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Joint Legislative Audit Committee

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WALTER M. INGALLS
CHAIRMAN

March 16, 1982

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The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning collection activities at several state agencies.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee



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March 15, 1982

Letter Report 223

Honorable Walter M. Ingalls
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

During our examination of the financial statements of the General Fund for the year ending June 30, 1981, we noted an assortment of weaknesses in internal controls among the agencies that we audited. We reported our findings and made recommendations in management letters issued to the individual agencies. Additionally, we summarized our findings and included copies of the management letters in our report to the Department of Finance (Management Letter 449S, December 30, 1981).

Our recent report, Weaknesses in Internal Controls of State Agencies (Report No. 215, March 1982), provides a detailed discussion of some of the weaknesses we noted during our examination. We have additional information that is related to our audit of the financial statements of the General Fund but that could not be included in Report No. 215 because the figures we obtained are unaudited. Thus, we are providing the information in this letter because we believe it will be of interest to the Committee.

As Report No. 215 shows, one of the more common weaknesses we found among the state agencies we audited concerns inadequate procedures for collecting money that is due the State. Because of these inadequate procedures, the State may be prevented from making the most efficient use of its resources. One way of comprehending the importance of following proper procedures for cash collection is to compare the increase in tax revenues over the past five years to the corresponding increase in receivables and uncollectibles. Table 1 on the following page compares data on Personal Income Taxes, Bank and Corporation Taxes, Employers' Withholding Taxes, and Retail Sales Taxes for fiscal years 1976-77 and 1980-81. These data are broken down into the amount of revenues, the amount of receivables, and the amount of receivables estimated not collectible in the next fiscal year.

TABLE 1

STATE OF CALIFORNIA
 COMPARATIVE ANALYSIS OF TAX REVENUES AND
 RECEIVABLES AS REPORTED BY AGENCIES (UNAUDITED)
 FOR THE FISCAL YEARS ENDED JUNE 30, 1977 AND 1981
 (In Millions)

	Personal Income Taxes		Bank and Corporation Taxes		Employers' Withholding Taxes		Retail Sales Taxes		Totals	
	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
<u>Revenues for</u>										
<u>Fiscal Years Ended</u>										
June 30, 1981	\$6,629		\$2,731	--	--	\$7,006	\$16,366			
June 30, 1977	<u>3,761</u>		<u>1,641</u>	--	--	<u>4,314</u>	<u>9,716</u>			
Increase	<u>\$2,868</u>	76%	<u>\$1,090</u>	66%	--	<u>\$2,692</u>	<u>\$ 6,650</u>	62%		68%
<u>Receivables as of</u>										
June 30, 1981	\$ 348		\$ 78	\$ 58	\$ 245	\$ 729				
June 30, 1977	<u>167</u>		<u>30</u>	<u>29</u>	<u>102</u>	<u>328</u>				
Increase	<u>\$ 181</u>	108%	<u>\$ 48</u>	<u>\$ 29</u>	<u>\$ 143</u>	<u>\$ 401</u>				122%
Estimated Amount of Above Receivables That Will Not Be Collected In Next Fiscal Year										
June 30, 1981	\$ 250		\$ 46	\$ 20	\$ 190	\$ 506				
June 30, 1977	<u>123</u>		<u>14</u>	<u>16</u>	<u>102</u>	<u>255</u>				
Increase	<u>\$ 127</u>	103%	<u>\$ 32</u>	<u>\$ 4</u>	<u>\$ 88</u>	<u>\$ 251</u>				98%

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As the table shows, revenues from these taxes, which represent almost 90 percent of the State's General Fund revenues, increased by approximately \$6.7 billion (68 percent) from 1976-77 to 1980-81. At the same time, receivables for these taxes increased by approximately \$400 million (122 percent). During this same period, the estimated amount of these receivables that will not be collected within one year increased by approximately \$250 million (98 percent).

Two bills recently enacted may have an effect on the State's efforts to collect taxes that are owed. Assembly Bill 6, approved by the Governor on January 18, 1982, affects the timing of payment to the State of amounts withheld by employers for personal income taxes and other taxes governed by the Unemployment Insurance Code. Assembly Bill 8, approved by the Governor on February 17, 1982, raises the interest rate that is charged on deficiencies or other delinquent tax payments. This bill also affects the timing of payment to the State of certain sales and use taxes.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

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