. This notice is published on three different occasions during the month of June. Some counties also send a courtesy letter a year prior to deeding, but this is not required by law.

Pre-deed notices are also sent in the early part of June by six of the seven field offices of this division. The Controller's notices are sent mainly to owners of improved property while the county tax collectors send letters to all property owners. The Controller's notices state that once the property is deeded, the taxpayer loses the privilege of paying the delinquent taxes in installments. Table 9 shows the number of pre-deed notices sent by the field offices during 1961.

The Los Angeles field office takes additional steps, besides the notices, to notify certain taxpayers before their property is deeded. This office processes the county registered letters that pertain to improved property which the post office returns as undelivered. To locate the present address of these taxpayers, the field office manager checks voting registration lists, title company records, and even visits the property to ascertain if a tenant or neighbor has information on the owners whereabouts. There were about 50 such undelivered county registered letters in 1961. The other field offices of this division do not go to this extent to locate delinquent taxpayers.

After the property is deeded, the field offices send "demand" letters to the former owners of improved or rentable property stating that all rents now belong to the State, and that as of a specified date the former owner or existing tenant must vacate the property unless he receives permission from this division to remain. In addition to these letters, the field personnel normally visit these properties to: (1) encourage the former owners to pay the delinquent property taxes before the property is sold at public auction, (2) locate the former owner if he is not available by checking with neighbors or tenants, and (3) see if the property is rented or rentable.

Table 9 shows the number of pre-deed and demand letters mailed by the field offices during 1961.

State Controller—Continued

Table 9—Number of Pre-Deed and Demand Notices Mailed by Field Offices During 1961

<i>Field office</i>	<i>Jurisdiction</i>	<i>Pre-deed notices</i>	<i>Demand letters</i>
Eureka	17 Northern California counties -----	97	30
Sacramento	11 Northern counties -----	226	0
Oakland	8 Bay area counties -----	0	75
Fresno	8 Central valley counties -----	179	51
Santa Barbara	7 Southwest counties -----	176	93
Los Angeles	Los Angeles County -----	159	81
Riverside	6 Southern California counties -----	406	188
Total -----		1,243	518

Note that no pre-deed notices were sent by the Oakland office and no demand letters by the Sacramento office, in 1961.

In 1961 there were 5,918 pieces of property on the pre-deed lists prepared by all the county tax collectors. The 1,243 notices sent by the field offices, therefore, only covered 21 percent of the pre-deed property. The actual number of deeds transmitted by the county collectors to the headquarters office of this division, after July 1, 1961, was 3,695. The difference of 2,223, between the pre-deed and deeded lists, represents properties which were redeemed or placed on installment contracts during May and June of 1961. The efforts of both the counties and the field offices were responsible for these properties not being deeded; neither one can claim sole credit. However, it is our opinion that the county letters and legal advertisements were more significant than the notices by the field offices.

Renting, Managing and Appraising Tax-Deeded Property

Most of the rented property consists of homes. However, there are also other types of property rented such as business locations, billboard sites, oil leases (one in Los Angeles County for \$66 per quarter), and desert land used by the U.S. Navy for a gunnery range. While the rental proceeds are paid to the State Controller, all of these funds are subsequently returned to the counties and the State is not reimbursed for the cost of preparing and servicing these rental contracts.

There are two general practices followed by the field offices regarding home rentals. The Oakland office attempts, and usually is successful, to collect rents from homes occupied by their former owners. The other field offices normally collect rents only from homes that are occupied by regular tenants. This distinction in rental practices is due to a court decision (*People v. Gustafson*, 53 Cal. App. 2d 230) which says in effect that the State can collect rentals from the former owner for his occupancy of the deeded property, only if he agrees.

The field office managers make a so-called appraisal of the property before it is rented. These appraisals are in the nature of an inspection rather than a scientific evaluation. The Controller's office states that the "appraisals" serve two purposes:

(1) They are used to determine how much rent should be charged, and (2) sometimes the county tax collectors use this figure as a basis for setting the minimum price the property will be sold for at public auction. We have doubts as to whether the latter purpose is either significant or necessary. Some modification of the appraised value for

State Controller—Continued

tax purposes should be sufficient for setting the minimum auction price.

Managing tax-deeded property consists of trying to locate new tenants and seeing that the property is not damaged or destroyed before it is sold at public auction. Locating new tenants is accomplished by posting the property with a sign indicating that it is available for rent, or possible sale, and by checking with local real estate people.

The renting process is a short-term arrangement, normally not longer than a year or two, whereby the State Controller collects some money from the property between the time it is deeded to the State and sold at public auction by the local tax collector.

Table 10 shows the eight active rental accounts in the Oakland field office on August 1, 1961. This office has jurisdiction over eight Bay area counties, and during recent years it has been the largest rental collector of the division's field offices. Note that no rental contracts existed in four of the counties under its jurisdiction.

Table 10—Location and Rent from Eight Tax-deeded Rental Accounts in Oakland Field Office on August 1, 1961

<i>Counties</i>	<i>Properties</i>	<i>Rent</i>
Alameda -----	A -----	\$35 per month
	B -----	5 per year
Contra Costa -----	C -----	35 per month
	D -----	30 per month
San Joaquin -----	E -----	15 per year
	F -----	75 per month
Sonoma -----	G -----	43 per month
	H -----	30 per month

Table 11 shows the average annual rental receipts by county for the last four years, the number of rental accounts in effect on August 1, 1961, and the estimated man-years of staff time of field office personnel devoted to appraising, managing and renting these properties.

Table 11—Number of Rental Contracts, Average Annual Rental Receipts, and Estimated Man-Years Devoted to Appraising, Managing and Renting Tax-Deeded Property

<i>Field Office</i>	<i>County</i>	<i>Average annual rental receipts 1957-8 to 1960-1</i>	<i>Number of rental contracts in effect 8/1/61</i>		<i>Estimated man years spent on appraising, managing and renting tax-deeded-property</i>
			<i>Annual</i>	<i>Monthly</i>	
Eureka	Butte -----	\$69	--	--	--
	Colusa -----	--	--	--	--
	Del Norte ---	--	--	--	--
	Glenn -----	--	--	--	--
	Humboldt --	1,344	--	3	--
	Lake -----	116	--	--	--
	Lassen -----	--	--	--	--
	Mendocino --	2,007	--	1	--
	Modoc -----	--	--	--	--
	Plumas -----	--	--	--	--
	Shasta -----	140	--	--	--
	Sierra -----	--	--	--	--
	Siskiyou -----	45	--	--	--
	Sutter -----	--	--	--	--
	Tehama -----	--	--	--	--
	Trinity -----	200	--	--	--
	Yuba -----	10	--	--	--
		\$3,931	0	4	No estimate available

State Controller—Continued

Table 11—Number of Rental Contracts, Average Annual Rental Receipts, and Estimated Man-Years Devoted to Appraising, Managing and Renting Tax-Deeded Property—Continued

Field Office	County	Average annual rental receipts	Number of rental contracts in effect 8/1/61		Estimated man years spent on appraising, managing and renting tax-deeded property
		1957-8 to 1960-1	Annual	Monthly	
Sacramento					
	Alpine -----	--	--	--	--
	Amador -----	--	--	--	--
	Calaveras ---	\$3	--	--	--
	El Dorado ---	--	--	--	--
	Mono -----	--	--	--	--
	Nevada -----	4	--	--	--
	Placer -----	--	--	--	--
	Sacramento -	1,112	2	--	--
	Napa -----	90	--	--	--
	Solano -----	40	--	--	--
	Yolo -----	--	--	--	--
		<hr/>	<hr/>	<hr/>	<hr/>
		\$1,249	2	0	0.4 man-years
Oakland					
	Alameda ---	\$3,154	1	1	--
	Contra Costa	1,769	--	2	--
	Marin -----	103	--	--	--
	San Joaquin	586	1	1	--
	San Mateo ---	649	--	--	--
	San Francisco	2,132	--	--	--
	Santa Clara -	165	--	--	--
	Sonoma -----	811	--	2	--
		<hr/>	<hr/>	<hr/>	<hr/>
		\$9,369	2	6	0.9 man-years
Fresno					
	Fresno -----	\$159	1	--	--
	Kings -----	636	--	1	--
	Madera -----	--	--	--	--
	Mariposa ---	--	1	--	--
	Merced -----	291	--	2	--
	Stanislaus ---	70	--	--	--
	Tulare -----	175	--	--	--
	Tuolumne ---	5	--	--	--
		<hr/>	<hr/>	<hr/>	<hr/>
		\$1,336	2	3	0.39 man-years
Santa Barbara					
	Kern -----	\$179	--	--	--
	Monterey ---	35	--	--	--
	San Benito -	--	--	--	--
	San Luis ---	--	--	--	--
	Obispo ---	324	--	1	--
	Santa Barabara	69	--	--	--
	Santa Cruz -	--	--	--	--
	Ventura -----	282	--	--	--
		<hr/>	<hr/>	<hr/>	<hr/>
		\$607	0	1	0.45 man-years
Los Angeles					
	Los Angeles -	\$4,667	0	7 ^a	0.35 man-years

^a Includes two quarterly contracts.

State Controller—Continued

Table 11—Number of Rental Contracts, Average Annual Rental Receipts, and Estimated Man-Years Devoted to Appraising, Managing and Renting Tax-Deeded Property—Continued

Field Office	County	Average annual rental receipts 1957-8 to 1960-1	Number of rental contracts in effect 8/1/61		Estimated man years spent on appraising, managing and renting tax-deeded-property
			Annual	Monthly	
Riverside					
	Imperial ---	\$659	2 ^b	--	--
	Inyo -----	--	--	--	--
	Orange -----	47	--	1	--
	Riverside ---	370	--	1	--
	San Bernar- dino -----	1,179	3	3	--
	San Diego --	793	--	1	--
		<hr/>			
		\$3,048	5	6	0.61 man-years
	State totals -----	\$24,207	11	27	Over 3.1 man-years

^b Consists of federal government leases, the rent being paid directly to Sacramento.

Five items in this table are significant.

1. There were only 38 active rental accounts in the entire State of California on August 1, 1961. Twenty-seven of these accounts were monthly and the rest annual.

2. Twenty counties did not have any rental properties during the last four years.

3. Only six counties had average rental receipts in excess of \$1,200 per year. The largest amount for an individual county was the \$4,667 figure for Los Angeles.

4. Probably about 3.5 man-years of staff time (including our estimate of 0.4 for Eureka) was devoted to this function.

5. The average rent from the 27 monthly contracts was \$54.44 per month. The average for the 10 annual contracts was \$33.93 per year. The remaining annual contract was the naval lease in Imperial County, for \$527.33 per year, which was paid directly to Sacramento.

Advising Local Tax Officials

The field, like the headquarter's staff, advise local tax officials on procedures and the law relating to tax delinquent and deeded property.

We were not able to determine how important this function is at the field level. From our contacts with county tax officials we learned that the field staff made frequent visits to their offices. However, the larger counties indicated that they did not use the services of these personnel very often because they have their own experienced people working in this area, and also they could call upon the county counsel or even Sacramento for assistance.

STATE CONTROLLER

ITEM 120 of the Budget Bill

Budget page 302

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

Amount requested	\$208,729
State employees' retirement	12,504
State employees' health and welfare	1,556
Total	\$222,789
Estimated to be expended in 1961-62 fiscal year	214,222
Increase (4 percent)	\$8,567
TOTAL RECOMMENDED REDUCTION	None

Summary of Recommended Reductions

This appropriation is for the costs of collecting the Motor Vehicle Transportation Tax in the tax collection and refund division of the Controller's office, the details of which are included under Item 119.

We recommend approval.

STATE CONTROLLER

ITEM 121 of the Budget Bill

Budget page 302

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

Amount requested	\$574,548
State employees' retirement	33,468
State employees' health and welfare	3,785
Total	\$611,801
Estimated to be expended in 1961-62 fiscal year	585,125
Increase (4.6 percent)	\$26,676
TOTAL RECOMMENDED REDUCTION	None

Summary of Recommended Reductions

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

Division	Amount
Local Government Fiscal Affairs	\$182,370
Tax Collection and Refund	392,178
Total	\$574,548

The first amount is for reviewing and reporting on the use of state gasoline tax funds apportioned to cities and counties, while the second is for gasoline tax refunds and collection of the gasoline tax. Operations of these divisions are included under Item 119.

We recommend approval.

Equalization**Items 122-123****STATE CONTROLLER****ITEM 122 of the Budget Bill****Budget page 302****FOR ADDITIONAL SUPPORT OF STATE CONTROLLER
FROM THE STATE SCHOOL BUILDING AID FUND**

Amount requested	\$175,678
State employees' retirement	12,323
State employees' health and welfare	1,304
Total	\$189,305
Estimated to be expended in 1961-62 fiscal year	181,997
Increase (4 percent)	\$7,308

TOTAL RECOMMENDED REDUCTION..... **None**

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

<i>Division</i>	<i>Amount</i>
Accounting	\$46,401
Audits	129,277
Total	\$175,678

These amounts are for the cost of auditing and accounting for the expenditures of school districts for property financed by state loans under the School Building Aid Program. Operations of these divisions are included under Item 119.

We recommend approval.

BOARD OF EQUALIZATION**ITEM 123 of the Budget Bill****Budget page 312****FOR SUPPORT OF BOARD OF EQUALIZATION
FROM THE GENERAL FUND**

Amount requested	\$13,092,408
State employees' retirement	1,062,330
State employees' health and welfare	123,765
Total	\$14,278,503
Estimated to be expended in 1961-62 fiscal year	13,839,399
Increase (3.2 percent)	\$439,104

TOTAL RECOMMENDED REDUCTION..... **\$115,579****Summary of Recommended Reductions****Budget**

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Salaries, Business Taxes—Districts	\$115,579	314	65

ANALYSIS

The increase of \$439,104 in the total expenditure program for 1962-63 includes increases of \$23,152 and \$68,094 from continuing appropriations for employees' retirement and health and welfare respectively, while the increase in the actual budget bill appropriation item itself

Board of Equalization—Continued

over the corresponding estimated expenditure program for 1961-62 is \$355,605, computed as follows:

	<i>Estimated 1961-62</i>	<i>Proposed 1962-63</i>	<i>Increase</i>
Salaries -----	\$15,467,714	\$15,783,156	\$315,442
Operating expenses -----	2,952,194	3,030,837	78,643
Equipment -----	127,415	127,415	--
Reimbursements -----	—4,010,520	—4,049,000	—38,480
Total -----	\$14,536,803	\$14,892,408	\$355,605

The agency has total authorized positions for 1961-62 of 2,410.8 of which five are to be dropped at June 30, 1962, leaving a total of 2,405.8 for 1962-63. The positions to be dropped are the following:

<i>Class</i>	<i>Man-years</i>	<i>Amount</i>	<i>Budget</i>	
			<i>Page</i>	<i>Line</i>
Associate personnel analyst -----	1	\$8,112	312	76
Temporary help -----	4	11,406	313	23
Total -----	5	\$19,518		

The increase in salaries results in part from the inclusion of merit salary increases and in part from a decrease in estimated "salary savings."

The method of budgeting for salaries is to calculate the gross amount due for all authorized positions, including merit salary increases, and deduct an estimate for the vacancy factor due to turnover, referred to in the budget document as "salary savings," the difference between the two being the actual amount of the appropriation available for salary payments during the budget year.

Thus if the amount of the "salary savings" as budgeted is reduced over that of the prior year the net result is to provide funds for the employment of additional staff even though no new positions are added. This is what has happened in this agency and accounts for the increase in personnel man-years of from 2,295.8 to 2,322.8 or 27, shown on budget page 312, line 13.

We recommend a reduction in personnel of 27 positions, the individual positions and the amount to be determined by the Department of Finance, but the amount to be not less than \$115,579.

In all divisions except Business Taxes—Districts, salary savings have been calculated in such a way as to provide funds for carrying on the program during 1962-63 with approximately the same man-power as was available during 1961-62. In the former, however, "salary savings" have been reduced so as to make funds available for 28.5 additional man-years during 1962-63. The amount of \$115,579 is the reduction in salaries which will result in this division if "salary savings" for 1962-63 are calculated at the same percentage of gross salaries as in 1961-62, namely 4.40 percent.

We believe that the staff provided after this proposed reduction will be sufficient to enable the agency to provide the same level of service during 1962-63 as that provided during 1961-62. At least half of the workload in Business Taxes—Districts relates to the field audit program and is of the type which is controllable by the agency since audits are made on a selective basis and not on the basis of 100 percent

Board of Equalization—Continued

coverage. As we have pointed out repeatedly in the past, at least half of the audit effort in terms of time and money expended is non-profitable in the sense that the cost exceeds the revenue directly attributable thereto and it has always been our view that this part of the program can be curtailed without any loss in the effectiveness of overall tax administration.

Action of the 1961 Legislature

At the 1961 Session of the Legislature the Senate Finance Committee adopted the following resolutions regarding activities of the Board of Equalization, which have long-range significance:

“That because of uncertainty as to the additional revenue to be expected from the employment of additional sales tax auditors the Board of Equalization maintain separate records of the additional revenue attributable to the activities of all auditors employed after July 1, 1961, which represent an increase in the existing staff and render a report on the results of these activities, including a proper allocation of costs attributable thereto, to the next and each succeeding session of the Legislature.

“That no additional field offices be added by the Board of Equalization without prior approval of the Legislature as part of the regular budgetary review process . . .”

The 1961 Legislature reduced the budget request of the Board of Equalization for 1961-62, by \$277,311. As a part of this reduction the Legislature deleted 37 positions, 10 clerical positions to give effect to savings from use of electronic data processing equipment, one auditor III in Business Taxes—Districts, as unnecessary, and 26 because they had been continuously vacant for a long period of time. The current budget, as presented, gives effect to a reduction of 37 positions but in the case of nine positions, the auditor III, and eight in the last category, the agency, with the approval of the Department of Finance has substituted other positions for those actually identified by the Legislature, as follows:

<i>Positions Abolished by Legislature</i>	<i>Positions Substituted by Agency</i>
Administration—General Services	Business Taxes—Headquarters, office
1 Intermediate stenographer	1 Intermediate account clerk
----- (\$341-415)	----- (\$375-395)
1 Senior stenographer --- (\$376-458)	1 Intermediate typist --- (\$325-395)
Business Taxes—Headquarters, compliance	Business Taxes—Districts
1 Tax compliance supervisor II	1 Tax representative ---- (\$436-530)
----- (\$613-745)	1 Tax representative ---- (\$436-530)
1 Senior tax representative	
----- (\$481-584)	
Business Taxes—Headquarters, office	Business Taxes—Districts
1 Auditor I ----- (\$436-556)	1 Auditor I ----- (\$436-556)
1 Auditor II ----- (\$556-676)	1 Auditor II ----- (\$556-676)
Business Taxes—Districts	Administration—Internal audit
1 Auditor III ----- (\$676-821)	1 Auditor III ----- (\$676-821)
Business Taxes—Districts	Business Taxes—Headquarters, files
1 Intermediate stenographer	1 Junior-intermediate clerk
----- (\$341-415)	----- (\$281-395)
Property Taxes—Valuation	Business Taxes—Headquarters, compliance
1 Intermediate typist ---- (\$325-395)	1 Intermediate typist ---- (\$325-395)

Board of Equalization—Continued

We question the propriety of these substitutions since the basis on which eight of these positions were abolished by the Legislature was that they had been continuously vacant over a long period of time which was evidence that they were not needed for workload in the particular unit where the vacancy existed, while the other, the Auditor III, was abolished as unnecessary.

Staff Changes During Current Year

For the 1961-62 year the Department of Finance increased temporary help four man-years, budget page 313, line 23, and authorized the establishment of an associate personnel analyst position, budget page 312, line 76, which increases are to terminate June 30, 1962 and are not included in the budget as proposed for 1962-63.

Likewise for the 1961-62 year the Department of Finance added four positions not previously included in the budget as approved by the Legislature, which are included in the total proposed for 1962-63. One of these is an auditor, included in the total on budget page 314, line 18, and further identified on page 240, line 17 of the Salary Supplement and footnote (b) which states that the position was provided by reclassification from a position erroneously omitted from the 1961-62 Budget. The other three are appraisers for county contract timber appraising a wholly reimburseable activity, budget page 315, line 65, further identified in footnote (b) on page 241 of the Salary Supplement with the explanation that they were inadvertently omitted from the 1961-62 Budget, although provision was made in that budget for the reimbursements. We believe that it would have been better procedure, in both these instances, to show the positions as terminating June 30, 1962 and as proposed new, for 1962-63, supported by appropriate justification.

What we regard as a much more serious violation of good budgetary procedure is the fact that 24 positions were shifted among activities in the agency during 1961-62, solely by administrative action, which precludes the possibility of orderly budgetary review. At the average salary of \$6,664 for positions in the agency for 1960-61, this represents a shift between programs of \$159,936. All of these changes are projected into 1962-63 and are included in the proposed budget for that year.

These are not identified as new positions in the budget document and the shift can only be disclosed by a line item comparison between the 1961-62 Budget, as approved by the Legislature and the 1962-63 Budget as proposed.

In some instances the transfers are identified by footnotes in the Salary Supplement and in some instances they are not. There is no indication, for example, as to the process by which the associate statistician or the accounting officer III positions were added in Administration.

We realize that good administration requires a degree of flexibility and believe it is good practice to finance programs of higher priority by curtailment of those of lower priority rather than by requesting additional funds. We also believe that good budgeting requires that any new programs, or any increases in the level of service for existing

Board of Equalization—Continued

programs, whether financed from budget increases or by the curtailment of other programs, should be clearly presented and properly justified in the orderly budgetary process.

Table 1—New Positions Added During 1961-62 Without Budget Justification

<i>Division and Function</i>	<i>Class</i>	<i>Number</i>
Administration		
Legal -----	Clerical	2
Personnel -----	Clerical	1
Administrative -----	Clerical	1
Administrative analysis -----	Clerical	2
Statistics -----	Clerical	1
Statistics -----	Associate statistician (\$676-821)	1
Fiscal -----	Accounting officer III (\$676-821)	1
Tabulating -----	Tabulating machine assistant	1
Tabulating -----	Clerical	3
Total Administration -----		13
Business Taxes—Headquarters		
Audit -----	Auditors	2
Audit -----	Clerical	1
Total Business Taxes—Headquarters -----		3
Business Taxes—Districts		
Compliance -----	Compliance representative	3
Technician and clerk -----	Clerical	4
Total Business Taxes—Districts -----		7
Property Taxes		
Administration -----	Senior statistician (\$821-998)	1
Total -----		24

Table 2—Positions Deleted During 1961-62 as an Offset to New Positions Added

<i>Division and Function</i>	<i>Class</i>	<i>Number</i>
Administration		
General services -----	Clerical	1
Business Taxes—Headquarters		
Administration -----	Auditor	1
Administration -----	Clerical	2
Files -----	Clerical	2
Office -----	Auditor	1
Office -----	Clerical	11
Total Business Taxes—Headquarters -----		17
Business Taxes—Districts		
Audit -----	Auditor	5
Property Taxes		
Intercounty equalization -----	Senior statistician (\$821-998)	1
Total -----		24

Unless this procedure is strictly adhered to, whole new programs can develop within an agency, unknown to the Legislature, by a process such as that illustrated in Tables 1 and 2. Such has been the case in

Board of Equalization—Continued

this agency with respect to the Administrative Analysis unit in Administration which now consists of 12 positions, budget page 313, lines 4 to 7. No presently existing position in this unit has even been included as a proposed addition to the unit in any budget presentation in the past.

In the present instance proper budgetary procedure could have been accomplished by a budget presentation which showed the positions in Table 2 as terminated during 1961-62, those in Table 1 as established only to June 30, 1962, and as proposed new positions for 1962-63, supported by appropriate justification.

We are not in a position to evaluate the need for any or all of the new positions shown in Table 1 at this time, since no systematic justification has been presented for any of them, although we have some serious reservations as to the need for adding staff to the Division of Administration at the expense of the operating divisions, which appears to be the general trend from the data in Tables 1 and 2.

We recommend that all positions in Table 1 be approved for 1 year only, with a termination date of June 30, 1963; that the need for these positions be reviewed at that time and that any which are needed be presented as new positions for 1963-64, supported by appropriate justification.

We recommend further that any new positions created by a similar process in future be presented in like fashion.

Electronic Data Processing

As we pointed out in our 1961-62 analysis on page 322 the agency has substituted an electronic data processing system, using tape, for a formerly operated punched card data processing operation. Largely as a result, the staff of the tabulating unit in Administration has increased from an actual 53.3 man-years in 1957-58 to a proposed staff of 74 in 1962-63, while tabulating machine operating expense has increased from an actual amount of \$89,007 in 1957-58 to a proposed amount of \$203,740 in 1962-63. The total increase from these two identifiable costs alone is \$286,009, or 87.0 percent, as follows:

	Salaries	Expense	Total
1962-63 proposed -----	\$411,118	\$203,740	\$614,858
1957-58 actual -----	239,842	89,007	328,849
Increase -----	\$171,276	\$114,733	\$286,009

The agency has indicated, in general terms, that savings will result from this installation, although none has been identified, as yet, except the 10 clerical positions deleted by the 1961 Legislature, at our recommendation, with a full-year cost of \$44,448.

Neither has the agency indicated areas into which it proposes to expand its operations or the anticipated savings from such expansion.

We recommend that the agency identify all savings resulting from this installation during the budget year and report them to the 1963 Session of the Legislature, together with a progress report on the savings, to that date, and the anticipated savings during 1963-64.

STATE BOARD OF EQUALIZATION

ITEM 124 of the Budget Bill

Budget page 312

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

Amount requested	\$925,000
State employees' retirement	57,537
State employees' health and welfare	6,780
Total	\$989,317
Estimated to be expended in 1961-62 fiscal year	985,373
Increase (0.4 percent)	\$3,944

TOTAL RECOMMENDED REDUCTION

None

The State Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts Motor Vehicle Transportation License Tax on for hire truck operators. This appropriation is to cover the board's costs of administering this tax, the details of which are included under Item 123.

We recommend approval as budgeted.

STATE BOARD OF EQUALIZATION

ITEM 125 of the Budget Bill

Budget page 312

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

Amount requested	\$875,000
State employees' retirement	54,515
State employees' health and welfare	6,423
Total	\$935,938
Estimated to be expended in 1961-62 fiscal year	932,135
Increase (0.4 percent)	\$3,803

TOTAL RECOMMENDED REDUCTION

None

The State Board of Equalization assesses and the State Controller collects the Motor Vehicle Fuel (gasoline) Tax. The board assesses and collects the Use Fuel (diesel) Tax. This appropriation is to cover the board's costs of administering these two taxes, the details of which are included under Item 123.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 126 of the Budget Bill

Budget page 318

FOR SUPPORT OF THE DEPARTMENT OF FINANCE
FROM THE GENERAL FUND

Amount requested	\$7,946,691
State employees' retirement	520,000
State employees' health and welfare	103,840
Total	\$8,570,531
Estimated to be expended in 1961-62 fiscal year	8,135,638
Increase (5.3 percent)	\$434,893

TOTAL RECOMMENDED REDUCTION

\$131,802

Summary of Recommended Reductions

	Amount	Budget Page	Line
Executive Office			
1 Special representative	\$9,384	320	7
Audits Division			
Increase reimbursements	62,000	322	7
Economic Development Agency			
General expense	1,000	326	72
Travel in-state	3,950	326	75
Contract Services			
New York World's Fair Exhibit	30,000	326	78
Population celebration	10,000	326	78
Organization and Cost Control Division			
Data processing systems analyst	8,112	329	6
Purchasing Division			
1 Business service officer II	7,356	331	3
	\$131,802		

ANALYSIS

As presented in the budget document the Department of Finance includes the executive office, the Economic Development Agency, four divisions of a fiscal nature, and nine service divisions, one of which is the Office of Administrative Procedure, transferred to the department by Chapter 2048, Statutes of 1961. In addition, the Service Revolving Fund activities included in the appendix to the budget, starting at page 1096 are supervised by various components of the department.

The Purchasing Revolving Fund and the Printing Fund were combined into the Service Revolving Fund, effective July 1, 1961, by Chapter 875, Statutes of 1961.

The operations of the department are financed directly by the appropriations to the department in the Budget Bill and indirectly by appropriations to other state agencies for services rendered by the various divisions of the Department of Finance, which appear in the printed budget either as reimbursements, which are detailed on budget pages 321 to 333, or as revenues to the Service Revolving Fund which are shown in the appendix. Both the revenues and reimbursements include some money received from outside sources which does not represent an appropriation to some other state agency for services rendered by the Department of Finance, but the amounts are relatively small.

The total money available to the Department of Finance for its proposed expenditure program for 1962-63 is shown in Table 1.

Department of Finance—Continued

Table 1—Analysis of Total Expenditure Program

	1961-62			1962-63	
	<i>As originally budgeted</i>	<i>Increase or (—) decrease</i>	<i>As revised</i>	<i>Amount requested</i>	<i>Increase over 1961-62 as revised</i>
Direct appropriations (in- cluding retirement and health and welfare)					
General Fund -----	\$8,529,423	—\$393,785	\$8,135,638	\$8,570,531	\$434,893
Fair and Exposition Fund -----	255,159	—102	255,057	255,925	868
School Building Aid Fund -----	824,572	11,645	836,217	871,354	35,137
Subtotal -----	\$9,609,154	—\$382,242	\$9,226,912	\$9,697,810	\$470,898
Reimbursements -----	6,602,033	1,393,308	7,995,341	8,470,951	475,610
Estimated Revenues of Service Revolving Fund:					
Printing Division ----	7,816,987	—116,987	7,700,000	11,731,040	4,031,040
General service functions -----	7,143,656	1,226,450	8,370,106	8,834,822	464,716
Total -----	\$31,171,830	\$2,120,529	\$33,292,359	\$38,734,623	\$5,442,264

To the extent that the reimbursements shown in Table 1 are from the Service Revolving Fund for such items as auto insurance and accounting services and to the extent that direct appropriations include amounts for such items as pooled car operations and printing which are services performed by the Service Revolving Fund there is some duplication in the amounts included in the totals shown in Table 1, but the extent of such duplication cannot readily be determined.

In theory, at least, the amount of the reimbursements and the estimated revenues to the Service Revolving Fund should be reconciled with the totals appropriated for the services provided for in the budgets of the individual agencies using these services, but it is our understanding that this is done only to a limited extent. The fact that the revised budget for the current year provides for a \$1,393,308 increase in reimbursements over the amount budgeted or a 21.1 percent increase, and the estimated revenues from general service functions in the Service Revolving Fund were likewise increased \$1,226,450, or 17.2 percent indicates to us the need for a much more careful reconciliation in the future, since differences of such magnitude suggest a significant loss of budgetary control.

The significant increase in reimbursements over that originally proposed for 1961-62 and the 1962-63 estimate is shown in detail on table 2.

Department of Finance—Continued

Table 2—Analysis of Changes in Reimbursements

	1961-62		1962-63		
	<i>As originally budgeted</i>	<i>Increase or (—) decrease</i>	<i>As revised</i>	<i>Amount requested</i>	<i>Increase over 1961-62 as revised</i>
Automobile insurance ---	\$471,690	\$100,520	\$572,210	\$563,000	—\$9,210
Trustees of State Colleges	—	55,500	55,500	—	—55,500
Legal services -----	13,301	899	14,200	14,200	—
Management—analyses --	7,700	2,300	10,000	7,500	—2,500
Devonshire Downs -----	24,912	1,200	26,112	26,112	—
Accounting services -----	176,750	51,250	228,000	249,856	21,856
Auditing services -----	—	120,500	120,500	48,500	—72,000
Population estimates -----	21,500	—	21,500	21,500	—
Miscellaneous sources ---	—	19,700	19,700	12,000	—7,700
Janitorial and maintenance -----	3,311,828	177,841	3,489,669	3,903,021	413,352
Pro rata central telephone	1,705,400	184,183	1,889,583	1,915,777	26,194
Space planning -----	20,000	5,000	25,000	25,000	—
Special work orders -----	350,000	160,000	510,000	510,000	—
Overhead and miscellaneous -----	127,700	57,300	185,000	190,000	5,000
Management of property ---	—	31,000	31,000	31,000	—
Charges, property acquisition -----	172,236	—19,451	152,785	159,701	6,916
Charges, sale of real property -----	43,000	7,000	50,000	50,000	—
Confiscated car expense --	75,000	5,000	80,000	80,000	—
Employee parking -----	25,240	—14,740	10,500	9,000	—1,500
Fairs insurance -----	43,776	18,500	62,276	62,276	—
Construction supervision --	12,000	4,000	16,000	25,000	9,000
Subtotal -----	\$6,602,033	\$967,502	\$7,569,535	\$7,903,443	\$333,908
Hearing officer services --	—	425,806	425,806	567,508	141,702
	\$6,602,033	\$1,393,308	\$7,995,341	\$8,470,951	\$475,610

The agency's explanation for the major changes reflected in Table 2 are contained in our discussion of the divisions which follow. The primary objective of increasing reimbursements is to recover a more appropriate portion of costs from special funds.

The legislative expansion in the Capitol Annex has caused a relocation of a number of the department's activities. An increase in building rental has resulted and is reflected in the budgets of the activities affected.

The Division of Housing for the Elderly, established by Chapter 1765, Statutes of 1961, is subject to ratification by the electorate under the provision of Senate Constitutional Amendment 10. No funds are provided for the activity in this budget.

The Department of Finance is requesting 169 new positions for the budget year. A number of these were established during 1961-62 and are proposed for continuation. Of the total, 123 are requested for Buildings and Grounds Division. All will be discussed under the appropriate division.

Department of Finance—Continued

Executive Office

The director's office, and the legal and insurance sections comprise the executive office. Support, other than salaries and wages, is budgeted under the Administrative Service Office.

The director's office, under the reorganization, now contains the following personnel:

	Original 1961-62		Proposed 1962-63		Increase	
	Number	Salaries	Number	Salaries	Number	Salaries
Director -----	1	\$30,318	1	\$30,318	—	—
Deputy Director -----	3	51,688	3	63,504	—	\$11,816
Assistant Director -----	2	36,246	3	49,492	1	13,246
Technician and Clerk --	6	34,308	7	43,158	1	8,850
Total -----	12	\$152,560	14	\$186,472	2	\$33,912

The salary ranges of two of the deputy directors have been raised to that of the previously highest paid deputy (\$1,549-\$1,764). The existing position of administrative service officer II (\$862-\$1,048) has been transferred to the director's office and reclassified to that of assistant director. The salary range for this class is indicated in the Salary Supplement as \$1,274-\$1,549, equivalent to that formerly paid the assistant director for fiscal affairs.

One of the deputy directors with the related clerical position has been assigned to Washington, D.C.

A new position of special representative (\$782-\$950) is requested for the director's office.

We recommend elimination of a special representative, \$9,384, budget page 320, line 7.

There has been no justification submitted to substantiate this request. We have no indication of the nature of the duties to be undertaken by this position.

It appears to us that sufficient assistance is available in existing deputy positions and elsewhere in the division to overcome the need for this position, and that to add the position at this time would constitute an increase in the level of service which is particularly questionable in view of the expansion of this office from where it had one deputy director and no assistant directors in 1956-57 and 1957-58 to its present five high-level subordinates.

Administrative Service Office

This division performs a number of the minor general housekeeping functions for the department, such as library, central files and mail. It also performs services for the department and others, on a reimbursable basis where applicable, through the accounting, personnel, and data processing sections.

For budgetary purposes, the employees and expenses of the Commission on State Government Organization and Economy and Devonshire Downs, and expenses for the executive office are shown in this division.

The amount budgeted for 1961-62 for the Commission on State Government Organization and Economy, established by Chapter 2038, Statutes of 1961, reflects a total of \$15,600 in salaries and wages for an

Department of Finance—Continued

administrative officer and clerk, and \$24,400 for operating expense and equipment.

Central File and Mail

An additional clerk is requested for central files and mail, budget page 320, line 63. The agency indicates that the requirement for messenger service to the now decentralized offices of the division required that this position be added during the current year. Increased use of a photocopying machine which must be attended is cited as additional justification.

We recommend approval of an additional clerk, budget page 320, line 63, \$4,092.

The intra-office mail and messenger services appear to be of a special nature and are justified to maintain proper communication even though Purchasing Division inter-office mail service is provided.

Data Processing Section

The current staffing of the Data Processing Section consists of 17 positions previously authorized, 10 positions authorized by the Legislature for 1961-62, and nine positions added administratively during 1961-62 and shown as proposed new for the 1962-63 year, for a total of 36.

Of the 17 positions existing prior to 1961-62, we have no means of determining which of these were added through transfer or reclassification, as prior to this time, the Data Processing Unit was a part of the accounting office and not shown separately.

Of the 10 positions authorized by the Legislature for 1961-62, five had been added administratively during 1960-61 for printing plant accounting, and five were requested to undertake the following:

1. To place certain purchase order procedures on tabulating equipment.
2. To place equipment records of the department on such equipment.
3. To place property and lease records on tabulating, and
4. To mechanize certain accounting and clerical operations of the Local Allocation Division.

The latter five positions were granted despite our recommendation for deletion. Upon review, we find that three of these procedures have not been initiated, and number (2) has not been completed.

Of the nine positions added administratively during the current year, shown as proposed new on budget page 320, lines 65 to 70, three are devoted to program review and updating of procedures. The remaining six are to handle increased workload satisfactorily. The department has been able to add these positions merely by increasing reimbursements from the Service Revolving and Public Building Construction Funds.

In the course of our review, we have also found substantial increases in tabulating equipment. The amounts originally budgeted, the revised

Department of Finance—Continued

and actual costs for tabulating machine operation, found on budget page 321, line 10, are shown below.

	1959-60	1960-61	1961-62	1962-63
Budgeted -----	--	\$27,423	\$33,700	\$70,000
As revised -----	--	23,500	65,000	--
Actual -----	\$8,520	30,358	--	--

These amounts are in addition to a rental purchase of certain equipment costing \$5,801 annually, and the alterations and space required to accommodate these increases.

Although there have been substantial increases in staff as well as equipment, the only significant workload increase has been that added when the department elected to perform the cost accounting for the printing plant. This decision was a result of a report to the Legislature by this office dated January 12, 1960 pursuant to Senate Resolution 128 of the 1959 Session.

Although there had been staff additions in the 1960-61 year, it was not until recently that the first printing plant reports were produced.

We recommend that the following positions be approved for one year only, and that they be shown as proposed new for the 1963-64 year if required:

Position	No.	Amount	Budget	
			Page	Line
Accounting tabulating supervisor II -----	1	\$6,672	320	66
Accounting tabulating supervisor I -----	2	10,992	320	68
Tabulating machine operator -----	3	12,888	320	69
Key punch operator -----	3	11,700	320	70
Total -----	9	\$42,252		

While we recognize that to recommend deletion of these positions, or disallow the equipment might make performance difficult, we feel that further administrative staff additions, equipment changes or new applications should be curtailed until such time as the current performance can be adequately evaluated.

Auto Liability Insurance

During the budget year a new Motor Vehicle Liability Insurance Policy will be in force. The procedure followed in obtaining the desired coverage is for the Insurance Advisor to contact brokers selected by the director who in turn solicit quotations from the insurance companies.

The policy currently in effect was selected during June of 1959 from eight proposals. All proposals were submitted by stock companies as it is the policy of the department to exclude mutual and reciprocal insurers. All were for a three-year term, on a retrospective rating basis in which claim experience establishes the ultimate premium.

The following figures relating to automobile insurance are taken from budget page 321.

Operating Expense (line 13)	1960-61	1961-62	1962-63
Automobile liability insurance -----	\$758,244	\$804,000	\$781,900
Reimbursements (line 25)			
Automobile insurance premium from special funds -----	449,442	572,210	563,000

Department of Finance—Continued

Public Law 86-740 extended federal tort claim procedures to National Guard vehicles which were previously covered by the State through the General Fund. As a result a larger portion of the vehicles insured were owned by special funds, requiring an increase in reimbursements from that source.

We understand that the reduction shown for 1962-63 when a new contract will be in force, reflects a return to bodily injury coverage of \$250,000 per person and \$500,000 per accident as well as a reduction in the number of vehicles covered. During the current year, the policy was endorsed to increase the coverage to \$500,000/\$1,000,000.

Under the retrospective rating system, the actual expenditure figure shown is not accurate until the three-year period has expired and is then subject to revision as claims are settled for two years after it is closed. For this reason, the actual figure shown may be high or low depending upon claim experience. Claims settled after this two-year period are paid from current appropriations. The estimated and proposed figures represent an estimation which bears little relationship to the ultimate amount paid.

We feel that procedures for budgeting and placing insurance require the review which is proposed by the Director of Finance under contract services at a cost of \$9,000.

For the budget year, agencies were instructed to budget at \$49.94 per vehicle, whereas the Department of Finance has budgeted at approximately \$41.37 per vehicle. If the Department of Finance has not corrected the budget requests of individual agencies which may have budgeted at the higher figure the amounts budgeted by special fund agencies for auto liability insurance are excessive by 20.7 percent.

Contract Services

A major item of expense for the executive office, contract services, is combined with that for the administrative service office. For the budget year, the following contract services are anticipated:

S. F. Port District Fire Insurance review.....	\$2,500
Review of State Printing Plant.....	4,000
Review of Insurance Office.....	9,000
Interagency agreement for Personnel Analyst assistance.....	9,800
Interagency agreement Sixth District Agricultural Assn.....	1,200
Moving expense.....	5,000

\$31,500

In addition to the \$31,500 shown above, \$75,000 has been requested by the Budget and Purchasing Divisions and the Economic Development agency, for a total of \$106,500 in contract services in 1962-63.

Accounting Services

Shown under reimbursements, Budget page 321, line 27, is the amount recovered for accounting, data processing, and personnel services. A small portion of this amount represents work performed under an actual time or contract basis for various boards and commissions not a part of the Department of Finance. Another part is a charge

Department of Finance—Continued

to the Local Allocation Division, a special fund activity within the department.

The largest portion is that charged to the Service Revolving Fund and the Public Building Construction Fund. As previously mentioned, a portion of the increase in charges for accounting services to the Service Revolving Fund, which is available for expenditure without further appropriation, has been used to expand operations during current year. Management of both funds is under the supervision of the Department of Finance.

The Service Revolving Fund budget appears in the appendix and is reviewed by this office. No mention is made of the Public Building Construction Fund which was established by Section 15845 of the Government Code, other than on page 1128 of the Governor's Budget which is a narrative statement regarding state office buildings financed by loans from treasury funds.

We feel the activity in this fund requires further consideration. Revenues, representing charges to state agencies for rental of office and storage space and parking, cafeteria concession and miscellaneous receipts are subject to change and should be reviewed. Expenses, in addition to payments for principal and interest, include maintenance, repairs, and equipment budgeted by the Buildings and Grounds Division and charges such as are contemplated in this budget for accounting services and overhead.

We recommend that statements of operation for the various public buildings financed out of the Public Buildings Construction Fund be included in the budget in the future.

Audits Division

Thirteen auditor positions were established administratively during the current year to handle work on a reimbursable basis.

Estimated reimbursements for the current and budget year are shown below:

Agency	No. of Auditors	1961-62	No. of Auditors	1962-63
Department of Justice				
Charitable trusts -----	3	\$26,500	3	\$26,500
"Ten-percenter" -----	2	10,000	0	--
Small Craft Harbors -----	1	6,000	1	6,000
Water Resources -----	7	62,000	0	--
Miscellaneous accounting service -----	--	16,000	--	16,000
Total -----	13	\$120,500	4	\$48,500

The four positions shown above as reimbursable for 1962-63 are proposed new. The seven auditors for Water Resources which were reimbursable in 1961-62 but not in 1962-63, are also proposed new.

In addition three auditors are proposed to meet workload increases consisting of new correctional and educational facilities and miscellaneous new state agencies for a total of 14 proposed new positions.

Department of Finance—Continued

We recommend approval of seven state financial examiners III, \$56,784, budget page 321, line 66 and seven state financial examiner II, \$46,704, budget page 321, line 67 and an increase in reimbursements in the amount of \$62,000 for 1962-63, representing recovery of the cost of auditors devoted to water resources audits, budget page 322, line 7.

The effect of this recommendation is that the seven auditor positions for audit in the Department of Water Resources be approved only on condition that the work be continued on a direct reimbursement basis.

The seven positions provided during the current year for water resources audits were authorized administratively under a plan proposed by the Director of Finance to assure that adequate fiscal controls are maintained in the Department of Water Resources. These auditors are engaged in what amounts to an internal audit function which would normally be performed by the agency including the review of construction contracts, and is being handled on a direct reimbursement basis.

The objective of this fiscal control unit is to undertake to do this work until such time as it can be performed adequately by the Department of Water Resources. At such time, only the normal review by the Department of Finance would be provided.

We have proposed elsewhere in this analysis that new auditor positions requested for the Department of Water Resources be deleted. We believe the Department of Finance positions should be specifically identified with a contract amount, rather than included in the fiscal pro rata charges, as is proposed in the 1962-63 Budget.

At some later date and in accordance with long-range planning, these positions could be transferred to the Department of Water Resources or be deleted when the requirement no longer exists.

We believe the positions can be more readily identified and controlled if handled in this manner.

Budget Division

Footnote (b) page 322 refers to line 42 above and indicates that a clerical position was transferred from temporary help in the Administrative Service office. In reviewing this action, we find that justification exists for this position, but feel that it should have been shown as a proposed new position to allow for legislative review. The Administrative Service office temporary help, budget page 320, line 58, from which this position was transferred does not reflect a reduction, but rather an increase of \$5,000 over the \$25,000 originally budgeted for 1961-62.

An additional associate research technician (\$676-821) is requested on budget page 322, line 55, to assist in the research on and determination of feasibility of tax programs which may be considered.

We recommend approval of one associate research technician, \$8,112, budget page 322, line 55.

Under contract services, budget page 322, line 66, \$5,300 is shown in the current year, and \$10,000 is budgeted for the 1962-63 year. We understand that these amounts are required to provide estimates relating to junior college enrollment. One aspect relates to attendance reporting, as directed by Chapter 1833, Statutes of 1961, and the other to consideration of capital outlay needs.

Department of Finance—Continued

Buildings and Grounds Division

This division provides the maintenance and operation services for state occupied or owned buildings as may be required.

This budget reflects the elimination of 34 previously authorized positions which were not required, and the addition of 123 positions, 119 for new facilities scheduled for 1962-63, and four for existing buildings.

We recommend approval of the following 123 positions as requested, budget page 324, line 25 through budget page 325, line 13, totaling \$352,615.

New Facilities:		Scheduled opening	
Sacramento			
Motor Vehicle Building	(Dec. 1962)-----	73	\$181,658
Public Works Building Annex	(April 1962)-----	9	33,480
Agriculture Building Annex	(Jan. 1962)-----	3	11,160
San Diego State Building	(Nov. 1962)----	34	108,617
		<hr/>	<hr/>
		119	\$226,298
Existing Facilities:			
Sacramento			
Telephone operator -----		2	\$5,580
San Francisco			
Office building engineer -----		1	6,060
Carpenter I -----		1	6,060
		<hr/>	<hr/>
		4	\$17,700
Total -----		<hr/>	<hr/>
		123	\$352,615

The compliment of personnel requested for new facilities represents the best estimate the division can make and is based upon past experience in similar facilities and established standards. The requirement for individual positions and corresponding amounts requested are synchronized with the scheduled completion date. Should the need for some of these positions not materialize, they will not be established, as has been the case in the past.

The positions requested for the San Francisco building represent a requirement which has developed. The telephone operators are related to workload increases.

Central Telephone Exchanges

When the new Los Angeles State Building was occupied in December of 1960, a new type of centralized telephone exchange service was initiated. The existing system was incapable of providing service for the agencies to be located in the two buildings.

The Department of Finance had the option of selecting either a "701A" automatic private branch exchange system comparable to that used in Sacramento and similar to the previous system in Los Angeles, or a "Centrex" direct inward dialing system. Although the centrex system was a relatively recent innovation, the department elected to provide this service.

The basis for this decision appears to have been a cost comparison made in September, 1959 by the Communications Division which reflects a reduction in the total monthly charges, a lower installation

Department of Finance—Continued

charge, and other related savings. The estimated reduction in monthly charges is shown in the following projection which was provided for October, 1961.

	701 dial system	Mechanical switching system
Working stations and related equipment -----	\$7,095	\$11,575
Switchboards -----	1,440	720
Personnel -----	9,370	5,099
Total -----	\$17,905	\$17,394

The estimation of installation charges showed a one-time savings of \$14,410 under the centrex system. Miscellaneous savings occur in space and the ability to identify the origin of calls for billing.

In May 1961 the department received a proposal for a centrex or direct in-dialing system for San Francisco. The Department of Finance's State Administrative Manual Transmittal Letter No. 79, July 31, 1961, which contains information and instructions prepared for 1962-63 budgets states in the telephone and telegraph section, "The exchange system for the State Office Building in San Francisco will be converted to a more automatic system in 1962-63. This installation, however, will result in a doubling of costs during 1962-63 over 1960-61."

We recommend that the proposed new installation for San Francisco be curtailed until adequate review of this proposal is made by the Legislature.

Experience in Los Angeles has shown that the total monthly charges are substantially greater than anticipated. This increase is reflected only in the individual agency budgets.

The agency personnel find that the working stations, now costing \$4.25 rather than \$1.00, require various "key" equipment items, call directors, and related extras for proper service, which increase their costs. The Department of Finance on the other hand, can show a reduction in switchboard personnel and central exchange equipment. As the tariff for this new service is not firm, it, too, may increase significantly. We have no means of evaluating the public's response to a system which is dependent in large part on the caller having the state local station number.

We are not convinced that the centrex system currently in use in Los Angeles should not be replaced by the 701A system.

Related to this problem is the state telephone directory which is prepared by the Department of Finance. We are doubtful if the additional convenience of the new type directory offsets the substantial increase in cost.

Economic Development Agency

In our 1961-62 Analysis, we made recommendations for substantial reductions in this agency's budget. The Department of Finance offered an alternative proposal for a reduction which was accepted by the Legislature. These reductions are reflected in the estimated 1961-62 figures.

Department of Finance—Continued

However, those operating expense items which were not specified in our recommendations have not been adjusted, and are extended into the budget year. The original amounts proposed for 1961-62, as reduced by the Legislature, the revised 1961-62 and estimated 1962-63 figures are given below.

<i>Operating expenses</i>	<i>Proposed 1961-62</i>	<i>Revised 1961-62</i>	<i>Proposed 1962-63</i>
General expenses -----	\$4,000	\$4,000	\$4,000
Communications -----	3,820	3,820	3,820
Printing -----	8,000	8,000	8,000
Traveling—in-state -----	15,800	15,800	15,800
Traveling—out-of-state -----	2,000	2,000	2,000
Rent—building space -----	—	7,800	7,800
Contract services -----	15,000	15,000	55,000

We recommend a reduction of \$1,000 in general expense, budget page 326, line 72, and \$3,950 for travel—in-state, budget page 326, line 75.

The Legislature eliminated 4.5 positions, or 29.6 percent of authorized staff. We feel that a corresponding reduction of at least 25 percent should be reflected in the general expense and travel—in-state categories. The rental amount requested represents the twelve month cost for a suite in the Hotel Senator. We are informed that the agency will be moved to the 11th and L street building in the near future.

We are informed that \$30,000 of the \$40,000 increase in contract services represents the amount which would be required for the State to design and develop specifications for an exhibit at the New York World's Fair, which is scheduled for 1964.

We recommend a \$30,000 reduction in contract services, budget page 326, line 78.

None of the details of this proposal are available for further evaluation. However, it does appear to us that this promotional or advertising activity was not intended by the Legislature when it created this agency in 1959.

The remaining \$10,000 of the increase is to provide for observance of California's becoming the nation's leading state in population.

We recommend a further reduction of contract service, budget page 326, line 78, by \$10,000.

As in the previous recommendation, we do not feel that this type of activity is appropriate nor intended for this agency.

Fairs and Expositions Division

A new position of electrical inspector II, (\$676-821) is proposed on budget page 327, line 35, to review electrical needs of capital outlay projects. The cost of this position is to be recovered through reimbursements for construction supervision.

The Division of Industrial Safety is critical of the electrical systems in the fairs supervised and the problem of correcting and preventing electrical violations is a continual one. The Division of Architecture concurs in this request, as a means of alleviating this problem.

We recommend approval of one electrical inspector II, \$8,112, budget page 327, line 35.

Department of Finance—Continued

Local Allocations Division

The reassignment of existing positions within this division, which is primarily concerned with the School Building Aid program, has resulted in deletion of the additional position authorized in the 1961-62 budget.

The \$3,500 shown on budget page 328, line 44, representing the General Fund portion of the total cost of this division, is connected with the veterans' housing program, established by Chapter 28, Statutes of 1946.

Organization and Cost Control Division

This division was established by Chapter 1837, Statutes of 1957, and has as its primary functions organization planning and research, and manpower and cost control. Co-ordination of the work of this staff with that of the Budget Division is essential, but difficult under the present circumstances such as organizational placement and physical location.

The work of the division falls into the following categories:

General Projects—those with statewide application

Limited Projects—those with application to specific agencies

Management surveys—overall surveys of agency's objectives, policies, etc.

Miscellaneous

Two sections, management research and accounting systems, undertake to perform these surveys. The accounting systems staff is further subdivided into accounting systems and electronic data processing systems staff.

Reimbursements, in the form of charges to other agencies for contract services, are as follows:

Year	Amount
1957-58	\$30,188
1958-59	25,352
1959-60	15,819
1960-61	11,076
1961-62 (estimated)	10,000
1962-63 (estimated)	7,500

This trend in decreasing revenues reflects a decreasing need for contract services, caused in part by the increase in qualified staffs in major state agencies.

For this same reason the management research section is placing increased emphasis on general projects rather than limited projects. The paperwork management program, an example of such a project, is however, the only general project identified in the budget year program.

An additional Data Processing Systems Analyst (\$676-\$821) is requested for the electronic data processing systems staff, budget page 329, line 6. This staff is devoted almost exclusively to limited projects.

We recommend deletion of one data processing systems analyst, \$8,112, budget page 329, line 6.

The limited projects in which this section engage consist primarily of the conduct of feasibility studies for various agencies. We feel that this unit should more properly be charged with the review and evalua-

Department of Finance—Continued

tion of feasibility studies produced by the agencies. This authority exists in the contract approval powers of the Director of Finance. If this change in work is made, the present staff should be adequate.

The question may arise as to the availability of trained personnel to conduct these studies in agencies. We feel that agency personnel should become familiar with this field when it is initially explored, rather than after a decision has been made.

We recommend that in the future this staff devote its time to the review and control of existing and proposed installations and projects of a general, agency-wide nature.

There have been numerous references made in this analysis to data processing installations which have not met expectations. The development of a feasibility study format by this unit for use by interested agencies should be the first undertaking. Assistance should be provided to agencies in defining objectives, organizing for the study, making cost analyses, selecting personnel and equipment, scheduling installation and conversion. An objective review of the conclusions would be possible only under these circumstances. Such a review is not possible when the staff prepares the study.

The general projects currently in process, such as lease versus purchase determination, and consolidation of installations under the new agency concept should also be accelerated.

Suggestion System

The staff of the suggestion system, consisting of the co-ordinator, two staff assistants and two clerks, is housed with this agency. The Merit Award Board, which this staff serves, is designated by the Board of Control. Its function is to review suggestions and recommend to the Board of Control those which it feels warrant an award.

However, neither the Merit Award Board nor its staff participate in the evaluation of employee suggestions to any great extent. It usually accepts the agency's recommendation, including the amount to be awarded. The suggestion system staff serves primarily to receive suggestions from the employee and to record and forward them back to the agency of origin for the evaluation. It also edits material for board review.

Our evaluation of the manner in which this procedure has operated in the Department of Mental Hygiene is contained in the analysis of that agency's budget. We do not believe that this operation is very effective as it is presently organized and administered. More meaningful analysis of management's relationship to these suggestions is needed, with follow-up by the Department of Finance.

Planning Office

The programs currently assigned to the planning office fall within three categories, local assistance, state development planning, and support of the metropolitan area study. A staff of 10 positions is authorized for the 1961-62 year.

The 1962-63 budget request reflects an increase of nine positions, of which eight are proposed new. The transfer of the Capitol Building and

Department of Finance—Continued

Planning function and existing position from the Budgets Division is the remaining staff addition.

Of the eight proposed new positions the following relate to on-going programs:

1 Associate planner	\$8,112
2 Assistant planner	13,344
1 Intermediate typist-clerk	3,900
4 Totals	\$25,356

The associate and one assistant planner are requested to augment the existing three-man staff working on the state development plan which was assigned in 1959 under Sections 65012.1 and 65013.2 of the Government Code.

The other assistant planner is requested in the local planning section. This section, with two men now assigned, is concerned with assisting localities in obtaining urban planning assistance grants under Section 701 of the Housing Act of 1954.

The clerical position is required to support the additional staff.

Two positions, one associate and one assistant planner, were continually vacant from July 1, 1960, when they were established, until July 31, 1961, and August 14, 1961, respectively. The state development plan is scheduled to be completed for adoption sometime during the period from January 1963 to January 1966. We think that the Legislature should be given a progress report on this plan. The basis for this proposed increase is presumably to complete the plan at an early date in response to the growing criticism of the State's planning efforts or lack of planning. We concur in the need to secure early completion of the plan, but otherwise have little concrete basis for recommending these positions, pending a full progress report to date.

Area Redevelopment Program

The following positions are requested to support a new program proposed for 1962-63:

1 Senior economist	\$9,852
1 Associate planner	8,112
1 Assistant planner	6,672
1 Intermediate stenographer	3,900
Total	\$25,536

We understand that Public Law 87-27 provides that local communities designated by the federal government as a redevelopment area may apply through a specified state agency to the federal government for assistance. This application must be supported by an economic development plan.

The planning office has been selected as the state agency to handle this program due to its familiarity with the local planning function.

Property Acquisition Division

This division is responsible for the real property acquisition management and disposal activities of the Department of Finance, and also provides support for the Public Works Board.

Department of Finance—Continued

We understand that the release of surplus property by the federal government has temporarily required a reassignment of time formerly devoted to the sale of state surplus property to the acquisition of available federal property.

While the revenue derived as a result of the sale of surplus state property shows a decline, the cause is not necessarily this diversion of manpower. Continued litigation has also delayed sales.

General Fund revenue from the rental and sale of property is shown on budget page 334, lines 73 and 74.

A comparison of projections with actual revenue from these sources is given in Table 3.

Table 3

	1958-59	1959-60	1960-61	1961-62	1962-63
Sales Revenue					
Original estimate -----	\$4,250,000	\$4,565,750	\$9,757,000	\$3,980,000	\$5,201,200
Revised estimate -----	616,300	616,108	7,510,306	3,326,125	—
Actual -----	185,387	181,217	3,996,401	—	—
Rental Revenue					
Original estimate -----	153,857	192,040	256,346	130,000	103,500
Revised estimate -----	211,345	250,117	130,000	103,500	—
Actual -----	305,108	243,628	112,268	—	—

Purchasing Division

In addition to conducting the purchasing activities for the State, excepting the University of California, this division supervises certain of the service revolving fund units, and performs minor intra-agency service functions.

Two positions, authorized by the Department of Finance during 1961-62 are proposed for continuation in the 1962-63 Budget. One of these, a business service officer II (\$613-745), budget page 331, line 73, is requested to supervise the office machine repair and central reproduction units of the Service Revolving Fund. We understand that the cost of this position is reimbursed from the fund which is shown as services to other agencies, budget page 332, line 24. The \$12,000 also includes a portion of the cost of the parking facilities analyst, budget page 331, line 60.

We recommend deletion of one business service officer II, \$7,356, budget page 331, line 73.

This position reports to the Chief of Purchasing Services who also supervises the Manager of Stores and Surplus Property Co-ordinator. We feel that the span of control exercised by the Chief of Purchasing Services could easily include the supervisor of office machine service (\$505-613) and reproduction machine supervisor (\$556-676). Another level of management which the proposed position represents appears to be an additional cost which will be difficult for these revolving fund activities to assume without increasing charges to agencies.

We understand that a proposal to expand the office machine repair and centralized reproduction services to other parts of the State has been made. This suggestion has not been implemented in the service revolving fund budget. Until such time as a firm plan which establishes the feasibility of such a project is offered for review, consideration of an additional supervisory position is premature.

Department of Finance—Continued

An additional intermediate clerk (\$325-395) is requested for the interdepartmental mail service to the dispersed offices in Sacramento.

We recommend approval of one intermediate clerk, \$3,900, budget page 331, line 75.

This request is based upon workload rather than increased service.

The amount requested for Contract Services, \$10,000, budget page 332, line 15, generally represents the cost of testing materials and products, surplus property reutilization costs, and consultant's fees.

Office of Administrative Procedure

Eight new positions are requested for this office as detailed on budget page 332 lines 60 to 63, to provide for increased workload.

We recommend approval of these eight positions, \$49,756, budget page 332, line 65.

This is a new program in the Department of Finance consisting of staff and activities formerly assigned to three other agencies. The increase relates to conduct of the hearing function for other state agencies which is wholly reimbursable, and no pattern of experience exists to permit an adequate evaluation of the program at the present time.

The actual appropriations to cover the reimbursements of \$567,508 for hearing and other services to agencies shown under "administration" in the printed budget, budget page 333, line 7, are included in the budgets of 51 individual agencies, although in most instances, they are not so identified. Following is our calculation of the amounts appropriated:

	Number of agencies	Amount
Identifiable amounts -----	36	\$576,176
Estimated amounts -----	15	33,209
Total -----	51	\$609,385

The estimates included in the foregoing were made on the same basis as that used by the Department of Finance in budgeting for such services where more specific information was not available, namely by projecting for a full year amounts certified to and approved by the Board of Control on November 7, 1961, as advance charges for the last nine and one-half months of 1961-62 in accordance with Section 11370.4 of the Government Code.

Of the total budget of \$609,385, \$380,871 or 62.5 percent is from the General Fund, while the remainder is from various special funds.

Chapter 2048, Statutes of 1961, in effect September 15, 1961, abolished the Division of Administrative Procedure in the Department of Professional and Vocational Standards, created the Office of Administrative Procedure in the Department of Finance, provided for the transfer to the new office of the existing staff of the Division of Administrative Procedure as well as all full-time hearing officers in state agencies who were conducting hearings under the Administrative Procedure Act, together with related personnel. It also provided that the new agency be headed by a presiding officer appointed by the Governor subject to the confirmation of the Senate, and that the presiding officer must have the same qualifications as hearing officers, namely, have been

Department of Finance—Continued

admitted to practice law in California for at least five years preceding his appointment and have any additional qualifications established by the State Personnel Board for the particular class of positions involved (Government Code, Section 11502).

As a result of this legislation the authorized staff of the Office of Administrative Procedure for 1961-62 consists of 47 positions acquired by transfer from other agencies and five temporarily established by the Department of Finance during the current year, as summarized in Table 4.

Table 4—Authorized Staff, 1961-62, by Source

Function and class	Total	Div. of Administrative Procedure	Transferred from Dept. of Alcoholic Beverage Control	Division of Corporations	Added by Dept. of Finance
Hearings:					
Presiding officer	1	1	—	—	—
Hearing officer	18	8	8	1	1
Hearing reporter	18	8	8	2	—
Clerical	13	7	2	—	4
Total	50	24	18	3	5
Codification:					
Counsel	1	1	—	—	—
Clerical	1	1	—	—	—
Total	2	2	—	—	—
Grand total	52	26	18	3	4

The codification unit, shown separately in the printed budget, which compiles and publishes the California Administrative Code, consisting of agency rules and regulations, is financed by an appropriation from the General Fund, that portion of its activities which relate to special fund agencies being included in the pro rata charges made to all special fund agencies for administrative costs under Sections 11270-11275 of the Government Code. The entire cost of the hearing function, on the other hand, which appears under "Administration" on page 332 of the printed budget is prorated among the using agencies, including those financed by the General Fund, and is recovered as reimbursements as indicated on Budget page 333, line 7, in accordance with Section 11370.4 of the Government Code.

DEPARTMENT OF FINANCE

ITEM 127 of the Budget Bill

Budget page 318

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

Amount requested	\$238,525
State employees' retirement	16,000
State employees' health and welfare	1,400
Total	\$255,925
Estimated to be expended in 1961-62 fiscal year	255,057
Increase (0.3 percent)	\$868
TOTAL RECOMMENDED REDUCTION	None

Department of Finance—Continued

ANALYSIS

Of the amount requested, \$140,525 is for support of the Fairs and Exposition Division and \$98,000 is for audits of county and district fairs by the Audits Division. These divisions are discussed in our analysis of Item 126, Department of Finance Support.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 128 of the Budget Bill

Budget page 318

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

Amount requested	\$814,534
State employees' retirement	51,000
State employees' health and welfare	5,820
Total	\$871,354
Estimated to be expended in 1961-62 fiscal year	836,217
Increase (4.2 percent)	\$35,137

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

This appropriation is for support of the Local Allocations Division which is shown as a part of the Department of Finance on budget page 327, line 65.

The normal salary increase, and an increase in rental of \$14,820, budget page 328, line 35 account for a major portion of the additional amount requested.

We recommend approval as budgeted.

Department of Finance

CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 129 of the Budget Bill

Budget page 335

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

Amount requested	\$2,258,333
State employees' retirement	36,000
State employees' health and welfare	5,250
Total	\$2,299,583
Estimated to be expended in 1961-62 fiscal year	2,391,235
Decrease (4.0 percent)	\$91,652

TOTAL RECOMMENDED REDUCTION..... \$4,395

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Printing	\$4,395	336	21

California State Fair and Exposition—Continued

ANALYSIS

In 1961, a new program titled "California Spring Fair" was initiated on the state fairgrounds under the joint auspices of the State Fair and the 52nd District Agricultural Association.

The agency proposes to conduct the "Spring Fair" for nine days, May 12 to 20, inclusive, in 1962. The horse show and dairy products exhibit formerly operated in conjunction with the State Fair are now featured at the spring fair.

The following tables reflect the relationship of yearly expenditures to revenues. In the past 10 years, revenues have never risen above 73.2 percent of expenditures. However, the agency has estimated that revenues will increase to 80.4 percent of expenditures in the 1962-63 fiscal year.

Comparison of Total Expenditures and Revenues

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenues as percent of expenditures</i>
1952-53	\$1,890,797	\$1,265,236	\$625,561	66.9
1953-54	1,895,223	1,352,177	543,106	71.3
1954-55	1,964,428	1,281,100	683,328	65.2
1955-56	1,876,802	1,264,887	611,915	67.4
1956-57	2,104,397	1,470,357	634,040	70.0
1957-58	2,156,394	1,432,477	723,917	66.4
1958-59	2,126,993	1,449,405	677,588	68.1
1959-60	2,109,833	1,544,923	564,910	73.2
1960-61	2,359,959	1,717,963	641,996	72.8
1961-62 *	2,406,235	1,762,229	644,006	73.2
1962-63 *	2,314,583	1,860,000	454,583	80.4

* Estimated as shown in 1962-63 budget.

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

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid attendance</i>	<i>Per capita cost of deficit</i>
1952-53	\$625,561	481,575	\$1.30
1953-54	543,106	473,099	1.15
1954-55	683,328	505,567	1.36
1955-56	611,915	373,363	1.64
1956-57	634,040	463,779	1.37
1957-58	723,917	458,300	1.58
1958-59	677,588	457,200	1.48
1959-60	564,910	518,647	1.09
1960-61	641,996	522,107	1.23
1961-62 *	644,006	416,968	1.54
1962-63 *	454,583	440,000	1.03
Totals	\$6,804,950	5,110,605	\$1.33

* Estimated as shown in 1962-63 Budget. Paid attendance for 1961, 1962-63 predicated on free admission for children under 16 years of age.

The deficit for the 11-year period, as set forth in the above table, will total \$6,804,950. The average per capita loss on a paid attendance of 5,110,605 for this same period is \$1.33. It is noted on the basis of the agency's estimate that the per capita loss is expected to be \$1.03 in

California State Fair and Exposition—Continued

1962-63. However, last year the agency estimated the per capita loss, based on an estimated paid attendance of 450,000 would be \$1.15, whereas the revised estimate submitted this year indicates the per capita loss will be approximately \$1.54 for 1961-62.

Salaries and Wages

Salaries and wages for 1962-63 are scheduled at \$1,012,777 for 196.1 authorized positions. This is a decrease of \$47,745, or 4.5 percent, under the \$1,060,522 estimated to be expended in 1961-62. The budget reflects a reduction of five temporary help positions and a reduction of \$4,692 or one-half the annual salary of the administrative assistant position for 1962-63. In conjunction with the foregoing reductions, the agency is requesting one comptroller position to enable the agency to provide more effective fiscal procedures and information to management and other agencies of state government interested in the overall operations of the fair.

We recommend approval of the position request.

Operating Expenses

Total operating expenses are scheduled at \$1,287,231 for 1962-63. This is a decrease of \$24,015, or 1.8 percent, under the \$1,311,246 estimated to be expended in 1961-62.

The items of increase mentioned in a subsequent portion of this analysis are related to the State Fair and not to the Spring Fair which has budgeted the identical amount for operating expenses in 1962-63 that they estimate will be expended in the current year.

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

<i>Fiscal year</i>	<i>Budget request</i>	<i>Revised budget</i>	<i>Actual expense</i>	<i>Increase or decrease</i>	<i>Percent</i>
1955-56 -----	\$1,171,405	\$1,347,344	\$1,307,853	\$136,448	11.6
1956-57 -----	1,311,785	1,291,146	1,331,935	20,150	1.5
1957-58 -----	1,321,464	1,480,982	1,423,978	102,514	7.7
1958-59 -----	1,288,957	1,370,612	1,263,353	—25,604	—1.9
1959-60 -----	1,225,112	1,202,930	1,148,848	—76,264	—6.2
1960-61 -----	1,322,600	1,403,577	1,351,156	28,556	2.2

The agency has not submitted any information to justify its request for the increase applying to the following item:

	<i>Increase 1962-63 over 1961-62</i>	
	<i>Amount</i>	<i>Percent</i>
Printing -----	\$4,395	21.3

We cannot reconcile the basis for increasing the allocation for the aforementioned function.

We recommend a reduction of \$4,395 in operating expenses from the agency's budget.

Rodeo and Horse Show

It is noted that the agency has estimated an operating expense of \$41,500 for the 1962 Rodeo.

California State Fair and Exposition—Continued

At the 1960 State Fair, the agency conducted a horse show for eight nights and a rodeo for four night shows at a reported cost of \$18,072.

The admission revenues for these shows totaled \$33,264, resulting in a gross operating profit from the aforementioned features of \$15,192. In 1961 the horse show was transferred to the "Spring Fair" and the rodeo was extended to a 12-night show at an estimated cost of \$41,500. The gross revenue from the rodeo in 1961 was estimated to be \$41,036. As a result, the fair sustained an estimated operating loss of \$464.

It is apparent that, on the basis of last year's operation, the agency has, by transferring the horse show to the "Spring Fair," reduced their gross operating profit by approximately \$15,500 for this feature in 1961.

In the event the 1962 rodeo does not reflect a substantial improvement in admission revenue, we believe it is incumbent upon the agency to immediately re-evaluate this phase of their operations to insure that the current loss of revenue is rectified.

Spring Fair

This event was presented for the first time in 1961 as a joint venture of the State Fair and the 52d District Agricultural Association. This venture is conducted under a contractual agreement whereby the State Fair facilities and some of their personnel are utilized in operating this activity. We have been informed that, in accord with their contractual agreement, the agencies operate under a one-third district; two-third State Fair, formula, in the allocation of operating costs and distribution of revenue. However, it is apparent that no provisions were established to enable the 52d District Agricultural Association to absorb any unusual operating loss, particularly where the annual loss is far in excess of the maximum state allocation of \$65,000 presently provided to a district fair under Section 19627 of the Business and Professions Code.

The agency now proposes that the Legislature authorize a transfer of \$226,844 from the General Fund to the State Fair Fund to offset the existing deficit created in part by the operating loss sustained by the "Spring Fair." An additional amount of \$189,583 is requested for the ongoing support of the State Fair.

We recognize that the first year's operation was adversely affected by weather conditions. This factor should be alleviated by the agency's plan to delay the opening one month until May 12 to 20, inclusive, 1962.

However, should the 1962 Spring Fair sustain an operating loss, we would recommend immediate consideration be given by the operating agency, to cancellation of their agreement with the 52d District Agricultural Association.

Equipment

Equipment expenditures are scheduled at \$3,325 for 1962-63.

This is a decrease of \$22,142 or 86.9 percent under the amount of \$25,467 estimated to be expended in 1961-62 fiscal year.

We believe equipment requests are generally in line as now budgeted, and recommend approval.

Department of Finance
AUGMENTATION OF THE STATE FAIR FUND

ITEM 130 of the Budget Bill

Budget page 339

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

Amount requested	\$416,427
Estimated to be expended in 1961-62 fiscal year	177,044
Increase (135.2 percent)	\$239,383
TOTAL RECOMMENDED REDUCTION	\$4,395

ANALYSIS

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

In line with our analysis of the State Fair, we recommend that \$4,395 be deducted from the \$416,427 requested to be transferred from the General Fund.

Department of Finance
SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 131 of the Budget Bill

Budget page 339

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

Amount requested	\$562,145
State employees' retirement	18,500
State employees' health and welfare	3,000
Total	\$583,645
Estimated to be expended in 1961-62 fiscal year	514,666
Increase (13.4 percent)	\$68,979
TOTAL RECOMMENDED REDUCTION	\$10,740

Summary of Recommended Reductions

	Amount	Page	Line
1 Museum helper	\$3,900	340	55
1 Building maintenance man	4,980	341	17
0.5 Janitor	1,860	341	17

ANALYSIS

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

Total expenditures for 1962-63 are proposed at \$583,645, an increase of \$68,979, or 13.4 percent, over the amount of \$514,666 estimated to be expended in 1961-62.

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

	1958-59	1959-60	1960-61	1961-62*	1962-63*
Total expenditures	\$495,398	\$370,625	\$501,589	\$514,666	\$583,645
Total revenues	447,113	576,556	723,598	661,950	612,250
Excess of revenues over expenditures	—\$48,825	\$205,931	\$222,009	\$147,284	\$28,605

* Estimated as shown in 1962-63 budget.

Sixth District Agricultural Association—Continued

While the above table reflects a substantial improvement in revenues for prior years, it should be noted that the agency has estimated a reduction of approximately \$50,000 in 1962-63 compared to 1961-62 and \$111,000 compared to 1960-61. Unless this trend is reversed, the operation will deteriorate to where it again will show deficits.

The reduction in the estimated revenue is attributed to an anticipated decrease in parking revenue, predicated on the movement of the Los Angeles Dodgers from the Coliseum to their new baseball stadium in 1963. However, the agency anticipates a portion of the decrease in revenue will be offset by the increased use of the Sports Arena for various functions.

Salaries and Wages

The total amount requested for salaries and wages for 1962-63 is \$350,984, an increase of \$9,978, or 2.9 percent, over the total of \$341,006 scheduled for expenditure in this category in 1962-63.

The change in salary and wage costs is attributable to merit salary increases on 65 established positions and a total of 3.5 proposed new positions costing \$15,480.

1 *Museum helper (budget page 340, line 55)* ----- \$3,900

This position is requested to provide mail and related general clerical services to the administration of this facility.

In the current year, certain changes have been effected in the physical layout of the administrative offices. In addition, an accounting technician II position was established on a limited term basis to provide necessary supervision, and to handle the additional workload in the business office. However, despite the aforementioned changes with which we are in accord, no workload information has been submitted that would justify employment of a museum helper to distribute mail and provide additional clerical service to the administration.

We recommend disapproval of this position request, reducing salaries and wages in the amount of \$3,900.

1 *Building maintenance man (budget page 341, line 16)* ---- \$4,980

0.5 *Janitor (budget page 341, line 17)* ----- 1,860

The agency is requesting these positions to provide additional maintenance and janitorial service to the existing facility.

The agency stated that the maintenance position would be primarily involved with the permanent exhibits in the science wing.

We wish to point out that, in 1960-61, the agency requested and we recommended approval of 1.5 janitor positions and 1 skilled laborer subsequently reclassified as a stationary engineer. The Legislature authorized these positions to provide additional service to the facility including the new addition of approximately 35,000 square feet.

The new "Science" wing opened in September, 1960. In November, 1961, when this facility was visited, the new addition was occupied by 1 permanent exhibit that utilized approximately 3,600 square feet or 13.8 percent of the space available in the "Science" wing. The agency has stated that it estimates approximately 12,000 square feet will be subsequently occupied by permanent exhibits during the current year.

Sixth District Agricultural Association—Continued

However, we can find no basis for providing additional positions to supplement the 2.5 service positions that were previously provided to this facility in 1960-61 to take care of the expansions to the facility.

We recommend disapproval of the positions requested, reducing salaries and wages in the amount of \$6,840.

Operating Expenses

Operating expenses are scheduled at \$272,419 for 1962-63. This represents an increase of \$44,486 or 19.5 percent over the amount of \$227,993 estimated to be expended in the 1961-62 fiscal year.

The principal items of increase by function are:

Police services—24-hour patrol	\$13,000
Resurface state drive	7,200
Resurface parking lots	14,000

It should be noted that in 1960-61, the actual cost of providing police services cost \$36,272. With the expansion of the service, including a 24-hour patrol of Exposition Park, the estimated cost for this service totals \$60,000 in 1962-63.

We recommend approval of operating expenses as budgeted.

Equipment

Equipment expenditures are scheduled at \$17,388 for 1962-63. This is an increase of \$12,761 or 275.8 percent over the amount of \$4,627 estimated to be expended in 1961-62.

The major item of increase is the replacement of 1 Mobil Street-sweeper that was surveyed off by the Division of Highways in 1959. The estimated replacement cost of this item is approximately \$11,000.

We recommend approval of equipment items as budgeted.

Department of Finance**AUGMENTATION OF THE SIXTH DISTRICT AGRICULTURAL ASSOCIATION FUND**

ITEM 132 of the Budget Bill

Budget page 342

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

Amount requested	\$190,000
Estimated to be expended in 1961-62 fiscal year	190,000

Increase	None
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TOTAL RECOMMENDED REDUCTION	\$10,740
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Summary of Recommended Reductions

In accordance with our review of the fiscal position of the Sixth District in the foregoing item, we recommend that the amount requested by this transfer item be reduced \$10,740 and approved in the amount of \$179,260.

**Department of Finance
STATE LANDS DIVISION**

ITEM 133 of the Budget Bill

Budget page 344

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

Amount requested	\$971,693
State employees' retirement	61,468
State employees' health and welfare	6,960
Total	\$1,040,121
Estimated to be expended in 1961-62 fiscal year	1,025,590
Increase (1.4 percent)	\$14,531
TOTAL RECOMMENDED REDUCTION	\$38,529

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
1 Petroleum production inspector I	\$6,060	345	16
1 Assistant land agent	6,360	345	20
1 Intermediate typist-clerk	3,900	345	22
3 Temporary timber and rangeland appraiser	20,016	345	9
Traveling in-state	1,128	345	32
Rent	240	345	34
Equipment	825	345	47

GENERAL SUMMARY

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

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

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

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

1. Technical staff work for the Attorney General in connection with state land litigation which mainly concerns oil properties.
2. Surveying, monumenting and platting tidelands granted to political subdivisions of the State. This work is reimbursable.
3. Leasing of mineral lands, primarily oil tidelands.

State Lands Division—Continued

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

5. Issuing permits for and supervising offshore geophysical and geological exploration for oil and gas.

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

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

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

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

The division was originally supported out of the State Lands Act Fund which, however, was abolished by Chapter 892, Statutes of 1961, so that it is now a General Fund agency.

Over the years the agency has gradually increased in size to the point that in recent years its budget has exceeded \$1,000,000, its employees 100 and its revenues \$25,000,000, most of the latter being dependent on the competence, good faith and judgment of the commission and its staff. Under the circumstances we feel it is essential that the commission maintain detailed and current data concerning its operations, the major points of which should be made available to the Legislature. At the present time little statistical data of any consequence is regularly maintained by headquarters, very little by the operating sections and no annual or similar reports are distributed.

We recommend that the division immediately start a program which will develop information similar to the following on not less than a monthly basis:

1. Work record of each employee, including nature of his activity and time consumed therein.

2. Breakdown of work orders so as to indicate their general complexity. As an example, segregate a work order covering a complex oil lease negotiation from one which represents a comparatively minor matter.

3. Statistics relating to all forms of revenue, e.g., number, nature and location of all leases; number and location of all wells broken down as to those producing and not producing; sales of and still available state lands; status of litigation; number, type and results of audits; and the current production and price of oil and gas.

From the data so maintained we believe that an annual report, similar to those submitted by other agencies to the Governor, should be prepared for general distribution, and that it should be sufficiently detailed to provide the Legislature and the general public with a clear picture of the manner in which the public lands are being administered.

State Lands Division—Continued

ANALYSIS

Civil Engineering

The agency has requested a civil engineering associate (\$676-821) for work in connection with grants of tidelands to subdivisions of the State. *We recommend approval, budget page 345, line 14, \$8,112.*

Our recommendation is based on the fact that while the section's normal workload has remained fairly constant, the 1961 Legislature passed fourteen statutes granting tide and submerged lands to political subdivisions of the State which the agency is required by Section 6359 of the Public Resources Code to within two years "... survey, monument, and record a plat and a metes and bounds description of such lands in the office of the county recorder in the county or counties in which such lands are located." The cost of such work is paid by the grantee political subdivision.

In addition twelve of the statutes require the division to monitor improvements on the lands granted.

The position will be reviewed by us at the close of the two-year period to determine its need at that time.

Mineral Resources

We recommend disapproval of the position of petroleum production inspector I, budget page 345, line 16, \$6,060.

The position (\$505-613) has been requested for assignment to the Santa Barbara office and, on the basis of workload, we believe it is warranted. This is because the area has experienced a major increase in activity not only in the number of wells but in the complexity of their inspection. For example:

1. Many of the new wells are and will be located on off-shore platforms which requires special time-consuming procedures, particularly travel to and from the installation.

2. Storage facilities of the producers are not adequate and evidently will not be in the immediate future. This requires sealing, testing and gauging many small and scattered facilities.

3. Many of the new wells are major gas producers. As the gas is "wet", i.e., includes important amounts of liquid petroleum products, it will be necessary to drastically step-up the number of laboratory analyses necessary to determine the liquid content. The budget includes \$1,875 in new gas laboratory equipment.

In place of the proposed new position we recommend the transfer to Santa Barbara of the petroleum production inspector I now located in Rio Vista.

Our reasons are as follows:

1. The Rio Vista area produces only "dry" gas with no important liquid content so that practically the only essential field duty of the position is to check the production meters at the well head.

2. Royalty reports covering Rio Vista production are prepared in Huntington Beach so that the only major paper work is the preparation of production reports.

State Lands Division—Continued

3. A check of the area made by a representative of this office on July 19, 1961 disclosed that:

- a. The incumbent frankly admitted devoting the major part of his time to the operation of a private trucking business.
- b. He was generally known in the area as being in the trucking business rather than as an employee of the State. As one example, when our representative called on him at his office, not even the person at the counter knew he worked for the State.
- c. Although the State was paying him \$20 per month in rent, his office had no identification as a state office on the door or otherwise.

4. The incumbent in the position at the time resigned shortly after the foregoing visit.

5. In addition to the incidental rental expense of \$20 per month, a state car is permanently assigned to the position. A check of the log thereof discloses that from April 1959 to December 1961 the car was used exclusively in the immediate vicinity at a rate of about 20 miles per day.

6. We are informed that the assignment has never had an adequate workload and that the employee mentioned in (3) above was not necessarily shirking his work but did not have sufficient State duties to keep him busy, and also that other employees in the position have devoted the major part of their time to personal activities.

The foregoing raises a difficult problem in that there is a certain amount of required work in the area while the nearest office of the Mineral Resources Section is in Santa Barbara. This presents an undesirable travel situation in the event one of its employees were to service the Rio Vista area on a part-time basis. Nevertheless we feel that the salary, rental and car expense involved requires correction.

We have brought the situation to the attention of the agency which has not, however, made any attempt at a solution. Accordingly, we recommend that the work in Rio Vista be handled out of Sacramento on a part time basis.

The Lands Sales and Records Section which is in Sacramento, or only about 40 miles from Rio Vista, recently reclassified one of its two land title searchers (\$395-481) to a civil engineering technician I (\$505-613), which is at the same salary level as a petroleum production inspector I.

While the engineering technician has not had petroleum experience, we believe that his civil engineering background should allow him to fulfill the requirements of the Rio Vista work which is the simplest performed by any of the field men in the State.

We recommend approval of the oil gauger position, budget page 345, line 17, \$5,232.

This position is for the Santa Barbara office and our reason for approval is the increase in work-load described above in connection with the position of Petroleum production inspector I.

State Lands Division—Continued

Commercial and Recreational Leasing

We recommend denial of the request for an assistant land agent, budget page 345, line 20, \$6,360.

This position (\$530-644) has been requested for the purpose of reducing the backlog of cases which totaled 221 on July 1, 1961. The section should, however, manage with its existing personnel to keep abreast of current work and there has been no showing or claim by the agency that the backlog is having an adverse affect on either the State or the public. For 1962-63 the agency expects that an average of 15 new cases will be filed each month or five for each of the existing staff of three, while the matters closed for the two-year period from July 1, 1959 to June 30, 1961 averaged 5.1 per employee.

Land Sales and Records

We recommend disapproval of the request for an intermediate typist-clerk, budget page 345, line 22, \$3,900.

This position (\$325-395) has been recommended for denial because there has been no attempt on the part of the agency to show its need and its approval is not otherwise indicated.

We recommend elimination of three temporary timber and range land appraiser positions, budget page 345, line 9, \$20,016.

On May 24, 1960 the commission withdrew all school lands from sale for an indefinite period. Existing applications were retained for processing but the appraisals thereon have been substantially completed and the three permanent appraisers are now carrying the full appraisal workload. The item will be reexamined at such time as the moratorium is lifted and there is a corresponding increase in applications to purchase state lands.

Operating Expenses

We recommend a reduction in traveling—in-state, budget page 345, line 32, \$1,128.

Under normal circumstances the appraisers of the Land Sales and Records Section use three 4-wheel drive vehicles from the Department of Finance motor pool, the charge for which is 11 cents per mile instead of the 5.5 cents per mile charged for the usual passenger vehicle. Due, however, to the moratorium on land sales declared by the commission on May 24, 1960, only two such vehicles are in current use. As there has been no corresponding drop in the charges budgeted we recommend that the \$3,383 allowed for the purpose be reduced by one-third or \$1,128.

We recommend a reduction in rent, budget page 345, line 34, \$240.

This is the rental of \$20 per month paid to the position in Rio Vista which we have recommended be transferred to the Santa Barbara office.

The reduction in budgeted rent from \$48,021 in 1961-62 to \$28,278 in 1962-63 represents rent of \$19,743 formerly paid as a special fund agency for space in the Los Angeles State Building.

Administrative Services

We recommend approval of the amount budgeted for electronic data processing, budget page 345, line 42, \$23,945.

State Lands Division—Continued

Funds have been expended for this project in both 1960-61 (\$2,040), and 1961-62 (\$23,945) without legislative approval, the item having first appeared in the current budget.

Although we question the expenditure of nonemergency funds without review by the Legislature, in this case we would have recommended approval if the normal budgetary process had been followed. This is because we have examined into the installations which are based on recommendations of the Organization and Cost Control Division of the Department of Finance and feel that they will prove of value. There are two installations, as follows:

1. A Bendix G-15 computer which has been installed in the Los Angeles office at an annual rental of \$19,360 and which is to be used primarily for computing engineering data. At least initially the equipment will be used as an aid in reducing backlog so that there will be no immediate savings in personnel.

2. A McBee Keysort file system located in the Land Sales and Records Section office in Sacramento at a cost for the budget year of \$4,585. This installation is not electronic but is far superior to the Kardex system formerly used and should result in a marked increase in efficiency.

We expect in the coming year to examine into the actual operations of and savings due to installation of the equipment and will report thereon at the next session.

Equipment

We recommend disapproval of the purchase of a set of "American Jurisprudence," budget page 345, line 47, \$825.

These books have been proposed for the library of the Legal Section which consists of three lawyers. We believe that the section requires a basic legal library and would recommend approval of necessary additions thereto which related specifically to the agencies' specialized problems. "American Jurisprudence," however, covers the entire field of law, with no emphasis on the laws of California or those relating to the particular problems of the agency.

In the case of special problems, the staff has available to it the law libraries of the Attorney General and the Legislative Counsel which are located in the same building as the agency, plus the Los Angeles County law library which is located just across the street, and we believe that the staff should use these libraries for other than basic research.

Transfer of Functions from Colorado River Boundary Commission

In our analysis of the proposed budget of the Colorado River Boundary Commission (Item 207) we recommend that certain functions now performed by that commission be transferred to the State Lands Division and performed by the latter for the former on a wholly reimbursable basis. If this recommendation is adopted appropriate adjustments must be made in the detailed budget of the State Lands Division but no increase in its appropriation will be necessary.

State Lands Division—Continued

Computation and Verification of Royalties and Other Income
From Oil and Gas Production

It is recommended that the Auditor General be directed to examine into the practices followed by the commission in computing and verifying income from the production of oil and gas.

This recommendation is made because it appears possible from our examination of the activities of the commission that the interests of the State are not properly protected by the revenue computations and verifications presently being made by the agency.

Although we have not searched for or otherwise discovered any actual loss to the State by reason of existing practices, we nevertheless feel that our examination of such procedures indicates an informality and lack of participation on the part of higher levels of personnel which is undesirable in view of the millions of dollars which are and will continue to be involved.

It is recommended that the Auditor General make the examination, as the function is primarily one of accounting procedures and controls.

Oil and gas leases let by the State are not completely standard in form so that it is impracticable to make overall generalizations concerning the computation of royalties. However, by far the greater part of current production and royalties thereon results from a type of lease whereunder royalties are paid on a sliding scale in accordance with the production of each individual well rather than total production under the lease. Accordingly, it is very important for the State to accurately determine the production of each well in order to assure payment of the full amount of royalty, since the greater the production the higher the *rate* at which the royalty is computed.

We believe that the examination of the Auditor General should cover all types of leases including gas, as well as the computation of other revenues, particularly the price paid by the City of Long Beach for gas purchased from the State.

The latter is because Chapter 29 of the 1956 Ex. Sess. provides that the price of such gas shall be determined " . . . in the light of prices for processed dry gas prevailing from time to time at absorption plants where wet gas produced in the Los Angeles Basin is being processed," while the Audits Division of the Department of Finance in its report on the commission dated October 19, 1961, states in connection with such prices that " . . . since July 1, 1959, the City of Long Beach has paid the State \$.2348 per MCF. Our survey of dry gas prices in the Long Beach area disclosed that the City of Long Beach pays \$.30 per MCF for dry gas purchased from the Signal Oil Company gas plant at Huntington Beach. We also found that two large utilities were paying in excess of \$.36 per MCF in the Los Angeles basin area."

FRANCHISE TAX BOARD

ITEM 134 of the Budget Bill

Budget page 347

FOR SUPPORT OF FRANCHISE TAX BOARD
FROM THE GENERAL FUND

Amount requested	\$8,418,649
State employees' retirement	492,807
State employees' health and welfare	76,818
Total	\$8,988,274
Estimated to be expended in 1961-62 fiscal year	8,390,828
Increase (7.1 percent)	\$597,446
TOTAL RECOMMENDED REDUCTION	\$196,493

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
<i>Salaries and Wages</i>			
1 Intermediate typist-clerk, legal section	\$3,996	348	19
1 Existing junior counsel, appeals and review	6,812	348	4
1 Proposed junior counsel, appeals and review	6,516	348	21
1 Intermediate stenographer-clerk, special investigations	4,980	348	6
5 Income and franchise tax auditors II, Chicago	33,360	349	56
1 Intermediate stenographer-clerk, Chicago	4,194	349	57
5 Income and franchise tax auditors II, New York	33,360	349	60
1 Intermediate stenographer-clerk, New York	4,194	349	61
1 Tax representative, Bakersfield	5,232	350	17
10 Tax representatives, Los Angeles	52,320	350	17
4 Senior clerks, San Francisco	18,048	350	55
<i>Equipment</i>			
1 Typewriter, desk and chair, legal section	403	348	39
1 Desk and chair, appeals and review	258	348	39
1 Desk and chair, legal section	193	348	39
1 Typewriter, desk and chair, collections	469	349	81
6 Desks and chairs, 1 typewriter, and 4 file cabinets, Chicago	2,017	349	81
5 Desks and chairs, and 2 file cabinets, New York	1,462	349	81
1 Desk, chair and file, Bakersfield	374	350	33
10 Desks and chairs, Los Angeles	2,367	350	33
12 Files, Los Angeles	1,126	350	33
4 Desks and chairs, San Francisco	876	350	69
<i>Operating Expenses</i>			
Out-of-state travel	10,000	349	74
Rent for Chicago and New York offices	3,936	349	76

ANALYSIS

The Franchise Tax Board administers the personal income and the bank and corporation franchise taxes. The board's organizational structure consists of two divisions, administration and operations, with the operations division including a headquarters office in Sacramento, two regional offices in California, at San Francisco and Los Angeles, five branch offices in each region, and two out-of-state offices, Chicago and New York.

The agency is asking for 101.7 new positions and a budget increase of \$597,446. Table 1 shows the proposed new positions by organizational division and geographic location.

Franchise Tax Board—Continued

Table 1
Proposed New Positions

Division	Location					Total
	Sacramento	San Francisco	Los Angeles	Chicago	N.Y.	
Administration						
Permanent	26*	—	—	—	—	26
Temporary help	10.1	—	—	—	—	10.1
Operations						
Permanent	16	9	21	6	6	58
Temporary help	7.6	—	—	—	—	7.6
Total	59.7	9	21	6	6	101.7

* Twenty-two of these positions currently are financed from temporary help funds.

Table 2 gives a breakdown of the proposed \$597,446 increase. Over 71 percent of this increase consists of salaries and wages. A large portion of the remainder is related expenses for equipment, travel, retirement, etc. The \$90,000 decrease in salaries and wages for authorized positions in the administration division results from the agency converting temporary positions to proposed new permanent positions. The \$40,332 increase in employees' health and welfare expenditures results from 1962-63 being the first full year this program will be in effect.

Table 2
Proposed Increase in Franchise Tax Board Budget for 1962-63

	Headquarters		Regions		Out-of-state	Total
	Adminis- tration	Opera- tions	San Francisco	Los Angeles	N.Y. and Chicago	
Salaries and Wages						
Authorized positions	\$90,503	\$48,194	\$11,704	\$20,525	\$6,386	\$3,694
New positions	153,454	112,708	44,208	102,510	75,108	487,988
Salary savings	—7,510	—18,257	—7,464	—12,010	—12,172	—57,413
Total—Salary and wages	\$55,441	\$142,645	\$48,448	\$111,025	\$69,322	\$426,881
Operating Expenses	—991	28,243	9,042	9,431	13,936	59,661
Equipment	11,035	6,043	4,034	10,926	5,197	37,235
Totals	\$65,485	\$176,931	\$61,524	\$131,382	\$88,455	\$523,777
State retirement						33,337
State employees' health and welfare						40,332
Total increase						\$597,446

1961-62 Allocation From Emergency Fund

During the current budget year \$115,963 was allocated from the Emergency Fund to provide additional support for the newly established data processing operation in the accounting section of the Administration Division.

In January of 1961 the agency mechanized its accounts receivable operation. Additional funds were needed because:

1. Deciphering the handwriting on taxpayers returns proved to be more difficult than anticipated, thus increasing the amount of key punch time needed.

Franchise Tax Board—Continued

2. The tax returns had to be coded and no provision was made for this operation in the budget.

3. More equipment was needed than originally estimated.

Table 3 shows where the Emergency Funds were allocated. The accounting section, which has the main data processing operation, received \$110,993, or 95.7 percent, of these emergency funds. Its budget for 1961-62, before the addition of these funds was about \$690,000. The following table shows only the items that were increased, not the total budgets of the sections affected.

Table 3

Allocation of Emergency Funds for Data Processing Operation—1961-62						
Administration	Enacted budget		Emergency funds		Revised budget	
1. Personnel	Amount	Man-years	Amount	Man-years	Amount	Man-years
Key punch operators ----	\$2,655	0.8	\$58,825	15.0	\$61,480	15.8
Tab machine operators ----	-	-	18,048	4.0	18,048	4.0
Coding ----	7,007	1.7	9,361	2.3	16,368	4.0
Total ----	\$9,662	2.5	\$86,234	21.3	\$95,896	23.8
2. Operating expense—data processing ---	\$42,278	-	\$24,759	-	\$67,037	-
Operations						
3. Operating expense—data processing ---	\$49,416	-	\$4,204	-	\$53,620	-
4. Miscellaneous --	-	-	766	-	766	-
Total ----	\$101,356	2.5	\$115,963	21.3	\$217,319	23.8

Most of the \$24,759 in item 2 was for additional machine rentals.

Administration Division
Accounting Section

The agency proposes that 22 temporary help positions consisting of four tab machine operators, six key punch operators, and 12 junior-intermediate clerks, costing \$90,192, be converted to permanent positions.

We recommend approval of these positions, budget page 348, lines 12 to 14.

The use of permanent positions is more economical because employee turnover and nonproductive training time are reduced. The temporary help funds for these positions have already been deleted from the budget in contemplation that this conversion will be approved. These positions are used in the data processing unit of the accounting section.

The board is also asking for an increase of 10.1 positions in temporary help costing \$41,128. These positions will also be used in the accounting section, and are needed to handle increased workload.

We recommend approval of 10.1 positions of temporary help, \$41,128, budget page 348, line 22.

Franchise Tax Board—Continued

In the fall of 1961 we examined a 10 percent random sample of their cases completed during the first half of the year. The following tables show the results of this examination.

Table 4
Personal Income Tax Protests Decided by Appeals and Review Section
During First Half of 1961

<i>Type of Appeals Section Activity</i>	<i>Number cases</i>	<i>Percent</i>	<i>Attorney workload</i>
A. Held pending action by state or federal agency	20	50	No
B. Hearing only	8	20	Minor
C. Correspondence only	1	2.5	Yes
D. Hearing and correspondence	2	5	Yes
E. Improper workload, cases Operations Division should have completed	9	22.5	Yes
Total	40	100.0%	

Category A consists mainly of cases where the taxpayer was appealing a federal assessment. This section held these cases until a decision was rendered and then normally abided by the federal adjustment. The control of these cases pending a decision was a clerical function and did not constitute any significant work for the attorneys.

Category B consists of cases which the hearing officers settled. Most of these cases were handled by the auditors in San Francisco and Los Angeles. However, a few were heard by this section's attorneys. When an auditor conducted the hearing, an attorney reviewed his decision but this was a minor time-consuming task.

Practically all of the attorney's workload was confined to categories C, D and E. Of these 12 cases, we estimate that 75 percent should have been handled by the Operation's Division.

Examples of some of the cases in Category E were:

1. Case No. 4, a taxpayer protested an assessment of \$42. The issue was capital gains on a property transaction. Appeals and review wrote an explanation of the law to the taxpayer, which he accepted. We feel the explanation should have been provided by the Operation's Division.

2. Case No. 7, a taxpayer protested an assessment of \$22. The issue was the deduction of child support payments. Appeals and review wrote the taxpayer explaining the differences between filing a separate and a joint return. We believe an auditor could have written the letter.

3. Case No. 31, a taxpayer protested a \$53 assessment. This was a collection matter concerning the taxpayer husband's failure to file a tax return.

4. Case No. 35, a taxpayer protested a \$24 assessment. The issue was alimony. This was a factual situation that should have been handled by Operations.

5. Case No. 40, a taxpayer protested a \$24 assessment. The taxpayer filed a very detailed return with salary income from several sources, and he inadvertently used the Federal Social Security income base on one of the W-2 forms instead of the wage figure. When this mistake was brought to the taxpayer's attention at a hearing, the case was closed.

Franchise Tax Board—Continued

Table 5
Franchise Tax Protests Decided by Appeals and Review Section
During First Half of 1961

<i>Types of Appeals Section Activity</i>	<i>Number cases</i>	<i>Percent</i>	<i>Attorney workload</i>
A. Held pending action by state or federal agency	6	33.3	No
B. Hearing only	1	5.5	Some
C. Correspondence only	2	11.1	Yes
D. Hearing and correspondence	2	11.1	Yes
E. Review only	1	5.5	Minor
F. Improper workload, cases Operations Division should have completed	6	33.3	Yes
Total	18	99.8%	

Category A for franchise tax cases was the same as the personal income tax category.

Since it was more common for the attorneys to participate in franchise tax hearings, there was some workload in Category B.

Categories C, D and F, however, still constituted the main workload of the attorneys.

Some example of Category F were:

1. Case No. 5, a taxpayer protested a \$700 assessment. The issue was interest expense. The assessment was issued without full details of a reorganization transaction. When these details were explained to a hearing officer, the assessment was withdrawn.

2. Case No. 9, a taxpayer protested a \$70 assessment. The issue was the depreciation life of a temporary asset. The Franchise Tax Board auditor stated that a 25-year life was the only one allowable. The taxpayer wrote appeals and review stating that the federal internal revenue service allowed a 15-year life.

Appeals and review accepted the taxpayer's contention and the assessment was withdrawn.

3. Case No. 10, a publisher protested a \$435 assessment. The issue was travel and entertainment expenses. When a Franchise Tax Board auditor called on the taxpayer, one of the partners was very uncooperative, and in fact discourteous. The auditor disallowed most of these expenses. At a hearing, the taxpayer's accountant apologized for the discourteous treatment, and the hearing officer followed the federal adjustment of only disallowing part of these expenses. We believe this case should have been settled by an audit supervisor.

The legal staff of this section consists of:

- 1 Appeals and review officer
- 3 Associate tax counsels
- 1 Assistant counsel
- 1 Junior counsel

Total 6

We believe that the data in Tables 4 and 5 strongly support our view that five legal positions will be adequate to handle the appeals work-

Franchise Tax Board—Continued

load, if this section does not spend its time on cases that should be completed in the Operation's Division.

Special Investigations Section

We recommend that one existing intermediate stenographer position in the Special Investigations Section be deleted, \$4,980, budget page 348, line 6.

This position was authorized July 1, 1959, as the result of a budget augmentation. The position was vacant for the first 10½ months, from July 1, 1959 to May 12, 1960. Then it was filled for about 4¾ months, from May 12, 1960 to November 7, 1960. It was vacant again for six months, from November 8, 1960 to April 9, 1961. On April 10, 1961, it was filled by transfer of an employee from a similar position in the executive office of the Operation's Division which intermediate stenographer position in Operations then remained vacant for the remainder of calendar year 1961. It appears to us, therefore, that there has in effect been a continuously vacant position in the agency since November 8, 1960, a period of over one year.

Between April 10 and December 31, 1961, this position spent about one-third of her time on special investigation's work and the remainder doing clerical work for the appeals and review section.

It is evident from this information, that this position has been only really occupied for less than eight months out of the 30 month period, July 1, 1959 to January 1, 1962.

Operations Division

We recommend that four electronic data processing programmer positions be approved, \$28,176, budget page 349, lines 46 and 48.

Since 1959, the Internal Revenue Service installation at Ogden, Utah has provided the Board with punched cards which give the name, address, amount of income, and other information on persons who filed federal income tax returns in California. The Board matches these cards against its files to determine: (1) if the persons also filed a state income tax return, and (2) if the amounts of income agree. This matching operation is one of the principal compliance programs used by the Board to detect nonfilers. Starting this year the Internal Revenue Service will provide electronic tapes rather than punched cards. In order to continue this program, the Board will have to convert this data to punched cards because their present methods of operations are not designed to handle tapes. The Board states that four new electronic data processing programmer positions, two class II, and two class I, will be needed to handle this conversion process.

Collections

This section is asking for two new tax representatives (\$10,464) and a junior typist-clerk (\$3,630). One of the tax representatives will be used in the headquarters office to help process bank and corporation tax suspensions.

We recommend approval of two tax representative and one junior typist position for the Collection Section, \$14,094, budget page 349, lines 49 and 53.

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We also recommend that the equipment for this new typist position consisting of a desk, chair and typewriter, be deleted, \$469, budget page 349, line 81, and that equipment related to the intermediate stenographer position previously recommended for deletion be transferred to collections.

One existing tax representative now works on these cases. During 1960-61, 12,600 corporations were suspended. This 80 percent increase over the prior fiscal year was abnormal, and largely attributable to the 1959 legislative action which increased the minimum franchise tax from \$25 to \$100. The board states that the new position is needed to: (1) help eliminate the backlog of existing cases, (2) develop new procedures whereby headquarters will handle more of these cases rather than sending them to the field for collection, and (3) devote more effort to collect the delinquent taxes before the corporations become suspended. We believe these procedural changes probably will be more economical and result in faster collection activity.

The other tax representative position and the clerical help are for the Sacramento field office. This office currently has two field representatives, one permanent and one part-time clerical position. The part-time clerical position was borrowed from the headquarter's collection clerical pool. This office handles the collection activity in 19 northern California counties and had an inventory of 2,361 cases on December 1, 1961. About 1,200 of these cases were in the Sacramento metropolitan area (Sacramento, Roseville and west Yolo County) and the remainder were in the surrounding counties.

We believe the combination of workload and geographic area that needs to be covered justifies these new positions.

Claims Section

The board is asking for a new accounting technician II position, \$4,512, to process both franchise and personal income tax credit balance refunds.

We recommend approval of one accounting technician II position, \$4,512, budget page 349, line 50.

These refunds consist of taxpayer overpayments as a result of errors in computing interest, the difference between estimated and final computation of the tax, and where the taxpayer paid his liability more than once. Franchise tax credit balance refunds currently are being processed by an auditor II, quarter time, and a senior clerk, half time. The granting of this technician position will allow the auditor to spend full time on regular franchise tax refunds which had an average annual inventory of 1,827 cases in 1960, and 2,243 cases in 1961, or an increase of 23 percent.

Personal income tax credit balance refunds currently are being processed by an accounting technician II position with the assistance of clerical help. The average annual inventory of these cases was 2,376 in 1960, and 3,378 in 1961, or an increase of 42 percent. Part of this increase in caseload is attributable to the interest errors made by the EDP unit during its conversion process, and in the future this should be less

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of a problem. We feel there is sufficient justification for this new position on the basis of increased workload.

Drawer Audit Section

The agency is requesting six additional senior account clerk positions for this section in order to release auditors for higher level work.

We recommend approval of six new senior account clerk positions, \$27,072, budget page 349, line 51, under the following conditions:

1. *That they, or equivalent manpower, be used for audit of the 1960 "annual" returns, starting in July 1962, and*
2. *That the agency reduce the audit coverage for "annual" returns filed for income years prior to 1960 to not more than 75 percent.*

Our reason for these recommendations is that we believe audit of these returns should be made on a more current basis. Under present procedures the returns are not audited until from approximately two and one-half to just under four years after the return is filed and we believe that this delay seriously impairs the effectiveness of the audit program, in two ways. It lessens the amount of direct revenue received by increasing collection losses. It reduces the effectiveness of the program as a tool for producing more accurate self-assessments in the future by failing to call attention to errors in reporting on a timely basis.

The Franchise Tax Board segregates personal income tax returns into the following three categories:

1. *Annuals.* These are long form returns for low and medium income groups. In 1960, this category consisted of returns with less than \$15,000 of income if entirely from salary and wages, or less than \$12,000 if composed partly of other income. These returns are filed alphabetically by years.

2. *Folders.* These are long form returns for high income groups, i.e., those with incomes above the "annuals," and are filed in individual taxpayer folders, with each folder normally containing three or four tax returns.

3. *Cards* (form 540A). These are the short form cards for low and medium income groups which were first introduced in 1959, and are filed alphabetically, by years.

Table 6 shows the number of returns in each category for the last seven years.

Table 6
Types of Personal Income Tax Returns, 1955 to 1961

Income Year	Folder	Annuals	540A	Total
1955	337,000	2,585,000		2,922,000
1956	346,000	2,847,000		3,193,000
1957	347,000	3,074,000		3,421,000
1958	326,000	3,157,000		3,483,000
1959	301,000	3,131,000	548,000	3,980,000
1960	315,000 (est.)	2,833,000	1,027,000	4,175,000
1961 (est.)	325,000	2,700,000	1,300,000	4,425,000

The audit of the 540A cards consists of a check by comptometer operators with questionable returns being reviewed by senior account clerks in the preliminary examination section. This audit is done on a

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current basis, with most of the work completed before the next return is due.

The audit of the "annuals" and "folder" cases is conducted by auditors in the drawer audit section, who review the returns in alphabetical order as they are filed in the file drawers.

There were 48 auditors in this section on January 1, 1962 including six grade I and 35 grade II. The former work exclusively on "annual" returns while the latter work mainly on "folder" cases, but spend considerable time on "annual" returns.

In our 1961-62 Analysis, page 372, we recommended that the processing of "annual" returns be done mainly by clerks rather than auditors. The agency has accepted our recommendation in part, and intends to use the six new senior account clerk positions in a pilot study to carry out our recommendation.

Adding six new clerical positions rather than downgrading existing auditor positions will result in making auditor positions available for other work. We approve of this arrangement provided the staff is used to reduce the time interval between date of filing and date of audit of the returns.

Table 7 shows the percent of annual returns audited, the man-years of work involved, and the time interval between the date the returns were filed and audited.

Table 7
Processing of Personal Income Tax Annual Returns
by Drawer Audit Section

Income year	Percent of returns audited	Man years of work	Audit period		Months between Filing and auditing	
			Start	Finish	Start	Finish
1955	79.1	11.16	July '58	Dec. '59	26	43
1956	100	15.75	Dec. '59	Oct. '60	31	42
1957	100 est.	18.23 est.	Nov. '60	Feb. '62 est.	29	46

As Table 7 indicates, audit of returns for the income year 1957, which were filed during April 1958 was not started until November 1960, 29 months after the filing date and will not be completed before February 1962, 46 months after the filing date, or just short of the expiration of the four-year limitation period. The audit of the 1957 returns extended over a 17-month period of time.

Audit of the "annual" returns in the drawer audit section has always been predicated on the assumption that the oldest returns should be audited first. We are recommending a departure from this procedure and propose that audit of the 1960 returns, which were filed in April 1961, be started in July 1962, rather than being postponed until after audit of the 1958 and 1959 returns has been completed. We also recommend that the audit of the latter returns be limited to something less than 100 percent coverage, as was the case for the 1955 returns, where only 79.1 percent were audited, and the 1954 returns where only 57 percent were audited.

Another suggestion for bringing the program to a more current basis, which we believe merits serious consideration, is to concentrate on audit

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of the 1960 returns, and audit only those returns for prior years where the 1960 return discloses a significant deficiency.

In evaluating the need for audit of "annual" returns where the audit is substantially delayed, we believe the agency should develop information as to collection losses which result as related to the lapse of time between the filing of the return and the date of the assessment.

Table 8
Summary of Results of Personal Income Tax Audit Programs
of the Franchise Tax Board, 1959-60

Program	(1) <i>Net revenue</i>	(2) <i>Costs</i>	(3) <i>Excess of revenue over costs</i>	(4) <i>Revenue per \$1 of costs (1)÷(2)</i>
Drawer audit—annual file ---	\$757,070	\$362,200	\$394,870	\$2.09
Los Angeles residence cases---	81,283	37,228	44,055	2.18
Sacramento field audit -----	138,282	52,729	85,553	2.62
San Francisco field audit ----	1,212,232	330,573	881,659	3.67
Los Angeles field audit -----	1,295,761	350,918	944,843	3.69
San Francisco cases -----	161,863	37,466	124,397	4.32
Specialist cases -----	503,022	112,899	390,123	4.46
Drawer audit—folder file ---	1,261,783	252,300	1,009,483	5.00
Revenue agents' reports-----	1,297,574	159,596	1,137,978	8.13
Totals -----	\$6,708,870	\$1,695,909	\$5,012,961	\$3.96

Data shown for the drawer audit was provided by the Franchise Tax Board in a letter dated August 11, 1960. All other data is from the agencies cost of operations report for 1959-60.

A glance at Table 8 indicates that audit of the "annual" returns is not a big revenue producer, that for 1959-60 it produced total revenue of \$757,070, at a cost of \$362,200, an excess of revenue over cost or a "profit" of \$394,870, or \$2.09 in revenue for each \$1 of cost. Furthermore, it should be remembered that the revenue shown in Table 8 is in terms of deficiencies assessed, not revenue collected, and no data are available as to the amounts so assessed which are uncollectible. Since the assessments under this program are relatively small, the current estimate being that the average is less than \$18, and the assessments are not made on a current basis, we suspect that very substantial amounts will prove to be uncollectible, and thus to a considerable degree the program as currently conducted may represent wasted effort.

As a long-range program we believe the agency should give serious consideration to revising its entire procedures relating to audit of the "annual" returns to the end that the audit be started shortly after the return is filed and completed before the next succeeding return is due. This would minimize collection problems and maximize the effectiveness of the program in correcting future self-assessments, and we

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suspect that these advantages might well outweigh the theoretical loss in revenue which might result from any failure to assess all deficiencies during the changeover period.

From our studies of the operations in the agency we are convinced that such a radical change is not only possible but that the cost would not be prohibitive.

Primary Audit Section

The agency is asking for two new calculating machine operator positions, \$7,992, to handle the increased workload associated with 540 A returns.

We recommend approval of two new calculating machine operator positions, \$7,992, budget page 349, line 52.

Table 6 shows the Board received 548,000 of these returns in 1960, 1,027,000 in 1961, while an estimated 1,300,000 returns will be received in 1962. This section also works on folder cases, part pays, and handles notices of proposed assessment, and notices of error. The workload in most of these categories is increasing.

Out-of-state Offices

The agency is requesting 10 new auditors and two clerks to add to a staff of 28 auditors and two clerks now stationed equally in New York and Chicago. This staff is engaged in auditing certain of the corporations subject to the Bank and Corporation Tax Law which have income from sources both inside and outside of California. The increase is requested in order that returns of more of these corporations can be audited in the field rather than by desk auditors in Sacramento.

We recommend disapproval of an increase of \$92,523 to finance 10 new auditors and two new clerks in New York and Chicago, detailed as follows:

Salaries and Wages	New York	Chicago	Total	Budget	
				Page	Line
5 Out-of-state income and franchise tax auditor II_____	-	\$33,360	\$33,360	349	56
1 Intermediate stenographer____	-	4,194	4,194	349	57
5 Out-of-state income and franchise tax auditor II_____	\$33,360	-	33,360	349	60
1 Intermediate stenographer____	4,194	-	4,194	349	61
Equipment _____	1,462	2,017	3,479	349	81
Travel _____	5,000	5,000	10,000	349	74
Rent _____	2,016	1,920	3,936	349	76
Totals_____	\$46,032	\$46,491	\$92,523		

Our reason for recommending against this request is that the agency has not shown that there is any need for shifting the emphasis from desk audit in California to the more expensive field audit in the east. Neither has it shown that, if the need exists, the change cannot be accomplished by a transfer of personnel rather than by an increase

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in staff. Furthermore, there has been no showing that the proposed increase in staff will produce any increase in revenue to the State.

All of the tax returns of corporations subject to the tax where an allocation problem is involved, of which there are between 14,000 and 15,000, are audited at the present time, some by the regional offices in Los Angeles and San Francisco, some in New York and Chicago and the remainder by desk auditors in Sacramento.

A staff of four auditors was first assigned in the east in 1950, with four added in 1955-56, 10 in 1958-59 and 10 during 1959-60, divided equally between New York and Chicago.

The agency has not developed adequate criteria for determining which audits should be handled in the field rather than in headquarters. Its present thinking seems to be that eventually practically all allocation audits should be sent to the field. This move would result in substantial future increases in audit costs.

There is an almost complete lack of meaningful workload data in the agency on which to base a judgment of the desirability of placing greater emphasis on field audits to be made in the east.

The only data readily available on a long range basis relates to revenue and costs of the allocation audit program, by location, starting with 1952-53, and included in the cost of operations and revenue reports compiled by the agency each year.

Table 9 based on data in these reports gives results of the allocation audit program by fiscal year and location, from 1952-53 to 1960-61.

Data in this table indicates that over the nine-year period the Sacramento desk audits has been more productive than the out-of-state audits both in terms of total revenue, and of revenue per \$1 of cost. Total revenue from desk audits of \$24.6 million has exceeded total revenue from out-of-state audits of \$17.8 million by \$6.8 million or 38 percent while revenue per \$1 of cost of \$19.24 from desk audits has exceeded that from out-of-state audits of \$13.96 by \$5.28 or 37.8 percent.

Another important fact which the table indicates is that revenue per \$1 of cost from desk audits shows an increasing trend over the nine-year period while the reverse is true for the out-of-state audits. This fact is further emphasized by the data in table 10 which summarizes that in table 9 by two periods, the first four years and the last five years for the total shown in table 10.

Franchise Tax Board—Continued

Table 9
Bank and Corporation Tax, Allocation Audit Activity by
Location and Fiscal Year, 1952-53 to 1956-57

	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Sacramento desk audit:					
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 -----	7,976	33,631	3,302,576	147,032	22.46
1958-59 -----	12,325	41,078	2,935,645	164,614	17.83
1959-60 -----	16,104	37,645	5,862,886	162,292	36.13
1960-61 -----	12,272	33,051	2,886,333	154,563	18.67
Total -----	79,649	345,309	\$24,617,420	\$1,279,705	\$19.24
California field audit:					
1952-53 -----	648	20,533	\$1,799,598	\$67,294	\$26.74
1953-54 -----	612	19,449	2,675,063	67,346	39.72
1954-55 -----	623	22,663	1,680,061	81,478	20.62
1955-56 -----	715	24,206	2,583,529	94,488	27.34
1956-57 -----	620	28,885	1,615,432	112,354	14.38
1957-58 -----	936	37,898	3,272,658	159,769	20.48
1958-59 -----	834	38,288	3,048,300	166,531	18.30
1959-60 -----	999	46,258	4,149,381	209,204	19.83
1960-61 -----	1,080	47,952	1,871,000	233,403	8.02
Total -----	7,067	286,132	\$22,695,022	\$1,191,867	\$19.04
Out-of-state audit:					
1952-53 -----	307	6,139	\$1,205,650	\$29,025	\$41.54
1953-54 -----	320	10,449	1,430,528	50,600	28.27
1954-55 -----	272	13,024	588,043	41,374	14.21
1955-56 -----	410	18,820	2,220,362	72,779	30.51
1956-57 -----	383	24,961	2,301,177	104,090	22.11
1957-58 -----	360	25,528	802,866	113,907	7.05
1958-59 -----	459	45,937	1,339,267	198,049	6.76
1959-60 -----	715	66,819	2,724,126	296,291	9.19
1960-61 -----	1,079	78,040	5,229,686	371,670	14.07
Total -----	4,305	\$289,717	\$17,841,705	\$1,277,785	\$13.96
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	250,883	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
1958-59 -----	13,618	125,303	7,323,212	529,194	13.84
1959-60 -----	17,818	150,722	12,736,393	667,787	19.07
1960-61 -----	14,431	159,043	9,987,019	759,636	13.15
Grand Total -----	91,021	921,158	\$65,154,147	\$3,749,357	\$17.38

Franchise Tax Board—Continued

Table 10
Bank and Corporation Tax, Allocation Audit Activity by
Location and Period, 4 Years 1952-53 to 1955-56,
and 5 Years 1956-57 to 1960-61

<i>Location</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Sacramento desk audit:					
4 years, 1952-53 to 1955-56	19,487	158,835	\$7,615,770	\$519,362	\$14.66
5 years, 1956-57 to 1960-61	60,162	186,474	17,001,650	760,343	22.36
Total	79,649	345,309	\$24,617,420	\$1,279,705	\$19.24
California field audit:					
4 years, 1952-53 to 1955-56	2,598	86,851	\$8,738,251	\$310,606	\$28.13
5 years, 1956-57 to 1960-61	4,469	199,281	13,956,771	881,261	15.84
Total	7,067	286,132	\$22,695,022	\$1,191,867	\$19.04
Out-of-state audit:					
4 years, 1952-53 to 1955-56	1,309	48,432	\$5,444,583	\$193,778	\$28.10
5 years, 1956-57 to 1960-61	2,996	241,285	12,397,122	1,084,007	11.44
Total	4,305	289,717	\$17,841,705	\$1,277,785	\$13.96
All locations:					
4 years, 1952-53 to 1955-56	23,394	294,118	\$21,798,604	\$1,023,746	\$21.29
5 years, 1956-57 to 1960-61	67,627	627,040	43,355,543	2,725,611	15.91
Total	91,021	921,158	\$65,154,147	\$3,749,357	\$17.38

During the first four years while total revenue from desk audits of \$7.6 million exceeded that from out-of-state audits of \$5.4 million by \$2.2 million or 39.9 percent, the out-of-state audits were almost twice as productive in terms of revenue per \$1 of cost; 28.10 as against \$14.66.

During the last five years, on the other hand, total revenue from desk audits of \$17.0 million exceeded that from out-of-state audits of \$12.4 million by \$4.6 million or 37.1 percent while the revenue per \$1 of cost from desk audits was \$22.36, or almost twice that of \$11.4 from the out-of-state audits.

It appears to us that the foregoing data constitutes evidence in support of a shift of emphasis from out-of-state audits to desk audits in Sacramento rather than the reverse.

Other evidence tending in this direction is that contained in Table 11.

Table 11
Number of Cases and Number of Hours on Allocation
Audits During 1960-61

	(1)	(2)	(3)	(4)	(5)
	<i>Number of cases</i>			<i>Number of hours</i>	
<i>Location</i>	<i>Total</i>	<i>No tax change</i>	<i>Tax change</i>	<i>Total</i>	<i>Per tax change case</i>
Sacramento desk audit	11,053	8,176	2,877	33,051	11.5
California field audit	1,768	688	1,080	47,952	44.4
Out-of-state audit	1,610	531	1,079	78,040	72.3
Total	14,431	9,395	5,036	159,043	31.6

Franchise Tax Board—Continued

A tax change refers to an audit where some adjustment, either an additional assessment or a reduction, was made on the return. Most of the no tax change cases in the Sacramento office consist of returns which were scanned, rather than audited. Processing a scanned case takes far less time and work than an audit. The no tax change cases in the field offices were nonproductive audits. Two items in this table are significant.

1. The Sacramento office spent considerably less time to complete a tax change case than did the field offices.

2. For California field audits 38.9 percent of the total cases were no change and for out-of-state audits 33.0 percent. This fact indicates that there is area for considerable improvement in the selection of field audits by directing them away from nonproductive channels.

The number of cases shown in Tables 11, 10 and 9 are "tax years" rather than taxpayers audited. We are informed that for Sacramento desk audits of a given corporation two years are normally audited at one time while for California field audits the average is three years and for out-of-state audits 3.5 years. Therefore to convert "tax years" audited to corporations audited it is necessary to divide by 2, 3, or 3.5 respectively.

In Table 11 the total cases for California field audits and out-of-state audits are the tax change cases only, while those shown for Sacramento desk audits include the no-changes cases for the other two locations.

There are about 1,438 allocation corporations in the Chicago area, and 1,604 in the New York area. Table 12 shows how many of these corporations were audited in the field during the last four fiscal years. The statistics in this table refer to corporations, not tax years, and therefore are not comparable with the data in Tables 9, 10 and 11.

Table 12
Number of Corporations Audited in Out-of-State Field Offices
1957-58 to 1960-61

<i>Fiscal Year</i>	<i>New York</i>	<i>Chicago</i>	<i>Total</i>
1957-58 -----	65	45	110
1958-59 -----	75	57	132
1959-60 -----	124	83	207
1960-61 -----	229	145	374

Table 13 shows types of corporations audited, by income category, during 1960-61.

Table 13
Number of Corporations, by Income Category, Audited in Out-of-State
Field Offices, 1960-61

<i>State Net Income Category</i>	<i>New York</i>	<i>Chicago</i>	<i>Total</i>
Over \$500,000 -----	21	35	56
\$100-500,000 -----	45	26	71
Under \$100,000 State but over \$100,000			
Federal -----	126	55	181
Not specified -----	37	29	66
Total -----	229	145	374

Franchise Tax Board—Continued

In order to evaluate the field office operations, we recommend that the Agency compile the following workload statistics for allocation audits in each of its four field offices:

1. The number of allocation corporations, by income category, within the jurisdiction of each office.
2. At the start of the fiscal year, the number of tax years available for auditing in each income category as well as the number of corporations involved.
3. The number of audits actually completed during the fiscal year. This data should include both the number of corporations and the number of tax years, by income category.
4. The results of these audits, the number and hours devoted to tax change vs. no tax change cases, the total net revenue and the net revenue per dollar of cost, for each income category.
5. For the Sacramento desk audits the same information contained in Items 3 and 4 should be compiled for other than scanned cases, but the number of hours devoted to scanned cases as well as the number of cases should be recorded.

Los Angeles Regional Office

We are commenting upon the proposed new senior clerk positions before discussing the tax representatives since our recommendation as to the former is related to the latter.

Enforcement Section

The agency is requesting eight new senior clerk positions to perform the work currently assigned to auditors in the enforcement section.

We recommend approval of eight new senior clerk positions, \$36,096, budget page 350, line 18, on condition that the auditors whom they replace be assigned to the collection section on a temporary basis to improve work methods in that section, as commented upon later in this analysis.

The present staff of the enforcement section includes the following:

Income and corporation tax auditor II -----	3
Auditor I -----	6
Accounting technician -----	1
Intermediate clerk -----	3
Total -----	13

The budget justification statement states: "... a large portion of the work now being done by auditors could appropriately be done at a lesser pay classification." We concur with this statement.

It should be recognized that the request for eight clerical positions to replace auditors will result in making available eight additional auditor positions, for which no justification has been submitted, or for which no new work assignments have been indicated by the agency. Under these circumstances it appears appropriate to us that these auditors be assigned temporarily to the collection section until the deficiencies in that section have been corrected, as commented upon in the paragraph which follows.

Franchise Tax Board—Continued

Collection Section

The agency is requesting 12 new tax representative positions for collection work in this region: one for San Diego, one for Bakersfield, and 10 for Los Angeles.

We recommend approval of one new tax representative position for San Diego, \$5,232, budget page 350, line 17.

This position appears to be justified on a workload basis.

We recommend disapproval of one new tax representative position for Bakersfield, \$5,232, budget page 350, line 17.

The Bakersfield office had an inventory of 279 personal income tax collection cases on October 31, 1961. We do not believe this is sufficient workload to justify the addition of a full-time tax representative. The Bakersfield office now has a staff of three—an auditor III, an auditor II, and an intermediate typist-clerk—which has been handling collection work in the past.

We recommend disapproval of 10 new tax representative positions for the Los Angeles office, \$52,320, budget page 350, line 17.

Our reason for this recommendation is that, unlike the collection section in the San Francisco office, which we comment upon later, we do not believe this section is operating efficiently at present and until such time as its work methods improve we do not believe additional staff should be added.

In November of 1961 we examined the collection files in the Los Angeles office and found them to be in extremely poor condition. The main faults were:

1. Many of the cases had not been worked on during calendar year 1961. In other words, over 11 months had elapsed since anyone had looked at these cases. We found instances where as long as 20 months had elapsed since any type of collection had been performed.

Under the circumstances, workload statistics are meaningless because cases that have been dormant for close to a year very likely are uncollectible.

2. We also found a definite reluctance on the part of the tax representatives to use the telephone. Most of them preferred to send form letters even though a phone call would be simpler and faster. For example, we found many instances where the tax representatives received information from the Department of Employment indicating that the delinquent taxpayer worked for a certain company. Instead of phoning the company in the Los Angeles area to determine if the taxpayer were still employed, and possibly make a personal contact, the representative sent a form letter to the employer. This letter required a certain amount of typing, a time delay until a reply was received, and a much longer delay before the representative once again reviewed this particular file. Where a phone call would have given the representative his answer in 10 minutes, the form letter probably resulted in a delay of from six weeks to two months.

Franchise Tax Board—Continued

Under these circumstances, we do not believe the staff should be increased since, if new positions were added they would probably adopt the same working habits as those of the existing staff

We recommend that the eight auditor positions released by the enforcement section be assigned to collections on a temporary basis in order that: (1) the uncollectible cases can be purged from the inventory so that future workload statistics are meaningful, and (2) the existing staff can be retrained in accordance with the collection manual issued by the headquarters office.

The existing staff of the collection section consists of the following:

- 1 senior tax representative
- 6 tax representatives
- 1 senior clerk
- 3 account clerks
- 4 intermediate clerks
- 1 intermediate account clerk (temporary)

Total 16

We recommend that the following items of equipment which are related to the foregoing recommendations be deleted, \$3,867, budget page 350, line 33.

Agency Item No.	Equipment	Cost	Position
114	5 files	\$435	Tax representatives—Los Angeles
117	3 files	423	Auditors—Enforcement Section
118	4 files	268	Auditors—Enforcement Section
122	1 file	138	Tax representative—Bakersfield
125	10 desks	1,700	Tax representatives—Los Angeles
128	1 desk	170	Tax representative—Bakersfield
131	10 chairs	667	Tax representatives—Los Angeles
133	1 chair	66	Tax representative—Bakersfield

Total \$3,867

San Diego Branch Office

The agency is asking for one additional junior typist-clerk to assist both the auditors and tax representatives.

We recommend approval of one new junior typist-clerk position, \$3,630, budget page 350, line 19.

We believe that this position is justified on a workload basis.

The addition of a new tax representative and a typist position will give this office a staff of five auditors, two tax representatives, and three clerks, which is the same staffing pattern that exists in the Long Beach and Oakland branch offices.

San Francisco Regional Office
Enforcement Section

We recommend disapproval of four new senior clerk positions for the enforcement section in the San Francisco regional office, \$18,048, budget page 350, line 54.

The agency has submitted practically no justification for these new positions. The San Francisco regional office completed its 1961 enforcement cycle by January of 1962, or four months before the deadline. Therefore, these positions do not appear to be needed on a workload basis.

Franchise Tax Board—Continued

The only significant statement the board has made in support of these new positions is, "In the San Francisco region it has been found that some clerks have aptitudes and personality traits that make it possible for them to learn, with proper training, to perform many of the duties which formerly were performed by auditors."

The previous statement would seem to indicate that these new clerical positions would be used to perform the work now done by auditors. However, this does not appear to be the intention of the agency. The enforcement section has two auditor positions permanently assigned and it is also used as a training area for new auditors. Since no changes in this staffing pattern are contemplated, the new clerical positions would be in addition to rather than in lieu of the existing audit staff.

We recommend that the equipment for the proposed senior clerk positions, consisting of four desks, \$680, and four chairs, \$196, be deleted, budget page 350, line 69.

Collections

The agency is asking for five new tax representative positions. Three of these positions are for the San Francisco office, one for the Oakland branch office and the other for the San Jose branch office.

We recommend approval of five new tax representative positions, \$26,160, budget page 350, line 54.

These positions appear to be justified on a workload basis.

In our review of the collection files in these offices during the fall of 1961, we were impressed by the progress that has been made, especially by the San Francisco office, in improving collection activities. The collection supervisor for the region has done a commendable job in: (1) insisting that the tax representatives use the phones as much as possible to contact delinquent taxpayers rather than sending form letters, (2) cleaning out the files of uncollectible cases, and (3) personally working with and supervising the activities of the branch office tax representatives. The San Francisco office has improved more than the branches, but the latter are improving.

The cleaning out of the files of uncollectible cases is especially significant from our viewpoint, because it makes the workload statistics meaningful.

Table 14 shows the inventory of personal income tax collection cases for the San Francisco region.

Table 14
Inventory of San Francisco Region Personal Income Tax
Collection Cases, November 30, 1961

Office	Collection Staff		Inventory of Collection Cases		
	Existing	Proposed	Total	Per Existing Collector	Per Proposed Collector
San Francisco -----	4 ^a	7	6,046	1,512	863
Oakland -----	2 ^b	3	2,099	1,046	700
San Jose -----	1	2	1,529	1,529	764
Santa Rosa -----	1	1	1,037	1,037	1,037
Stockton-Fresno -----	1	1	1,168	1,168	1,168
	9	14	11,879	1,258 av.	906 av.

^a Consists of 1 senior tax representative, 2 tax representatives and 1 senior clerk.

^b Consists of 1 tax representative and 1 senior clerk.

Franchise Tax Board—Continued

In addition to the personal income tax cases, the San Francisco office also had 458 of its own corporation cases, 24 that belonged to the Oakland office and 33 that belonged to San Jose. With this staff increase it should be possible for the branch offices to handle their own corporation collection cases.

It appears to us that the San Francisco regional office has demonstrated that it can make effective use of its existing tax representatives, and that its workload statistics are not only meaningful but indicate the need for additional help.

STATE TREASURER

ITEM 135 of the Budget Bill

Budget page 351

FOR SUPPORT OF STATE TREASURER
FROM THE GENERAL FUND

Amount requested	\$354,825
State employees' retirement	23,340
State employees' health and welfare	2,976
Total	\$381,141
Estimated to be expended in 1961-62 fiscal year	371,873
Increase (2.5 percent)	\$9,268
TOTAL RECOMMENDED REDUCTION	\$7,000

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Alterations	\$4,500	352	50
Travel—out-of-state	2,500	352	53

ANALYSIS

This budget reflects no change in the level of service to be performed during 1962-63, nor does it specify the sale of Water Resources Development Bonds. The increase relates primarily to the addition of 4.2 man-years or \$17,100 in temporary help which are shown as proposed new positions.

The total temporary help budgeted, including the 4.2 man-years additional, is devoted to the following functions:

Function	Man-years	Amount
Accounting and warrant paying	4.7	\$19,206
Cashiering	.4	1,500
Bond and coupon servicing	2.2	9,000
Miscellaneous	1.3	5,394
Total	8.6	\$35,100

We recommend approval of \$17,100 for additional temporary help, budget page 352, line 42.

Temporary or intermittent help has been utilized to a less extensive degree in the past in all of the above functions except bond and coupon servicing. Its use here will undoubtedly prove to be more efficient than the addition of permanent staff due to the fluctuation of workload.

State Treasurer—Continued

Two projects are contemplated under the category of alterations. Partitioning the Investment Section to improve efficiency will require \$2,200. Widening and reducing the pitch on the stairway to the mezzanine, which houses the Bond Service Section, at a cost of \$4,500, is the other item.

We recommend a reduction of \$4,500 for alterations, budget page 352, line 50.

Six full-time employees work on this mezzanine. It has been expanded recently, and a fire escape added. We have no knowledge of any condemnation of the existing stairway by the Division of Industrial Safety. We feel that the increased convenience afforded by this project does not warrant an expenditure of this amount. Furthermore, if warranted it should be budgeted as minor capital outlay.

Travel out-of-state for the budget year appears in the budget papers furnished to us as follows:

"Eastern trip to National Association of Auditors, Comptrollers and Treasurers—Treasurer and Deputy	\$600
Trips to Municipal Finance Officer's Convention and to New York and Chicago to negotiate fiscal agent's contracts—Treasurer and Deputy	1,200
Trips to New York and Chicago, etc., in the interest of bond sales—Treasurer, Deputy and Assistant	3,200
	<hr/> \$5,000"

We understand from the Treasurer that the specific trips which he may be required to take during the budget year other than those detailed at \$600 and \$1,200 are not known at this time. Therefore, approximately the same amount as had been spent in 1960-61, \$3,200, was added in the budget year to provide funds for these unknown trips out-of-state.

We recommend a reduction of \$2,500 for travel out-of-state, budget page 352, line 53.

The trips taken during 1960-61 are either not required in the budget year or in the case of the Municipal Finance Officer's Convention, budgeted separately. A reduction of this item by 50 percent would allow a desirable degree of flexibility but would not allow inappropriate contingency budgeting.

The reduction in the equipment category signifies completion of the vault expansion. Lockers and half-lockers had been budgeted at \$20,000 in both the 1960-61 and 1961-62 fiscal years. The use of open shelf filing equipment instead generated a savings which was applied to other purposes, including the purchase of tabulating equipment. This accounts for the decreased operating expense category, tabulating machine operation.