Agriculture and Services Agency

DEPARTMENT OF FOOD AND AGRICULTURE

Item 102 from the General Fund,
Item 103 from the Department of Agriculture Fund, and
Item 104 from the Fair and Exposition Fund — Budget p. 181

Requested 1975–76	$31,626,165
Estimated 1974–75	30,380,132
Actual 1973–74	24,372,129
Requested increase $1,246,033 (4 percent)	
Total recommended reduction	$299,745

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
102	Department of Food and Agriculture (Support)	General	$18,514,943
103	Department of Food and Agriculture (Support)	Department of Agriculture	12,723,654
104	Department of Food and Agriculture	Fair and Exposition	387,568
			$31,626,165

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Woolly Whitefly. Reduce Item 102 by $126,238.* Recommend program be eliminated because eradication is not feasible. 164
2. *Branched Broomrape. Reduce Item 102 by $106,328.* Recommend program be eliminated because eradication is not feasible. 165
3. Animal Health. Recommend study to determine funding and responsibilities for program to eradicate brucellosis in cattle. 167
4. *Tallow Inspection. Reduce Item 102 by $52,179.* Recommend elimination of two proposed tallow inspector positions. 169
5. *Executive Office. Reduce Item 102 by $15,000.* Recommend two positions transferred from Secretary for Agriculture and Services be limited to funding for a six months transition period. 170

GENERAL PROGRAM STATEMENT

Chapter 225, Statutes of 1972, changed the title of the Department of Agriculture to the Department of Food and Agriculture in order to emphasize the food and consumer aspects of the department's work.

Under the Food and Agricultural Code, the department is directed to (1) promote and protect the agricultural industry of the state, (2) protect the public health, safety and welfare, and (3) assure producers, handlers, and consumers true weights and measures of commodities and services.

The department's activities are broad in scope and range from the financial supervision of local fairs through agricultural pest and disease control, to enforcement of quality, quantity and safety standards of certain agricultural and consumer goods.

ANALYSIS AND RECOMMENDATIONS

Funding

The financial resources of the department are derived mainly from the General Fund and the Department of Agriculture Fund. Funding sources are determined as follows: programs generally benefiting the public are financed from the General Fund; programs generally benefiting the agricultural industry are financed through the Department of Agriculture Fund by special taxes, fees or charges paid by the industry; and programs benefiting the public and industry jointly are supported jointly. Changing program conditions and reevaluations of program benefits are causing some shifts in funding sources. This budget reflects an expressed administration policy that the costs of protecting the environment should be borne by industry as a cost of doing business.

The total proposed budget for the Department of Food and Agriculture in 1975–76 is $39,776,497. Of this amount $18,690,289 will come from the General Fund while the Department of Agriculture Fund will provide $16,647,198. The Fair and Exposition Fund, which is derived from horseracing revenues, provides $387,568 for support of the Division of Fairs and Expositions. The federal government contributes $4,051,422 to the department. The major area of federal funding is in the meat inspection program for which the federal government will reimburse the department about $3.9 million in 1975–76. This approximates 51 percent of the expenditures for meat inspection.

The department also plans to collect and expend approximately $35 million under 38 marketing orders or similar programs established at industry request to aid in production, control, and advertising of agricultural products. These marketing order expenditures do not appear in the Governor's Budget because they are handled as special trust fund accounts in the Department of Agriculture Fund.

Agriculture Pest and Disease Prevention

The basic objective of this program is to prevent the introduction and spread of plant and animal disease which may represent a threat to the public health and welfare and the agricultural industry. The program includes entomology, plant pathology, plant quarantine, apiary inspection, nursery service, weed and vertebrate pest control, animal health and necessary diagnostic laboratory services.

The cost for this program is $14,028,240 of which the General Fund portion is $10,549,584 or 75 percent, while the Department of Agriculture Fund contribution is $3,117,273 or 22 percent. The remainder is in reimbursements and federal funds.

The Governor's Budget proposes industry participation in funding two

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

programs which have been obtaining General Fund support. These programs are the grapeleaf skeletonizer eradication program and the brucellosis program in cattle. The basis for these changes is the extent of industry benefit. Both programs are discussed in greater detail under the recommendations made below.

Plant Pests and Diseases—Eradication vs. Control

Eradication or control of pests and diseases are two different concepts, but in the department's budget they have been mixed to such an extent that they are used almost interchangeably. Presently General Fund support for what should be short-term eradication efforts is becoming a long-term state cost without determining the responsibility of the agricultural industry.

Insect or pest *eradication* efforts are generally deemed feasible when the technical capacity to completely eradicate exists and a pest is confined to a clearly defined and manageable geographic area. While the expenditures may vary according to the cost of different eradication techniques for a particular pest, the time required to eradicate and the geographic distribution of the infestation act as the variables affecting eventual completion of the eradication effort. If eradication becomes too prolonged in time and there is demonstrated inability to eliminate the infestation, or there is a large probability of reintroduction the program is no longer an eradication effort, but becomes a control program.

A *control* program is broadly defined as a case in which the particular pest is so widely dispersed or easily reintroduced that eradication is impossible and only control to minimize damage is feasible. Thus, the geographic and time limitations so important to an eradication program are not operative and the control program is without a defined limitation based on fiscal, geographic or time considerations.

In terms of responsibility the two concepts are also quite different.

The General Fund traditionally has been used to finance eradication efforts, but the department periodically has secured or sought General Fund financing for eradication efforts that have become control efforts. General Fund financing amounts to state assumption of a cost that should properly be the responsibility of the industry as a cost of doing business.

The eradication of the Japanese beetle in Sacramento illustrates an eradication effort. Here two points are of consequence. First, the pest was discovered in 1961 and declared "eradicated" in 1965. Second, the infestation was confined to a limited area in Sacramento. Thus, eradication was accomplished in five years in a confined, specific, manageable area. This would seem the proper responsibility for General Fund financing by the state in contrast to the situation involving programs for the eradication of the woolly whitefly and branched broomrape.

Woolly Whitefly

We recommend that $126,238 in General Fund support (Item 102) for the woolly whitefly be eliminated because eradication is not feasible.

The woolly whitefly is an insect pest which mainly damages citrus. It was originally discovered near San Diego in 1966. In the early evaluation of the infestation, the department noted but did not give adequate consideration to infestations of woolly whitefly in adjacent Mexican territories which could cause reinfestation and thereby prevent eradication. The department expected the infestation would spread within 12 to 15 years to all citrus-growing areas of the state if it was not stopped in the San Diego area. Since its discovery in 1966, and in spite of eradication efforts, the pest has spread to a 150 square mile area of San Diego County and the department indicates that eradication there is no longer feasible. It has recently been found in Orange and Los Angeles Counties. The department indicates that experience has shown that this pest can spread undetected throughout large areas.

The department turned to biological controls in 1971 when chemical eradication was found impractical. The University of California is working with various parasites of the woolly whitefly in an effort to provide natural control. It should be pointed out that the parasite needs the host pest in order to survive. Thus there will generally be some infestation even if this form of biological control is used. Therefore complete eradication is not possible.

Consequently, we believe that the program does not warrant further General Fund expenditure as an eradication effort. If a control program is to be attempted, it should be financed by the beneficiaries.

Branched Broomrape

We recommend elimination of $106,328 in General Fund support (Item 102) for the eradication of branched broomrape because the continuing spread and reintroduction indicates that eradication is not feasible.

Branched broomrape is a parasitic pest of tomatoes which is transmitted by the seed of the parasite. The seed of branched broomrape can be scattered with earth movements and by adhering to field machinery. It germinates when in the presence of the tomato vine which it then parasitizes.

The department has budgeted $106,328 for the eradication of branched broomrape. The Governor's Budget does not show the true magnitude of this program because it does not include county and industry funding. For the 1975–76 fiscal year, industry proposes to expend $185,000 on this program.

The department's records show that branched broomrape has been present in California since 1929 but that eradication efforts against broomrape did not begin until 1959. In 1968 the department discontinued the program because of a lack of both interest and financial support from the processing tomato industry.

Between 1969 and 1971, the rate of infestation increased primarily in central California. In 1971 the first infestation was found in southern California. At that time the processing tomato industry indicated a willingness to support the eradication program. In March 1972 the director approved the use of departmental emergency funds (unrefunded off-highway gas taxes) for eradication.

In June 1972 the processing tomato industry established a marketing order to provide funding for the eradication of broomrape infestations

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

found after 1972. According to a memorandum of understanding between the department and the industry, the General Fund will pay for (1) continued statewide detection, (2) "treatment" of infestations found prior to July 1, 1972 subject to available funding, (3) surveys to determine whether treatments have eradicated the pest, and (4) enforcing quarantines.

Treatment of a field for branched broomrape requires fumigation which is expensive but also controls other weeds or infestations at no cost to the landowner. Successful eradication requires growing tomatoes one season after treatment without the presence of broomrape. University experts concur that eradication of broomrape in heavily infested fields is very difficult. Nonetheless the department indicates in its budget submittal that its objective is to complete all treatment (full eradication) by the end of 1975–76 fiscal year. Certain specific problems indicate that this goal is not realistic.

Several of the fields infested with broomrape found before the 1972 memorandum of understanding await treatment or retreatment because intervening crops other than tomatoes have been grown. Other fields cannot be treated because of physical impediments, i.e., proximity to a commercial airport. In one case of 50 acres, the grower has not cooperated since 1969 to let the department on his land for treatment purposes. In another case the grower failed to prepare his land properly for the necessary treatment and the treatment must wait another year. Weather and soil conditions beyond the grower's control may also prevent treatment until the next season.

Because branched broomrape is spreading, the department and industry are essentially conducting a weed suppression program rather than an eradication effort. The record indicates that eradication is not feasible. On this basis we believe that the program does not warrant any further General Fund expenditure.

Grapeleaf Skeletonizer

The grapeleaf skeletonizer was first found in San Diego County in 1940. However, no eradication program was initiated until 1946. The eradication program was subsequently changed to a control program when the pest spread into Riverside and could not be contained. Since that time the department's efforts have been to restrict its spread throughout the San Diego-Riverside area. In 1961 grapeleaf skeletonizer was found in Fresno County. It was eradicated there in 1966 but reoccurred in 1968. It has since appeared in Alameda, Kings, Yolo, Sacramento, Placer, El Dorado and Santa Clara Counties. The latest finds were in 1974 in Orange and Tulare Counties. In some counties it has been eradicated, in other adjacent counties eradication programs are scheduled or pending.

The pest is frequently found in wild grapes where it can be biologically controlled. In commercial plantings, however, according to the department the application of certain pesticides necessary to the production of grapes keep the biological controls from operating. It is for this reason that the pest is a threat to the commercial grape industry. Accordingly the

Governor's Budget proposes industry participation in the eradication program. The present program is essentially minimizing damage and reducing the pest's natural spread. Consequently we concur with the Governor's Budget that the program should receive industry financial support.

Animal Health

The purpose of the Animal Health program is to detect, control and eradicate livestock and poultry diseases. The total cost of the program for the budget year is estimated to be $2,726,987 of which 92 percent or $2,514,393 is provided by the General Fund. The remainder of the program is financed by $189,644 from fees for horse-drugging inspections and testing and $229,950 in reimbursements.

Public Health officials indicate that many diseases of animals are not transmissible to man and that others, while constituting occupational or industrial health problems, are not generally recognized as health problems to the general public. For this reason a review of the department's work on brucellosis indicates a need for new approaches.

Brucellosis in Cattle

The Governor's Budget provides an increase in expenditure of $179,929 for 12 man-years of added effort to eradicate brucellosis in dairy herds. The program is being expanded subject to industry participation in the funding. We concur with the funding approach in the Governor's Budget but believe that a broader and more comprehensive approach is needed as recommended below.

We recommend that the Department of Food and Agriculture with the participation of the Department of Finance and the concurrence of the Department of Health and the Department of Industrial Relations review the brucellosis eradication program in cattle to determine the (1) appropriate public health, industrial health, and animal health standards, (2) best methods to enforce them and (3) appropriate funding for each.

Until recently California was considered a brucellosis free state. It is now faced with a large outbreak of the disease in dairy cattle. This outbreak, according to the department, is mainly a result of infected animals being purchased and imported from brucellosis infected states. The increase in imported diseased animals occurred when the state's free testing for brucellosis was greatly reduced because departmental resources were diverted to other recent animal disease outbreaks. During this period of diversion, the dairy industry apparently did not continue the necessary testing on its own to protect its investment in animals by using the services of state approved private veterinarians.

Pasteurization of Milk

Brucellosis is a disease of cattle which may be passed from cattle to man either through the use of unpasteurized milk or milk products or by contact with the live, infected animal or its freshly slaughtered carcass. In man the disease is known as undulant fever. The presence of the disease in dairy cattle is usually first detected by testing milk.

All commercially produced milk is tested quarterly for brucellosis by the

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

department's Bureau of Animal Health. The three-month interval between testing precludes the program from being a primary public health safeguard because animals can become infected between tests. The primary and continuing public health protection from brucellosis contamination through milk is the pasteurization of milk, not the quarterly testing of milk.

Carcasses Used for Meat

Under present law when dairy animals are tested by the state and found to have or are suspected of having brucellosis, they are condemned as "reactors" and sent to slaughter by the department. The carcasses of reacting cattle may be sold for fresh meat. The federal government and the Department of Food and Agriculture indemnify owners of diseased animals for much of their loss due to condemning a reactor. This may tend to diminish the interest of some owners in assuring that their herds are free from infection.

The danger of infection to man does not occur from consuming the meat of reacting animals because chilling the carcass after the slaughtering process renders the disease organism virtually incapable of reproducing. Infection in humans occurs primarily from direct contact with live or freshly slaughtered animals. Therefore the disease is mainly an industrial safety problem confined to those coming in contact with live animals such as farmers, veterinarians and slaughterhouse workers. The high incidence of brucellosis infestation among persons contacting diseased animals and among users of raw milk is shown in Table 1. (The data are for a past period and are intended to show the location of infections. The recent reoccurrence of brucellosis is not shown.)

The above discussion indicates that the department's animal health effort to eradicate brucellosis offers limited protection to humans. Human protection is primarily due to pasteurization of milk and refrigeration of meat. The department's efforts to eradicate brucellosis appear to be primarily oriented toward protecting herd health.

In addition to the work of the department to eradicate brucellosis, the department has other control capabilities. The border inspection and interior quarantine inspection activities provide some ability to intercept diseased animals being imported into the state or moved within the state. The red meat inspection program has an interest in detecting diseased animals being slaughtered. Finally, the hide and brand inspection program should not knowingly permit transport of untested animals from areas of known infection. It would appear that these activities are not being effectively used by the department in view of the increase in brucellosis.

A complete review of the brucellosis program and all departmental efforts and the field organization related to it appears necessary. The Department of Industrial Relations should participate in such a review to assure that appropriate employee working standards are in effect or developed. The Department of Health should assure that standards for purity

Table 1
Human Brucellosis Cases by Occupation And Probable Source of Infection California 1958–1970

Classification	*Total[a] Infections*	*Infections due to Cattle*	*Infections due to Cattle and Swine*	*Infections due to Raw Milk or Cheese*
Animal Industry Employees				
Packinghouse	96	16	17	—
Rendering Plant	7	1	5	—
Farmers				
Livestock	11	6	1	—
Dairy	15	11	3	1
Not Specified	1	—	1	—
Other Categories				
Housewives	23	—	—	16
Children	28	1	—	16
Veterinarian	11	2	1	—
Other	100	5	2	47
Total of all Infections	292	42	30	80

[a] Totals include infections from sources other than cattle such as swine and accidents.
Source: State of California, Department of Public Health, Published in a Report on an Investigation of the Occupational Problem of Brucellosis in Swine and Slaughterhouse Employees in California, Senate Committee on Health and Welfare, March 17, 1971.

of milk and meat as well as the time, place and method of testing are adequate to prevent human infection.

Insofar as responsibility is concerned, it would appear that: (1) disease prevention and control in the dairy herd which primarily benefits the dairy and cattle industry should be carried out by either private veterinarians under state license or by the Department of Food and Agriculture with activities financed by industry, (2) disease prevention among persons occupationally or industrially exposed is an obligation of the segment of industry involved and the Department of Industrial Relations, and (3) evaluating disease prevention standards to protect humans is a responsibility of the Department of Health.

The reoccurrence of brucellosis in California cattle warrants the recommended review of the state's program to eradicate it.

Tallow Inspection

We recommend deletion of $52,179 in General Fund support (Item 102) for two proposed positions for export certification of tallow.

All animals and poultry and their products intended for sale as human food or other uses in California are under inspection activities. The federal government has responsibility for products in interstate or foreign trade and the State Department of Food and Agriculture for intrastate products.

Two additional inspector positions in the meat inspection program are proposed for the certification of tallow for export to Japan. These positions are being budgeted at industry request. The department indicates that it does not have an approved program for obtaining industry funding, and that it is unable to assure us that funding will not come from the General Fund. In addition, it indicates that there has been no acceptance from the federal government of the proposed tallow certification program. The

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

certification is primarily to assure that tallow from rendering plants is obtained from animls fit for human consumption. The department indicates that while the inspection of animal products for export is a federal responsibility, the inspection of rendering plants is not. Consequently exporting of certified tallow requires both state and federal certification.

Executive Office

We recommend that one professional and one clerical position being transferred from the Secretary for Agriculture and Services to the department be approved for a transition period not exceeding six months and that $15,000 for the remaining six months be deleted (Item 102).

The Governor's Budget proposes to transfer one professional position related to environmental matters and one clerical position from staff of the Agriculture and Services Secretary to the department's executive office. The added General Fund cost to the department for these positions is estimated to be $30,355 plus benefits. This transfer is part of the reduction in staff of the Secretary for Agriculture and Services. It involves no net increase in state costs.

Currently at the department level, the Office of Administrative Services has one special assistant who advises the department on environmental matters. The budget transfer would set up another environmental office at the departmental level within the executive office. The budget provides no justification for the new position.

The department should make the necessary administrative adjustments to prevent an apparent duplication of positions from continuing indefinitely. To accomplish this the transfer should be allowed only for a six-month transition period.

Agriculture and Services

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS

Item 105 from the General Fund — Budget p. 192

Requested 1975–76	$174,900
Estimated 1974–75	174,900
Actual 1973–74	172,150
Requested increase None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates funds in accordance with Sections 2221–2224 of the Food and Agricultural Code, which provide for cost-sharing agreements on agricultural commissioners' salaries in order to provide adequate and uniform enforcement of applicable Agricultural Code provisions. This appropriation makes available, through agreement between the Director of Agriculture and any county board of supervisors, a sum not to exceed $3,300 per year or two-thirds of the salary of each commissioner, whichever is less. Fifty-two counties are participating in this program.

Agriculture and Services

ASSISTANCE TO CITIES AND COUNTIES FOR LAND UNDER CONTRACT

Item 106 from the General Fund — Budget p. 192

Requested 1975–76	$446
Estimated 1974–75	446
Actual 1973–74	446
Requested increase None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The California Land Conservation Act (Chapter 1443, Statutes of 1965) provided that owners of prime agricultural land, and other lands compatible with agricultural uses, may enter into 10-year contracts with cities and counties for the establishment of agricultural preserves to restrict the use of such land to agricultural purposes. The act also provided for an annual payment by the state to counties of $1 per acre for land under the contract with cities and counties.

In 1969, the act was amended to eliminate the $1 per acre payment. A previously existing $1 per acre payment of $446 for one contract in Fresno County has been funded yearly.

Agriculture and Services

1A DISTRICT AGRICULTURAL ASSOCIATION (Cow Palace)

Item 107 from the General Fund — Budget p. 200

Requested 1975–76	$218,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget has requested a loan of $218,000 for improvements to the Cow Palace consisting of $98,000 to reroof the north and south exhibit halls, and $120,000 for added restroom facilities in the main arena. Most of the work to be done was included in an appropriation last year which was vetoed. Repayment of the loan would commence within one

1A DISTRICT AGRICULTURAL ASSOCIATION (Cow Palace)—Continued

year of the retirement of the present Cow Palace loan from the General Fund which has approximately $474,000 remaining to be repaid. The administration estimates the present loan will be repaid within four years.

Agriculture and Services

ENGINEERING SUPERVISION OF FAIR CONSTRUCTION

Item 108 from the Fair and Exposition Fund — Budget p. 191

Requested 1975–76	$144,672
Estimated 1974–75	123,224
Actual 1973–74	86,349
Requested increase $21,448 (30 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates the sum of $144,672 from the $2.25 million continuing statutory appropriation payable from the Fair and Exposition Fund for county and district agriculture fairs or citrus fruit fairs. The money is used for engineering services performed by the Division of Fairs and Expositions of the Department of Food and Agriculture. The services cover construction supervision on local fair projects financed under Business and Professions Code, Section 19630, for (1) permanent improvements, (2) purchase of equipment for fair purposes, and (3) acquisition or purchase of real property, including appraisal and incidental costs.

In the budget year the department is requesting one new electrical engineer position at a cost of $16,524 plus benefits to assist in correcting the electrical deficiencies of local fairs.

WORKERS' COMPENSATION FOR DISASTER SERVICE WORK

Item 109 from the General Fund — Budget p. 317

Requested 1975–76	$175,000
Estimated 1974–75	145,200
Actual 1973–74	113,336
Requested increase $29,800 (20.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides funds for the payment of workers compensation benefits to volunteer personnel (or their dependents) who are injured or killed while providing community disaster services. The total amount of compensation paid fluctuates with the volume of both training exercises and actual emergencies such as fire, flood or earthquakes. Past experience indicates the cost estimates prepared by the State Compensation Insurance Fund, which administers the service, have been realistic.

MUSEUM OF SCIENCE AND INDUSTRY

Item 110 from the General Fund — Budget p. 206

Requested 1975–76	$1,674,630
Estimated 1974–75	1,600,344
Actual 1973–74	1,356,598
Requested increase $74,286 (4.6 percent)	
Total recommended augmentation	$10,929

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Program Cost Accounting. *Augment Item 110 by $10,929.* Recommend addition of one accountant position to business office staff for development and implementation of program cost accounting system.	174
2. *Administration.* Recommend the museum be statutorily separated from the Department of Commerce.	175

GENERAL PROGRAM STATEMENT

Encouragement of public education in science and industry is the goal of the museum which is located in Los Angeles. The museum features exhibits depicting scientific progress, capabilities and accomplishments. Through its education program it stimulates interest in scientific careers. The major portion of this program is financed by the Museum Foundation Fund which is supported from private contributions. The museum also

MUSEUM OF SCIENCE AND INDUSTRY—Continued

operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are located within the state-owned Exposition Park, which includes portions of land leased to the Coliseum Commission and to the City and County of Los Angeles. In addition to providing security for its own facilities, the museum is also responsible for security within Exposition Park.

ANALYSIS AND RECOMMENDATIONS

Table 1 summarizes staffing and expenditures for the museum.

Table 1
Budget Requirements of the Museum of Science and Industry

	Personal Services (in Man-years)			*Expenditures*		
Program	*Actual 1973–74*	*Estimated 1974–75*	*Proposed 1975–76*	*Actual 1973–74*	*Estimated 1974–75*	*Proposed 1975–76*
Education	72.8	83.4	83.4	$1,164,971	$1,278,344	$1,331,154
Administration and Operation	41.5	44.3	42.7	663,869	679,000	681,476
Total program costs	114.3	127.7	126.1	$1,828,840	$1,957,344	$2,012,630
Reimbursements				−472,242	−357,000	−338,000
General Fund costs				$1,356,598	$1,600,344	$1,674,630

The reimbursement figures represent actual and projected revenues from the museum's parking lots.

A minor increase in facilities operation, a 10 percent increase in capital outlay and a 5 percent reduction in reimbursements account for most of the proposed $74,286 (4.6 percent) increase in total General Fund support for the budget year. A decrease in reimbursements is anticipated because a decline in the number of events at the coliseum and at the sports arena is expected to reduce the museum's parking lot revenues during the budget year.

Museum Needs Expenditure Control and Cost Accounting

We recommend an augmentation of $10,929 for the addition of an accountant I position to the museum's business office staff and the development and implementation of a program cost accounting and reporting system.

During the last three fiscal years, the museum has had difficulty staying within its budgetary allotment for operating expenses and equipment. In 1971–72 the deficit in this category amounted to $16,528, and in the following two years the museum incurred year-end operating deficits of $134,623 and $167,268, respectively. These overexpenditures were covered by transfer of funds from the personal services category of the museum's budget and by Emergency Fund appropriations.

Although year-end deficits were partly caused by uncontrollable factors, such as utility rate increases, significant overexpenditures also occurred in controllable operating expense items. We believe these cost overruns could have been prevented, or at least minimized, with appropriate accounting, reporting and control procedures. Monthly expenditure reports currently being prepared do not contain adequate detail by type of expense, nor do they provide cost data for individual program elements or activities. In addition, they are not prepared in time to be used effectively for expenditure control.

We believe that a program cost accounting system should be developed and implemented to (1) accumulate the necessary cost data for program elements (e.g., education, security, parking lot operations) and activities (e.g., individual exhibits and seminars), (2) provide monthly budget allocations to programs and program elements, and (3) provide timely monthly reporting of expenditures and budget allotments. The system should provide the museum's management with the necessary information to control expenditures and improve operating efficiency.

New Auditorium To Be Operated From Proposed Budget

A new, 500-seat auditorium, built from private donations, was added to the museum's facilities in September 1974. It is used extensively in the museum's education program but is also available to the Los Angeles public schools and other public organizations for educational, civic and recreational programs. At the time of its donation to the state, it was the understanding of the museum's Board of Directors that operating costs of the auditorium were to be borne by the state. However, the museum does not have funds in its current budget for this purpose, so staff and maintenance costs are partially covered by the Museum Foundation Fund. No funds are provided for auditorium operations in the budget year and we understand that the Board of Trustees of the Museum Foundation Fund has declined to finance these expenses in 1975–76 from the fund.

We believe that the implementation of expenditure controls, as outlined above, should enable the museum to improve operating efficiency and assume this additional responsibility within the proposed budget. Operating expenses of the auditorium should be identified for the budget year so that a review of this activity can be made for the 1976–77 budget.

Museum Should Be Independent Entity

We recommend that the museum be statutorily separated from the Department of Commerce and established as an independent entity under the Agriculture and Services Agency.

Currently, administrative responsibility for the museum is statutorily assigned to the Department of Commerce. For budgetary and administrative reasons, last year we recommended that the museum be established as an independent entity with a separate budget item under the Agriculture and Services Agency. This recommendation was accepted by the Legislature and the museum was established as a separate budget item, but its statutory separation from the Department of Commerce was not accomplished. Therefore, we again suggest legislation to establish the museum as an independent entity under the Agriculture and Services Agency.

Agriculture and Services Agency
DEPARTMENT OF CONSUMER AFFAIRS

Items 111–151 from various funds — Budget p. 208

Requested 1975–76	$25,519,478
Estimated 1974–75	23,645,558
Actual 1973–74	19,489,671
Requested increase $1,873,920 (7.9 percent)	
Total recommended augmentation	44,900
Pending	$1,328,607

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
111	Board of Behavioral Science Examiners	Board of Behavioral Science Examiners	$197,721
112	Board of Chiropractic Examiners	State Board of Chiropractic Examiners	171,146
113	Board of Dental Examiners	State Dentistry	1,117,915
114	State Board of Guide Dogs for the Blind	General	12,120
115	Board of Medical Examiners	Board of Medical Examiners Contingent	3,071,743
116	Hearing Aid Dispensers	Hearing Aid Dispensers	99,937
117	Examining Committee	Physical Therapy	116,561
118	Examining Committee	Speech Pathology and Audiology Examining Committee	114,998
119	Board of Examiners of Nursing Home Administrators	Board of Examiners of Nursing Home Administrators	155,474
120	Board of Optometry	State Optometry	204,486
121	Board of Osteopathic Examiners	Contingent Fund of the Board of Osteopathic Examiners	95,106
122	Board of Pharmacy	Pharmacy Board Contingent	792,909
123	Board of Registered Nursing	Board of Registered Nursing	1,490,100
124	Board of Examiners in Veterinary Medicine	Veterinary Examiners Contingent	183,858
125	Animal Health Technician Examining Committee	Animal Health Technician Examining Committee	33,242
126	Board of Vocational Nurse and	Vocational Nurse and	879,048
127	Psychiatric Technician Examiners	Psychiatric Technician Examiners	166,827
128	Board of Accountancy	Accountancy	744,259
129	Cemetery Board	Cemetery Fund	107,245
130	Bureau of Collection and	Collection Agency	296,565

131	Investigative Services	Private Investigator and Adjusters	412,990
132	Tax Preparers' Program	Tax Preparers	229,789
133	Board of Architectural Examiners	Calif. State Board of Architectural Examiners	305,343
134	Board of Registered Construction Inspectors	Construction Inspectors Registration Board	255,457
135	Contractors' State License Board	Contractor's License	5,382,271
136	Board of Registration for Geologists and Geophysicists	Geology and Geophysics	94,756
137	Board of Landscape Architects	State Board of Landscape Architects	58,885
138	Board of Registration for Professional Engineers	Professional Engineers	1,090,430
139	Structural Pest Control Board	Structural Pest Control	1,019,865
140	State Athletic Commission	General	324,602
141	Bureau of Automotive Repair	Automotive Repair	1,932,308
142	Board of Barber Examiners	State Board of Barber Examiners	514,708
143	Board of Cosmetology	Board of Cosmetology Contingent	1,329,943
144	Bureau of Employment Agencies	Bureau of Employment	426,906
145	Board of Fabric Care	Fabric Care	534,212
146	Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	194,161
147	Bureau of Home Furnishings	Bureau of Home Furnishings	663,513
148	Nurses' Registry	Nurses' Registry	19,822
149	Bureau of Repair Services	Repair Services	576,002
150	Certified Shorthand Reporters Board	Certified Shorthand Reporters	72,255
151	Departmental Administration	Consumer Affairs [a]	(7,020,614)
			$25,519,478

[a] Revolving fund established to pay administrative costs. Revenues derived from pro rata charges to boards and bureaus.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATONS

1. *New Training Officer Position. Reduce $20,136.* Recommend deletion of proposed training officer position. 181
2. *Attorney General charges. Pending $1,328,607.* Recommend withholding approval of charges for Attorney General services pending substantiation of proposed charges. 181
3. *Division of Consumer Services. Augment $65,036.* Recommend establishing four additional consumer services representative positions. 182
4. Bureau of Automotive Repair. Recommend transfer of vehicle emission inspection program (Chapter 1154, Statutes of 1973) and eight support positions to Department of Motor Vehicles. 183
5. Executive Secretaries. Recommend legislation to provide for appointment of executive secretaries by the department director. 184
6. Public Board Members. Recommend legislation to increase public membership of licensing boards. 184

DEPARTMENT OF CONSUMER AFFAIRS—Continued

	Analysis page
7. Special Funds. Recommend legislation to abolish special funds and in turn support department from General Fund.	184
8. Bureau of Automotive Repair Toll-Free Telephone Lines. Recommend Audits Division in Department of Finance audit use of lines to determine cost effectiveness.	185
9. Consumer Services Coordinators. Recommend transferring one coordinator from Los Angeles to San Francisco.	185

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Chapter 1394, Statutes of 1970) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

Subject to such authority as is conferred upon the director by specific statute, each of the present 34 boards or bureaus within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each agency seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates or a registration procedure. It also includes the establishment of curricula, school accreditation and required experience periods. Enforcement activities include inspections, investigations, and administrative hearings (before an officer of the Office of Administrative Hearings) or court proceedings.

The Division of Consumer Services was established by Chapter 1399, Statutes of 1970, as the department's administrative unit responsible for processing consumer complaints which do not come within the jurisdiction of the boards or bureaus. Since its inception, the division has assumed a major portion of the department's consumer protection responsibilities, including processing requests for information, compiling data and statistics, preparing consumer resource materials, conducting research projects, and conducting counseling programs in disadvantaged areas.

The department's Division of Investigation provides investigative and inspection services for most constitutent agencies. However, a few boards and bureaus have their own inspectors and investigators. Boards and bureaus are charged $15.51 per hour for inspections and $18.23 per hour for investigations by the division.

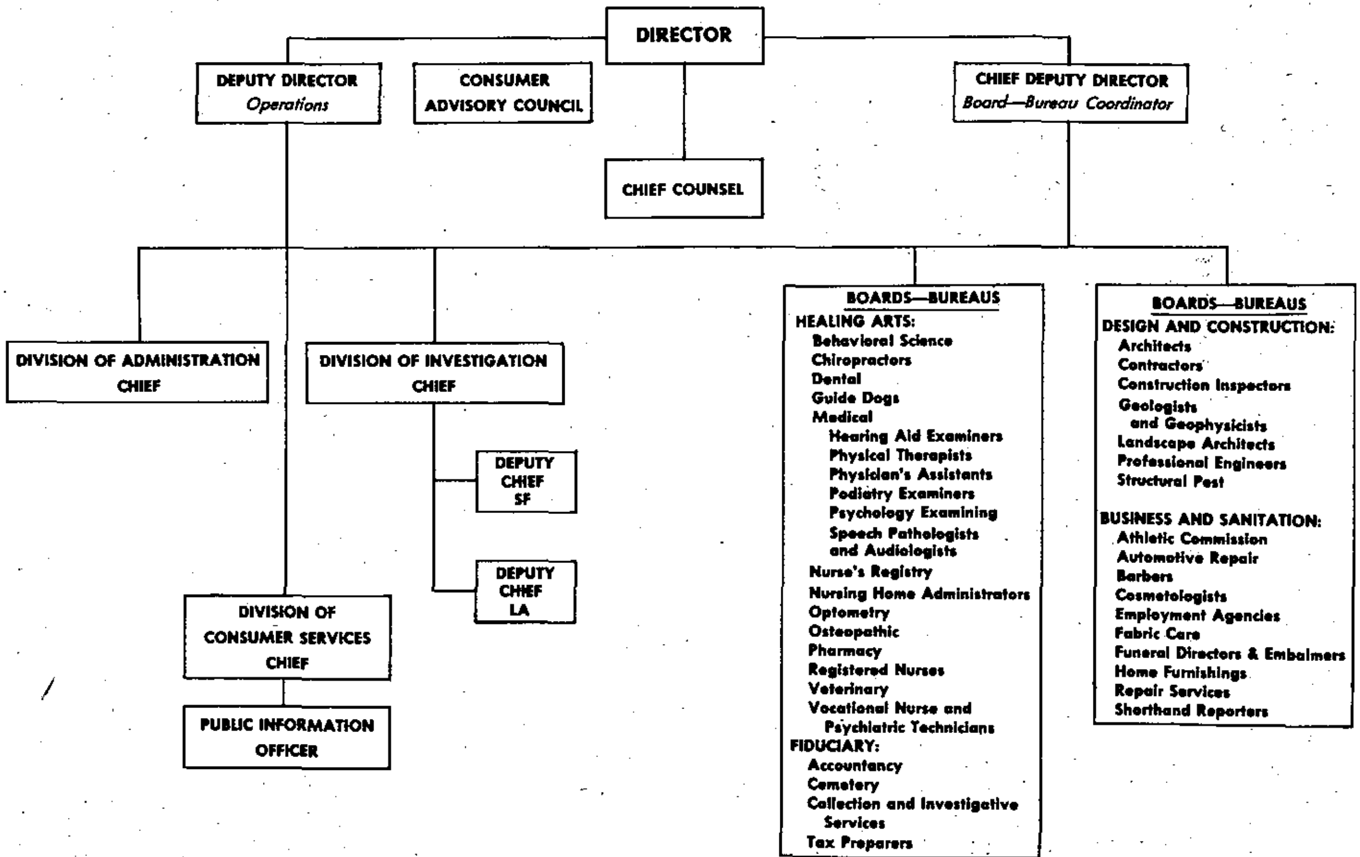
The Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. The costs of the Divisions of Administration and Consumer Services are largely distributed on a pro rata basis to each constituent agency. Exhibit 1 depicts the organization of the Department of Consumer Affairs.

ANALYSIS AND RECOMMENDATIONS

The net budget request for the department is $25,519,478 which is $1,873,920 or 7.9 percent above estimated net expenditures for the current year. Reimbursements of $12,195,416 to the Automotive Repair Fund from the Air Resources Board and undistributed administrative costs estimated at $959,803 will produce a total expenditure program of $38,674,697. The

Exhibit 1

Organization of the Department of Consumer Affairs



DEPARTMENT OF CONSUMER AFFAIRS—Continued

department's administrative costs which are estimated at $7,020,614 in the budget year are displayed in Item 151. $6,060,811 of the total administrative costs are distributed on a pro rata basis to the boards and bureaus in the department. The remaining $959,803 of administrative costs will be paid from the Consumer Affairs Fund (not a budget item) which was established as a revolving fund pursuant to Sections 203 and 405 of the Business and Professions Code to facilitate the paying of administrative expenses.

Most of the increases requested by the boards and bureaus result from the effects of inflation on operating costs, a projected 10 percent increase in Division of Investigation services and the increased cost of electronic data processing services purchased from the Board of Equalization.

The budget requests of several boards reflect the enactment of new legislation, new administrative rulings, and recent court decisions.

Chapter 923, Statutes of 1974, abolished the Council on Continuing Education for the Health Occupations. The council was established in 1972 to develop continuing education standards for registered and vocational nurses and psychiatric technicians. The Approved Control-Continuing Education Services Section (ACCESS), however, will continue to provide application forms and procedures to persons or institutions offering courses or programs of continuing education. Funding for operation of the ACCESS is shared equally by the Board of Registered Nursing and the Board of Vocational Nurse and Psychiatric Technician Examiners.

The budget request of the Board of Dental Examiners (Item 113) reflects the addition of one assistant executive secretary position and four clerical positions to implement Chapter 128, Statutes of 1974. Chapter 128 established a nine-member committee on Dental Auxiliaries to assist the board in delineating the functions and specifying the qualifications of classes of dental auxiliaries.

The budget request of the Board of Osteopathic Examiners (Item 121) reflects the addition of one executive secretary position, one clerical position and 1.1 man-years of temporary help to commence licensing osteopaths pursuant to a State Supreme Court decision *(D'Amico et al. v. Board of Medical Examiners et. al., Board of Osteopathic Examiners et. al.)*. The court's decision overturned Proposition 22 (1962) which prohibited the licensing of any new osteopaths by the board after a certain date.

The budget request of the Board of Examiners in Veterinary Medicine (Item 125) reflects the addition of one clerical position and 0.2 man-years of temporary help to implement Chapter 1223, Statutes of 1974. Chapter 1223 established a seven-member Animal Health Technician Examining Committee to assist the board in determining functions which may be legally performed by individuals who are registered to perform animal health care services.

The budget request of the Bureau of Automotive Repair (Item 141) reflects the addition of one assistant automotive equipment standards engineer, one station and vehicle inspection specialist and one clerk-typist II for enforcement of highway emissions standards for heavy duty diesel vehicles 6,001 pounds and over. This program has been mandated to begin in 1975 by Title 13, Section 2160 of the Administrative Code. The bureau is required to establish rules and regulations in order to implement an official stations inspection program.

Improper Budgetary Practice

We were critical of the Department of Consumer Affairs during the 1973–74 budget hearings for improperly funding seven administrative positions from the Automotive Repair Fund. The department made a commitment to the Legislature that this improper budgetary practice would be terminated. However, the department is currently funding one clerical position in the public information office from the Automotive Repair Fund. This situation violates the department's commitment to fund administrative positions correctly. We also note that the department has not been able to provide data required to evaluate increased staffing and funding requests throughout the entire budget cycle.

New Position (Departmental Administration)

We recommend deletion of proposed training officer position for a savings of $20,136.

The department is requesting a training officer position to familiarize incoming personnel with the operation of the department. In our judgment, a training officer would not improve the efficiency of personnel because of the independent nature of the 34 separate boards and bureaus in the department. Responsibility for this function can be assumed by each executive secretary or supervisor. Furthermore, the department does not have a large turnover in staff. If the department wishes to familiarize incoming personnel with its operation and its policies, a pamphlet could be prepared for employees.

Attorney General Charges

We recommend that approval of the department's Attorney General charges ($1,328,607) be withheld pending justification of such charges by the Attorney General.

The Attorney General represents the boards and bureaus in matters regarding the denial, suspension or revocation of a license before administrative hearings and appeals, and before federal and state courts. The Attorney General proposes to add a significant number of attorney and clerical positions to his staff in the budget year to handle the department's legal workload. Budget year costs for these services are estimated at $1,-328,607. Current year expenditures have been revised to $1,104,032.

Depending on the number of positions that will be added by the Attorney General, $1,328,607 may be insufficient to cover the costs of the department's legal workload. If this amount is insufficient, as we anticipate, the boards and bureaus in the Department of Consumer Affairs will have to request budget augmentations during the 1975–76 fiscal year.

We recommend that before the Legislature approves the $1,328,607 in the department's budget for Attorney General services, the Attorney General explain the basis for a projected 20 percent increase in charges, his method of billing the boards and bureaus for services, and the number of new attorney and clerical positions required to absorb the department's workload. Table 1 depicts the department's Attorney General charges by board and bureau for the current and budget years.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 1
Attorney General Charges

	Revised 1974–75 Attorney General Charges	*Proposed 1975–76 Attorney General Charges*
Board of Behavioral Science Examiners	$8,000	$10,000
Board of Chiropractic Examiners	9,000	11,000
Board of Dental Examiners	37,500	50,000
State Board of Guide Dogs for the Blind	1,000	1,100
Board of Medical Examiners	136,000	200,000
Hearing Aid Dispensers	1,000	1,500
Physical Therapy Examiners Commission	1,000	1,250
Speech Pathology and Audiology Examining Committee	2,000	2,000
Board of Examiners of Nursing Home Administrators	164	3,000
Board of Optometry	25,000	28,000
Board of Osteopathic Examiners	1,500	1,700
Board of Pharmacy	44,000	55,000
Board of Registered Nursing	44,500	60,000
Board of Examiners in Veterinary Medicine	8,000	12,000
Animal Health Technician Examining Committee	—	—
Board of Vocational Nurse and Psychiatric Technician Examiners	26,120	63,500
Board of Accountancy	20,000	22,500
Cemetery Board	1,500	1,650
Bureau of Collection and Investigative Services	27,000	33,500
Tax Preparers' Program	3,000	5,000
Board of Architectural Examiners	4,100	5,300
Board of Registered Construction Inspectors	2,000	3,500
Contractors' State License Board	409,748	385,257
Board of Registration for Geologists and Geophysicists	10,000	6,500
Board of Landscape Architects	300	350
Board of Registration for Professional Engineers	28,000	32,000
Structural Pest Control Board	84,100	93,300
State Athletic Commission	—	—
Bureau of Automotive Repair	30,000	35,500
Board of Barber Examiners	3,000	10,000
Board of Cosmetology	79,900	94,700
Bureau of Employment Agencies	26,000	32,000
Board of Fabric Care	4,500	6,000
Board of Funeral Directors and Embalmers	6,000	6,700
Bureau of Home Furnishings	1,000	3,000
Nurses' Registry	1,600	1,700
Bureau of Repair Services	16,000	18,500
Certified Shorthand Reporters Board	1,500	1,600
Total	$1,104,032	$1,328,607

Division of Consumer Services (Augmentation for New Positions).

We recommend that the budget of the Division of Consumer Services be augmented by $65,036 in order to establish four additional consumer services representative positions.

The department's Division of Consumer Services is responsible for receiving and processing complaints which do not come within the jurisdiction of the boards and bureaus. The division's complaint handling unit is located in Sacramento. Therefore, complaints which are filed outside of Sacramento must be forwarded to headquarters for processing. In order to enable the division to resolve nonjurisdictional complaints where they were filed and terminate the delay associated with forwarding complaints to Sacramento, we recommended last year before the Assembly Committee on Ways and Means that three consumer services representative positions be established in Los Angeles and one in San Francisco. Funding to implement this recommendation was approved by the Legislature but subsequently vetoed by the Governor. In our judgment, the four positions are still needed because the complaint workload in Los Angeles and San Francisco is growing and the division continues to forward complaints to Sacramento.

Vehicle Emission Inspection Program (Chapter 1154, Statutes of 1973)

We recommend transferring this program and eight support positions to the Department of Motor Vehicles.

Under provisions of the Automotive Repair Act (Chapter 1578, Statutes of 1971) the mission of the Bureau of Automotive Repair (BAR) is to protect the public from fraudulent automotive repair practices. Accordingly, the bureau licenses and regulates automotive repair dealers and official lamp, brake, and smog stations.

Chapter 1154, Statutes of 1973 required the BAR to implement a pilot program of periodic mandatory vehicle emission inspection for all light duty vehicles registered in Los Angeles, Orange, Riverside, San Bernardino, Santa Barbara, and Ventura Counties. Implementation of the program was to commence in July 1974 with the activation of six inspection lanes in Riverside County for testing equipment and procedures. However, the program is now almost one year behind schedule.

The BAR was willing to assume the responsibility for implementing the vehicle emission inspection program at a time when no other state agency would agree to take it. Therefore, this organization was designated by the Legislature as the unit responsible for the program. After extensive study and research, we have determined that the statutory responsibility for implementing this program should be transferred to the Department of Motor Vehicles (DMV). In our judgment, administration of the vehicle emission inspection program does not fall within the mission of the BAR. However, DMV appears to us to be the ideal and logical organization to carry on and implement the program which is now in an early stage of development.

On page 337 of the Analysis under the Department of Motor Vehicles (Item 205), we explain in detail why DMV should have statutory authority for the program and discuss the greater capability of DMV to implement the program in a more efficient manner.

POLICY RECOMMENDATIONS

The Governor's Reorganization Plan No. 2 of 1970 renamed the Department of Professional and Vocational Standards the Department of Consumer Affairs. The Consumer Affairs Act (Chapter 1394, Statutes of 1970, operative July 1, 1971) expanded the authority and responsibility of the department as a consumer affairs agency. The stated objectives of the Consumer Affairs Act are to promote and protect the interests of consumers by facilitating the proper functioning of the free enterprise market economy through (1) consumer education programs, (2) consumer pro-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

tection from the sale of goods and services by deceptive methods, acts, or practices which are inimical to the general welfare, (3) the fostering of competition, and (4) the promotion of effective governmental representation of consumer interests.

It appears, however, that the department has not been fully able to implement the spirit of the Governor's Reorganization Plan No. 2 or the policy statements in the Consumer Affairs Act partly because of the method of appointing executive secretaries, the composition of constituent boards and bureaus and the special fund nature of their support. We believe, therefore, that legislative attention to the following problem areas is necessary in order to strengthen the department's role as a consumer affairs agency.

1. *We recommend that the director of the department appoint the executive secretaries of the boards.* Presently bureau chiefs, e.g., the Chief of the Bureau of Automotive Repair, are appointed by the Governor, while executive secretaries of boards, e.g., the Executive Secretary of the Board of Fabric Care, are appointed by their respective boards. We believe that if the department is to be a unified agency rather than 34 semi-autonomous boards acting independently of each other and the director, it is imperative that the department director have the power to appoint executive secretaries.

2. *We recommend that more public members be placed on the department's licensing boards.* In past years, our office has raised the question of whether the department's boards are properly formulated to represent the public interest and welfare in the most effective manner. This question has particular relevance in view of the department's new name and consumer protection responsibilities. We believe that regulatory bodies should not be composed mainly of licensees of the vocation or profession which is being regulated. Accordingly, we recommend that the composition of the various boards in the Department of Consumer Affairs be changed to include more public members.

3. *We recommend that the special funds relating to the various boards and bureaus be abolished and in their place the department be supported from the General Fund which would also receive the revenues now placed in the special funds.* We believe that numerous special funds tend to obscure the state's financial position and remove selected activities of government from the same review and public scrutiny which would be received if they were a general tax burden. If the Legislature were to abolish the 38 special funds that support the department (the State Athletic Commission and the Board of Guide Dogs for the Blind are funded from the General Fund) and then fund the department (including the Division of Consumer Services) from the General Fund, we believe that the Department of Consumer Affairs would have greater flexibility to apply resources to changing workload needs than is the case under the present special funding mechanism. Implementation of this recommendation would also help eliminate the proprietary attitudes which tend to characterize special fund activities and increase the director's influence over the preparation of the department's budget and the proper setting

of fees to insure that each board and bureau is self-supporting.

Operational Changes

We make two recommendations to improve the operation of the department.

1. *We recommend that the Audits Division in the Department of Finance audit the use of the toll-free telephone lines at the Bureau of Automotive Repair to determine their cost effectiveness.*

Since the Bureau of Automotive Repair became operative on July 1, 1972 it has maintained statewide toll-free telephone lines at a current cost of $115,200 per year ($9,600 per line per year). The cost per line was increased 60 percent in August 1974 from $6,000 per line to the present $9,600 per line.

Because the cost of the toll-free lines is 16 cents per minute while the prime-time cost for the state's Automatic Telecommunications Switching System (ATSS) is eight cents per minute and nonprime-time cost is two cents per minute, we recommend that the Audits Division in the Department of Finance audit the use of the toll-free lines to determine their cost-effectiveness. The division should study the possibility of reducing the number of toll-free lines by integrating use of the remaining lines with the state ATSS system.

2. *We recommend that one of the two consumer services coordinator positions in Los Angeles be transferred to San Francisco.*

Three consumer services coordinators represent the department at the local level, coordinate consumer protection groups and address interested groups regarding consumer problems. Two of these coordinators are located in Los Angeles and one in Sacramento. We recommend that one of the two coordinators in Los Angeles be transferred to San Francisco because sufficient workload does not exist in Los Angeles to justify two coordinator positions while San Francisco has sufficient workload to employ one coordinator. Transferring one coordinator position to San Francisco would place one consumer services coordinator in each of the three major population centers of the state.

Lack of Responsiveness to Legislative Requests

The department was specifically requested by the Supplementary Report of the Committee on Conference (Budget Bill of 1974) to submit reports on several subjects to the legislative fiscal committees. The results of these requests are summarized hereafter.

1. *Pilot Program for Centralized Complaint Handling.* The Supplementary Report recommended that the department submit a report by letter to the chairmen of the legislative fiscal committees by November 1, 1974 on the feasibility of establishing a pilot program for centralized complaint handling. The letter was to specify the advantages and disadvantages of such a centralized system, estimated cost savings, if any, and provide a list of six boards and bureaus recommended for participation in such a pilot program.

The department submitted a report to the Joint Legislative Budget Committee during November 1974. In it the department states that only bureaus, e.g., Bureau of Repair Services, could legally participate in a

DEPARTMENT OF CONSUMER AFFAIRS—Continued

centralized complaint handling pilot project. Boards could not participate because they are not responsible to the director. The report estimates that the pilot project would be conducted for six months, would require one additional consumer services representative position and one additional clerical position and would cost approximately $22,393. The report, which was prepared by the department's management analyst staff, concludes that complaint processing effectiveness would not be improved by the centralization of complaint handling due to logistical and training problems. Improved effectiveness in complaint processing would result, according to the report, from a more systematic monitoring and evaluation of complaint-handling activity within the department by the management analyst staff.

In our judgment, this report is not responsive to the intent of the lgislative request.

2. *Space Problems in Consumer Affairs Building.* The Supplementary Report recommended that the department report by November 1, 1974 to the Chairman of the Joint Legislative Budget Committee and to the chairmen of the legislative fiscal committees on space problems in the Consumer Affairs building. The report was to include the dollars spent by the department on leased space in Sacramento, the square footage of such leased space, and recommendations for legislative action to reunify the Department of Consumer Affairs in one building.

In response to this request, the department states that the Consumer Affairs building houses most of the department's personnel and the Board of Equalization. The rapid growth of the Department of Consumer Affairs in recent years has required various boards to lease privately owned space at seven different locations in Sacramento. The department states in the report that it favors completion of the Consumer Affairs building annex in order to provide enough space to reunify the department and provide additional space for the Board of Equalization. Feasibility studies conducted by the Department of General Services in 1972 apparently supported completion of the annex. The report does not provide information regarding the completion cost of the annex or projected savings which would eventually result from such completion.

3. *Effectiveness Measures for Boards and Bureaus.* The Supplementary Report recommended that the department, in cooperation with the Audits Division of the Department of Finance, develop effectiveness measures for its constituent boards and bureaus and report the results to the Chairman of the Joint Legislative Budget Committee and the legislative fiscal committees by December 1, 1974.

To date this office has not received a response to this request.

4. *Bureau of Automotive Repair (Workload Standards).* The Supplementary Report recommended that the Bureau of Automotive Repair in cooperation with departmental administration, develop workload standards for its consumer services representatives and field representatives and include these standards in the narrative of the 1975–76 program budget.

In a memorandum the bureau states that it utilizes 15 consumer services representatives and that each representative handles 270 complaints per month. The memorandum does not address itself to workload standards for consumer services representatives or field representatives and these standards are not included in the narrative of the 1975–76 budget.

5. *Contractors' State License Board (Warning Letters).* The Supplementary Report recommended that the Contractors' State License Board develop and utilize a warning letter system for licensee violations.

The board advises us that licensees are notified of complaints filed against them. However, the board does not intend to develop and utilize a warning letter system because of associated costs and the effect on clerical workload.

6. *Contractors' State License Board (Workload Standards).* The Supplementary Report recommended that the board, in cooperation with the departmental administration and the Department of Finance, establish reasonable workload standards for investigatory personnel and include these standards in the narrative of the 1975–76 program budget supplement.

To date we have been unable to obtain any information regarding workload standards for investigating personnel from the board. These standards are not contained in the 1975–76 budget.

STATE FIRE MARSHAL

Item 152 from the General Fund — Budget p. 266

Requested 1975–76	$2,145,006
Estimated 1974–75	2,061,295
Actual 1973–74	1,462,074
Requested increase $83,711 (4.1 percent)	
Increase to improve level of service $28,500	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Cargo Tank Registration. Recommend approval of clerk typist II for one year only.	189

ANALYSIS AND RECOMMENDATIONS

The basic objectives of the State Fire Marshal's Office are to prevent the loss of life and property by developing ways to protect the public from fire and panic. To achieve these objectives the State Fire Marshal prepares and adopts minimum statewide standards, aids in enforcement of laws and regulations, and disseminates information relative to public fire safety. Enforcement of the standards is the responsibility of local fire authorities except in state-owned buildings, cargo tanks used in the transportation of flammable liquids and where no local authority exists. In these excepted cases the State Fire Marshal assumes enforcement responsibility.

Within the State Fire Marshal's Office there are three major elements:

STATE FIRE MARSHAL—Continued

(1) enforcement, (2) analysis and development and (3) administration. The budget request is for $2,145,006, an increase of $83,711 (4.1 percent) over estimated expenditures in the current year. However, the total proposed budget for the State Fire Marshal is $3,226,105 due to reimbursements for contracts with the Office of Architecture and Construction (schoolhouse plan checking), Department of Health and the Division of Industrial Safety in the Department of Industrial Relations. The Department of Health contract provides for State Fire Marshal inspection and enforcement of fire and life safety codes associated with health care facilities. The contract with Industrial Relations provides for State Fire Marshal facility inspection and code enforcement related to the California Occupational Safety and Health Act (Cal-OSHA).

Enforcement

This element consists of nine components, concerning building occupancies, portable fire extinguisher servicing concerns, fireworks, transportation of flammable liquids and occupational safety and health. Enforcement is conducted on a two phase basis (1) review of construction plans and (2) on-site inspection. The State Fire Marshal anticipates that this element will require 102.5 man-years at a cost of $2,387,318, an increase of $61,946 (2.7 percent) above current year expenditures. Of this amount $1,046,099 is reimbursed as indicated in Table 1. It is anticipated that this element will review approximately 6,500 construction plans and conduct over 17,000 on-site inspections during the budget year. This represents an increase, over 1973–74 output, of 350 construction plan reviews and 5,000 on-site inspections. These increases are principally due to the contract related to Cal-OSHA and will occur in both the current and budget years.

Within this element the State Fire Marshal provides services under contract to the Office of Architecture and Construction (school house plan checking), Department of Industrial Relations (Cal-OSHA) and Department of Health. The reimbursed costs and man-years associated with these contracts are as shown in Table 1.

Table 1
Contract Reimbursements to the State Fire Marshal

Contract	*Man-Years*	*Reimbursed Cost*
OAC	3	$77,000
Industrial Relations	16.5	288,192
Department of Health	30	628,907
Total	49.5	$994,099

In addition to the amount shown in Table 1, this element receives $51,000 in reimbursements related to licensing fire extinguishers, providing a total reimbursement of $1,046,099.

The establishment of a State Board of Fire Services, created by enactment of Chapter 1197, Statutes of 1973, (AB 1805) required that the Fire Marshal's 1974–75 budget be increased by $28,500 to provide for a deputy state fire marshal III, who would act as the executive secretary of the board, and one clerk typist. These positions are continued in the 1975–76 request.

Analysis and Development

We recommend that the proposed new clerk typist II position be approved only to June 30, 1976.

This element contains five components concerning (1) approval and listing service, (2) consumer protection, (3) public information and training, (4) fire statistics and (5) fire investigations. The budget request for this element is for 35.5 man-years and $838,787, an increase of $21,765 (2.7 percent) over current year expenditures. Of this amount approximately $35,000 is reimbursed from the listing of building materials.

Funds are included under this element to provide one position to accommodate the increased workload associated with the biennial (required in 1975–76) registration of cargo tanks used in the transportation of flammable liquids. This biennial workload increase has historically been accommodated by a position increase designated in the budget for one year only. This funding method has worked satisfactorily in the past and we believe it should be continued. However, the Governor's Budget indicates that this position will be used on a continuing basis to meet increased clerical workload in this element. The apparant workload increase is related to a need for mail messenger service. This service should be provided through the Department of General Services (as discussed under Item 155) and should not require an additional position in the Fire Marshal's Office.

Administration

This element provides planning; coordination and application of statistical, physical and technical information. For accounting purposes the cost of this element is distributed to the enforcement and analysis development elements in the amount attributable to each.

FRANCHISE TAX BOARD

Item 153 and 154 from the General Fund — Budget p. 268

Requested 1975–76	$44,756,973
Estimated 1974–75	41,327,797
Actual 1973–74	36,996,923
Requested increase $3,429,176 (8.3 percent)	
Total recommended reduction	$274,789

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
153	General Support of Franchise Tax Board	General	$44,632,973	189
154	Legislative Mandate for Reimbursing Local Costs	General	124,000	200
			$44,756,973	

FRANCHISE TAX BOARD—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *PIT Withholding Contract, Reduce $274,789.* Recommend reduce funds for PIT withholding contract to estimates of actual cost of contracts with Employment Development Department and Department of Benefit Payments. 193
2. PIT Withholding Contract Review. Recommend Department of Finance evaluate withholding contract and activities of Department of Benefit Payments pursuant to contract and report recommendations to the Legislature by December 1, 1975. 193
3. Political Reform Audit. Recommend board report on procedures for evaluating Political Reform Audit program and its estimating methodology by September 1, 1975. 199

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is comprised of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. The board has vested its administrative responsibilities in an executive director. It has continuing responsibilities in the administration of three major tax programs. These are:

1. The Personal Income Tax program which is the second largest source of state revenues. Major activities in this program are collecting taxes withheld by employers, which is done by means of a contract with the Department of Benefit Payments; processing quarterly estimates of tax liabilities; processing eight million individual returns filed annually; verifying and auditing returns to insure taxpayer knowledge of and compliance with the law; and making refunds of overpaid taxes or collecting tax monies due the state.
2. The Bank and Corporation Tax program which provides more than 15 percent of the state's revenues. Program activities are similar to those in the Personal Income Tax program with the additional function of determining the taxable income of non-California corporations which is attributable to California and the amount of tax due to the state on that income.
3. The Senior Citizens' Property Tax Assistance program which results in payments for property tax relief to more than 350,000 eligible senior citizens.

Substantial changes and growth occurred in all of these programs as a result of legislation enacted in recent years. The most significant of these statutory changes—income tax withholding, senior citizens' tax assistance, and quarterly payments of bank and corporation tax liabilities—were embodied in Chapter 1, Statutes of 1971, First Extraordinary Session. We have discussed the effects of these changes in detail in previous Analyses.

The Political Reform Act of 1974, a statewide ballot initiative (Proposition 9) adopted by the voters in June 1974, has resulted in further expansion of the board's program responsibilites. The act gives the board, effective January 7, 1975, responsibility for making audits and field investi-

Table I
Expenditures by Program Area for 1974–75 and 1975–76 With Change

	1974–75 Current Year Estimate		*1975–76 Budget Year Request*		*Increase/Decrease*	
	Man-Years	*Dollars*	*Man-Years*	*Dollars*	*Man-Years*	*Dollars*
I. Personal income tax program (PIT)	1,529.8	$29,658,110[a]	1,531.9	$30,951,458[a]	2.1	$1,293,348
II. Bank and corporation tax program	541.5	9,671,519[a]	563.1	10,307,439[a]	21.6	635,920
III. Senior citizens' property tax assistance program	110.1	1,605,168[a]	106.1	1,624,076[a]	−4.0	18,908
IV. Political reform audit program	26.3	339,800[b]	117.6	1,750,000	91.3	1,410,200
V. Other	19.7	694,200[c]	19.9	652,000[d]	.2	−42,200
Totals	2,227.4	$41,968,797[c]	2,338.6	$45,284,973[d]	111.2	$3,316,176

[a] Includes prorated administrative costs.
[b] Planning and implementation costs only; no funds for auditing are included.
[c] Includes $641,000 of reimbursable contract work.
[d] Includes $528,000 of reimbursable contract work.

FRANCHISE TAX BOARD—Continued

gations of the campaign statements and reports of candidates for state offices, judgeships and the State Legislature, their supporting committees, and independent committees which support statewide ballot initiatives and candidates. The board is also mandated by the act to audit annually the detailed receipt and expenditure statements required to be filed by lobbyists to ensure full reporting and compliance with the statutory limitations on their financial activities.

Table 1 summarizes the distribution of costs and man-years across these four major programs for both the current year and the budget year.

ANALYSIS AND RECOMMENDATIONS

I. PERSONAL INCOME TAX (PIT) PROGRAM

PIT Workload Increases

The 1975–76 Governor's Budget includes the addition of 68 man-years of temporary help to process an increased number of PIT returns. The total request, including the additional man-years for processing, verifying and auditing PIT returns, is based on a projection that 8.2 million returns will be received during 1975–76 for the 1975 income year. The Department of Finance has also approved additions in temporary help of the same number of man-years for 1974–75 which will be funded from savings which will accrue from changing the processing of Senior Citizens' Property Tax Assistance claims.

We have evaluated the Governor's Budget estimate of 8.2 million returns on the basis of projected changes in civilian employment and in the California population, aged 18–64. The growth rates in these two factors, when applied to the actual number of personal income tax returns received in 1973–74, reveal a range of projected returns from 8 million to 8.1 million. This range does not reflect any increases in the number of returns which may be filed by individuals solely to claim renter credit refunds. We believe that the differences between our estimates of the number of returns based on changes in the employment force and population and the 8.2 million returns estimated in the budget may be offset by these increased renter returns.

The additional temporary help requested for processing 8.2 million returns reflects the previous workload experience of the board adjusted for increases in production rates. An increase in the number of returns primarily affects three major activities of the board, return processing, estimate processing, and math verification. Table 2 shows the projected

Table 2
Increases in Average Processing Rates Per Man-Year In Personal Income Tax Program

	1973–74 (Actual)	*1974–75 (Estimated)*	*1975–76 (Estimated)*
Return Processing			
Average number of documents processed per man-year	13,365	13,378	13,685
Estimate Processing			
Average number of documents processed per man-year	31,768	33,495	35,194
Math Verification			
Average number of returns verified per man-year	26,872	30,356	30,994

increases in the average number of documents processed and verified by man-years for 1973–74 (actual), 1974–75 (estimated) and 1975–76 (estimated).

Reduce Funds for Pit Withholding Contract

We recommend that the Personal Income Tax (PIT) program be reduced by $274,789 to reflect the actual estimated cost of the contracts with the Department of Benefit Payments and the Employment Development Department (EDD) for personal income tax withholding.

The Governor's Budget includes two different amounts for the cost to the General Fund of administering personal income tax withholding collections, audits and appeal activities. The board contracts with the Department of Benefit Payments for the collection and audit of employer-withheld taxes and with the Employment Development Department for employer appeals activities. The board is requesting a total of $6,412,113 for these two contracts. Its request is based on its independent estimate of the cost of the program based on previous year trends. It was unable to identify what portion of the total is earmarked for each contract.

The budget of the Department of Benefit Payments includes its estimate of the cost of PIT withholding activities which is the amount to be reimbursed by the Franchise Tax Board. Furthermore, the budget includes the authorized positions which coincide with this dollar amount. Its contract amount, as approved by the Department of Finance, is $6,079,004.

Although the Franchise Tax Board currently contracts with the Employment Development Department for the appeal activities which result from employer withholding, the EDD budget does not specify separately the amount of that contract in 1974–75 or its request for 1975–76. The amount of the Franchise Tax Board contract is included in its estimate of reimbursements and in its estimates of expenditures and man-years associated with its appeals program. EDD has advised us that the Franchise Tax Board contract amount for 1975–76 is $58,320.

Our recommended reduction in the Personal Income Tax program reconciles the amount requested by the Franchise Tax Board for contracting with the Department of Benefit Payments and the Employment Development Department and their respective cost figures and positions as approved by the Department of Finance. This reconciliation is shown in Table 3.

FRANCHISE TAX BOARD—Continued

Table 3
PIT Reduction Based on Reconciliation of Estimated Contract Costs

Employment Development Department (EDD) appeals contract request approved by Department of Finance	$58,320
Department of Benefit Payments (DBP) withholding collections and audit contract request approved by Department of Finance	$6,079,004
Total estimated contract costs of EDD and DBP	$6,137,324
Total requested by Franchise Tax Board (FTB) for contracts with EDD and DBP	$6,412,113
Amount of reduction necessary to reconcile FTB budget request with approved contract costs	$−274,789

Withholding Contract Needs Review

We recommend that the Department of Finance Audits Division evaluate the personal income tax withholding collection and audit activities of the Department of Benefit Payments and the method of funding those activities and report its findings and recommendations to the Legislature by December 1, 1975.

We also recommend that an advisory group, comprised of representatives of the Franchise Tax Board, the Department of Benefit Payments Audits and Collections Division, the Department of Employment Development, the Department of Finance Budget Division and the office of the Legislative Analyst, be established to provide further direction to the study and to review its recommendations.

Chapter 1, Statutes of 1971, First Extraordinary Session, which was enacted in December 1971, provided for personal income tax withholding beginning January 1, 1972. The board contracted with the Department of Human Resources Development to administer the withholding in conjunction with its ongoing employer collections for the disability and unemployment insurance programs. The contractual arrangement was initiated for two major reasons. First, there was less than a month between legislative adoption and the effective date for implementation of the withholding system. Second, it was believed that it would cost less for the state to collect employer-withheld taxes as a part of an established collection system than to establish a separate system. In July 1973, these employer collection activities were transferred to the newly created Department of Benefit Payments.

As we stated in our 1972–73 Analysis, the board considered the contract to be a temporary solution until it could review the functions necessary for personal income tax withholding and evaluate which agency would be best able to perform those functions. However, no evaluation has taken place during the three years since the withholding system was implemented nor have any changes been made in the contractual arrangements. Our review of the existing contracting procedures and the employer audits and collections functions of the Department of Benefit Payments as they relate to personal income tax withholding identified the following problem areas which need more study by the Department of Finance.

Insufficient Data on Withholding Activities. Neither the Franchise Tax Board nor the Department of Finance have been supplied with sufficient workload detail on the withholding audit and collection activities of either the Department of Employment Development or the Department of Benefit Payments to determine if the activities have been performed in a cost-effective manner. One indicator of the lack of information about withholding activities is the different figures provided in the 1975–76 Governor's Budget regarding the actual and estimated tax revenues from PIT withholding. These differences are demonstrated in Table 4.

Table 4
Tax Revenues From PIT Withholding as Reported in the Governor's Budget By the Franchise Tax Board and the Department of Benefit Payments

	1973–74 Actual	*1974–75 Estimated*	*1975–76 Estimated*
Franchise Tax Board	$1,687,154,394	$2,000,000,000	$2,450,000,000
Department of Benefit Payments	1,685,528,796	1,854,000,000	2,022,000,000

The Department of Finance's review should identify the information on workload, inputs, and outputs which is necessary to an ongoing review of the withholding contract by the Franchise Tax Board and the Department of Finance.

Questionable Cost-Allocation System. The administrative costs of the employer collection program of the Department of Benefit Payments are shared by the unemployment insurance (UI), disability insurance (DI) and personal income tax (PIT) programs. The costs are allocated on both a direct and shared basis among the funds involved. Direct costs are those which are attributable to one program exclusively. Shared costs are those which are allocable to two or more programs. Shared costs are distributed for various activities on the basis of cost ratios which were informally agreed to in 1972 when the personal income tax withholding function was added to the ongoing collection and audit program. Although the ratios are different for each activity, the basis of several of the ratios appears to be 63 percent UI, 33 percent PIT, and 4 percent DI when all three programs are involved. (The DI share is low because of a federal agreement made at the time the disability insurance program was initiated that the State Disability Insurance Fund be charged only for the additional costs of collecting disability insurance under the existing unemployment insurance collection program.) These ratios were not based on actual costs for each program nor have they been adjusted since 1972. Furthermore, it has not been determined since then if these ratios reflect accurately the amount and cost of work attributable to the PIT withholding program.

The Department of Finance review should address the following questions: (1) What activities are essential to the PIT withholding program? (2) Do the individual cost ratios for activities reflect the actual workload attributable to the UI, DI and PIT programs? (3) What other cost-sharing methodologies might be employed? (4) What is the estimated General Fund cost of a combined withholding collections system and of a separate PIT withholding collections system? (5) Could any other agency make the necessary collections and audits at a lower cost to the state?

Potentially Conflicting Audit Priorities. From the state's point of view, joint audits of employers subject to withholding for unemployment insurance, disability insurance and personal income taxes should be selected to maximize PIT withholding revenues. However, it appears that federal audit objectives and priorities may not result in the selection of the most

FRANCHISE TAX BOARD—Continued

productive PIT accounts, as measured by potential audit revenues. For example, a large number of the audits that must be done each year is to clear obstructed claims for unemployment insurance payments. These audits are done on a shared-cost basis. In 1973–74, of the 26,851 audits done of subject employers 87.5 percent were joint UI-DI-PIT audits. We contend that for most of these audits the revenues should be higher for the PIT programs than for others because personal income in California is subject to progressive tax rates ranging from 1 percent to 11 percent. The tax levy for the Disability Insurance Fund is 1 percent of the first $9,000 in wages. Likewise, the levy for the Unemployment Insurance Fund is also lower ranging from 0.1 percent to nearly 4 percent of the first $4,200 in wages of each employee. Yet the tax liability due the Unemployment Insurance Fund was nearly four times the personal income tax liability identified during joint audits in 1973–74, as shown in Table 5.

Table 5
Number of Audits and Distribution of Tax Assessments Resulting From Audits
1973–74

		Average Tax Assessment Per Audit		
	Number of Audits	*Unemployment Insurance Program (UI)*	*Disability Insurance Program (DI)*	*Personal Income Tax Program (PIT)*
UI-DI-PIT joint audits	23,498	$135	$47	$36
DI only audits	3,162	—	49	—
PIT only audits	191	—	—	143

Additionally, the average personal income tax assessment resulting from joint audits was only one-fourth of the average tax assessment which resulted from audits of PIT accounts only.

These differences substantiate the need for a thorough review of the audit selection and practices of the Department of Benefit Payments. It is our understanding that the Collections and Audits Division of the Department of Benefit Payments has initiated a study of its current audit selection procedures and alternative procedures that might be implemented. We believe that the Department of Finance should evaluate the findings of this internal study and conduct any additional review necessary to judge the effect of audit selection priorities on state revenues and the value of retaining the present system of joint withholding activities.

II. BANK AND CORPORATION TAX PROGRAM

Request for Additional Audit and Collections Staff

The Governor's Budget proposes the addition of 22.4 man-years in the Bank and Corporation Tax program. The major activities for which the positions are requested are shown in Table 6.

Expansion of audit activities for out-of-state corporations which have California tax liabilities on a portion of their incomes will result in a high revenue return per dollar cost and will enable the board to audit all

Table 6
Proposed Additions to the Bank and Corporation Tax Program By Activity

Program Activity	*1975–76 Budget Man-Year Request*
Regular membership in Multistate Tax Commission effective 1/1/76	1
Additions for Audits of Out-of-State Corporations which are taxed on a portion of their incomes	6
Expansion of existing Bank and Corporation Collections program to collect taxes from corporations which have been suspended from operating but continue to operate and generate income	14

out-of-state corporations on a three-year cycle. Likewise, the board has estimated that more than $870,000 in state revenues could be generated from expanding its activities to collect the franchise fees and taxes owed by corporations which have been suspended from operation in the past but have continued to operate.

III. SENIOR CITIZENS' PROPERTY TAX ASSISTANCE PROGRAM

The Governor's Budget includes a reduction of 42.3 man-years and $439,110 for 1975–76 in the Senior Citizens' Property Tax Assistance program. The board's 1974–75 budget has also been changed to reflect similar savings of 38.3 man-years and $389,246. These savings result from integrating the processing of senior citizens' claims with the processing of other tax returns. In prior years, all senior citizens' claims have been processed by a separate senior citizens' division. The board is in the process of transferring the responsibilities for processing these claims to the administrative services division which currently does all of the return processing for the personal income tax and bank and corporation tax programs. According to the board, this administrative change should have no delaying effect on the payment of claims to eligible senior citizens. The projected savings for both 1974–75 and 1975–76 have been used to offset some of the approved budget requests for increases in existing programs and the addition of new programs.

IV. POLITICAL REFORM AUDIT PROGRAM

New Program Requirements

The Political Reform Act of 1974 was adopted by the voters as a statewide ballot initiative (Proposition 9) in June 1974. The purposes of the act are to strengthen the state's election and lobbyist statutes by (1) requiring detailed reports of campaign receipts and expenditures for candidates for state and local offices and for statewide ballot initiatives; (2) limiting campaign expenditures for state offices; (3) providing for financial disclosure by public officials and disqualifying them, under certain circumstances, from making decisions which would affect their personal assets and incomes; (4) requiring detailed reporting of the activities, income and expenditures of lobbyists and regulating the nature and amounts of their expenditures; and (5) providing for strict enforcement of the act's provisions.

Chapter 10 of the act requires that the Franchise Tax Board make audits and field investigations of all statements and reports of the following:

FRANCHISE TAX BOARD—Continued

1) all lobbyists required to register with the Secretary of State under the act;
2) candidates who receive 15 percent or more of the total votes cast in a general or special election and their committees;
3) candidates who spend, or for whom is spent, more than $25,000 in a general, primary, or special election and their committees;
4) independent committees including state and local political party committees which spend more than $10,000 annually;
5) statements of specified elected officials regarding their income and expenditures.

Workload Estimates

Audits of lobbyists are to be done annually which will result in a fairly constant workload base for the board. Cyclical variations in workload over a four-year election cycle will occur as a result of differences in types of election years. These variations, as well as changes in workload throughout a year, will require the board to interchange auditors between the political reform program and the tax audit program in order to maximize efficiency and manpower utilization.

The board has estimated that 71 audit man-years will be required for the performance of its mandated audits in a nonelection year (such as 1975–76) and 129 audit man-years in a statewide constitutional office election year (1978–79). These man-year estimates, which do not include any administrative or support personnel, are shown in Table 7. The estimated total man-years needed for 1975–76 are 117.6.

Table 7
Estimated Audit Man-Year Requirements for Auditing Campaign and Lobbyist Reports for a Four-Year Election Cycle

Type of Election Year	*1975–76 Nonelection*	*1976–77 Senate/Assembly Elections*	*1977–78 Nonelection*	*1978–79 Statewide Officers, Senate/Assembly Elections*
Campaign reports/Public officials reports	37	79	37	95
Lobbyist reports	34	34	34	34
Total audit man-years	71	113	71	129

These man-year projections are based on the board's estimate of the fixed time required to audit the reports of a candidate, committee or lobbyist and the variable amounts of time associated with the number of pages filed in a campaign or lobbyist report. The time estimates per page were applied to the actual counts of report pages filed in 1970 and 1972, after the page counts were adjusted to reflect changes in reporting requirements, in order to estimate the time required. We have reviewed both the board's computations and estimated hours associated with different audit activities which were used to project its 1975–76 needs. In a few instances, we believe that either an arithmetic error was made or that the estimated hours for specific activities such as review of previous audit reports, travel for lobbyist audits, and report writing may be high.

The methodology used by the board in making its estimates of required man-years is untested. It is possible that another methodology might provide more accurate estimates. The board has no previous experience in campaign auditing, in the level of auditing and reporting sufficient to meet the requirements of the act, and in the costs involved. Nor does sufficient experience in campaign auditing exist elsewhere from which the board could draw. To date, the State Board of Equalization's audits under the Campaign Disclosure Act of 1972 and the federal audits of the reports of presidential and congressional candidates have not been extensive enough to yield information sufficient to delineate the variables and associated measures of time which contribute to differences in audit manpower requirements between audit cases.

Campaign and lobbyist auditing differs from other auditing functions of the board. According to the act, the board is required to audit campaign and lobbyist reports for completeness, accuracy and compliance with the detailed provisions of the statute. It is our contention that the pursuit of these objectives in auditing campaign and lobbyist reports significantly changes the nature of the traditional auditing of financial accounts and transactions. Although the transactions which are reported will have to be examined for reporting and arithmetic accuracy, extensive auditing time should also be spent in determining if other transactions have been made which have not been reported. This latter determination is crucial to the successful implementation and promulgation of the act since any attempt to intentionally subvert the act will be done outside of any reporting controls which are established and no traces will be provided in the reports to these external transactions.

We conclude that the $1,750,000 and associated positions requested for 1975–76 should be approved. We concur in the budget request because (1) there is no validated basis on which to make estimates to support a different funding level and (2) we believe that our differences with the board's calculations, including what we think may be high time estimates for some activities, may be offset by increases in the number of lobbyists whose statements will have to be audited and probable further refinements by the Fair Political Practices Commission in reporting requirements, neither of which have been accounted for in the board's estimate of its audit man-year requirements.

We hope that the board's experience during 1975–76, when considered together with the State Board of Equalization's experience under the Campaign Disclosure Act of 1972, will provide insight into the important variables which determine the amount of audit time required for campaign and lobbyist auditing and will provide a basis for the board and others to consider and evaluate other estimating methodologies.

Procedures for Evaluating Workload and Results Needed

We recommend that the Franchise Tax Board submit a report to the Department of Finance and the Joint Legislative Budget Committee by September 1, 1975 detailing the procedures it will implement to evaluate the objectives of the political reform audit program and its methodology for estimating its manpower needs and a schedule for implementation of *these procedures.*

Detailed information on the number and kinds of audits done, the costs associated with the audit and support activities performed, the nature of the problems and errors which are identified, and the type of reports which are provided to the Fair Political Practices Commission and the Attorney General is necessary for both the internal management of the program and external evaluation of resource requirements by both the Department of Finance and legislative budget committees. We have concluded that there is insufficient experience in campaign auditing which we could use as a basis for judging the budget request of the board for this year. It is our expectation that the extensive evaluation and information system which we are recommending and the information which should then be available will assist in the identification of the methodology and influential variables on the basis of which rigorous estimates of future manpower needs can be made and evaluated.

V. LEGISLATIVE MANDATE

Chapter 238, Statutes of 1974, provides that deductions on tax returns for expenses used to offset income from rental of housing units be disallowed if local authorities determine the units to be substandard and the owners do not comply with local housing standard codes after notification. The Franchise Tax Board has been given, effective January 1, 1975, responsibility for reviewing and disallowing these expenses on tax returns of those owners of substandard housing who have been reported to the board by local authorities for noncompliance. Item 154 in the budget is a request for $124,000 for the Controller to reimburse local authorities for the actual costs of administering the provisions of this statute. This is a mandated local program with costs reimbursable as a result of the authority provided by Section 2231 of the Revenue and Taxation Code. The request does not include any funds for the board's costs in administering the program because the board believes that any additional activities required will be small enough to be absorbed by its ongoing programs.

Agriculture and Services Agency
DEPARTMENT OF GENERAL SERVICES

Items 155 and 156 from the General Fund, Item 159 General Fund Transfer to Service Revolving Fund, Item 160 from the Service Revolving Fund—other activities, Item 161 from the Service Revolving Fund—Printing, Item 162 from the State School Building Aid Fund and Item 163 from the Deferred Compensation Plan Fund

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Requested 1975–76	$140,433,529
Estimated 1974–75	128,168,337
Actual 1973–74	110,939,514
Requested increase $12,265,192 (9.6 percent)	
Total recommended augmentation	$73,201

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
155	Department of General Services. For direct support of department operations.	General	$4,548,356	203
156	For support of State Board of Control.	General	330,463	224
159	Department of General Services. Provides authority whereby funds appropriated from General Fund or other funds for purchase of automobiles or reproduction equipment may be used to augment Service Revolving Fund which finances General Services car pool and reproduction services.	General Fund transfer to Service Revolving Fund	N/A	203
160	Department of General Services. For support in form of revenues from agencies receiving products or services other than printing.	Service Revolving Fund, other activities	109,408,815	203
161	Office of State Printing. For support in form of revenues from agencies receiving printing services.	Service Revolving Fund, Printing	25,083,085	224
162	Office of Local Assistance. For support of the School Building Aid Program.	State School Building Aid Fund	1,017,889	218
163	Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees as authorized by Chapter 1370, Statutes of 1972.	Deferred Compensation Plan Fund	44,921	217
	Subtotal of Department's items included in this Analysis.		($140,433,529)	

DEPARTMENT OF GENERAL SERVICES—Continued

157	Office of Architecture and Construction. For direct support of specified plan checking services. (Item analyzed on page 228.)	Architecture Public Building Fund	$2,016,841	228
158	Office of Architecture and Construction. For support of operations. (Item analyzed on page 229.)	Architecture Revolving Fund	7,988,121	229
Note [a]	Department of General Services. For maintaining and improving properties (1) acquired under the Property Acquisition Law and (2) declared surplus prior to disposition by state.	General	985,000	212
Note [b]	Department of General Services. For maintaining, protecting and administering state parking facilities.	General	750,547	225
Note [c]	Office of Architecture and Construction. For verifying that plans of structures purchased by state funds are accessible for use by physically handicapped.	General	80,000	212
	Reimbursements ($139,376 to Office of Architecture and Construction, $2,577 to Office of Local Assistance)		141,953	—
	Total expenditures budgeted		$152,395,991	

[a] Gov't. Code (Sec. 15850–65) (continuing Appropriation)
[b] Gov't. Code Sec. 14678 (continuing appropriation)
[c] Gov't. Code Sec. 4454 (continuing appropriation)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. State Architect. Recommend legislation to allow Director of General Services to select the state architect. 208
2. Planning. Recommend costs of long-range facilities planning unit be recovered by pro rata charges. 209
3. Space Plans. Repeat recommendation under Item 358 that working drawings and study for new state office complex in Sacramento be completed. 209
4. Space Plans. Recommend department prior to budget hearings submit to Joint Legislative Budget Committee and fiscal committees building space reports required by Supplementary Report of Committee on Conference (Budget Bill of 1973). 210
5. *Rented Buildings. Reduce Item 155 by $168,689.* Recommend reduction to correct overestimation of expenses associated with renting office space and maintaining state property. 211
6. Project Management. Recommend project management unit be established under Director of General Services to implement projects offering significant improvements in 212

state efficiency (department to submit plans to Joint Legislative Budget Committee and fiscal committees prior to budget hearings).

7. Mobile Equipment. Recommend department prepare plan for increasing interagency equipment sharing for submission to Joint Legislative Budget Committee and fiscal committees prior to budget hearings (savings of $3 million annually). 214
8. *Vehicle Reutilization. Augment Item 160 by $19,074.* Recommend one assistant equipment coordinator and one-half clerical positions to expand motor vehicle reutilization (savings of $100,000 annually). 216
9. Employee Transportation. Recommend department discontinue pilot multipassenger service between Sacramento and bay area. 217
10. *Training. Augment Item 160 by $119,460.* Recommend 9.2 positions to maintain central EDP training program and coordinate state EDP training activities. 219
11. Mail Service. Recommend department, with assistance of Department of Finance, submit to Joint Legislative Budget Committee by November 1, 1975, a plan for reducing interagency mail cost. 221
12. Office Copiers. Recommend department prepare plan for implementing statewide system for acquiring and using office copying equipment for submission to Joint Legislative Budget Committee and fiscal committees prior to budget hearings (estimate $2 million annual savings). 221
13. Purchasing. Recommend department and Department of Finance cooperatively implement procedures facilitating state purchase of equipment when justified. 223
14. Board of Control. Recommend board appear in Governor's Budget as a separate state entity. 224
15. *Claims. Augment Item 156 by $43,356.* Recommend one analyst and four clerical positions to process increase in claims to Board of Control. 225
16. *Studies. Augment Item 156 by $60,000.* Recommend augmentation to provide funds to contract for analyst services to conduct required studies for Board of Control. 225
17. Working Capital. Recommend department, in cooperation with Department of Finance, prior to budget hearings submit to Joint Legislative Budget Committee and fiscal committees a fund statement and narrative on General Services working capital. 226

GENERAL PROGRAM STATEMENT

The Department of General Services exists to improve the overall efficiency of state government operations by (1) performing certain management and support functions as assigned by the Governor and specified by statute, (2) providing central services to operating departments more

DEPARTMENT OF GENERAL SERVICES—Continued

economically than they can provide individually for themselves, and (3) establishing, maintaining and enforcing statewide standards and developing and implementing improved statewide policies and procedures.

Need for Statewide Focus

The basic purpose of the department is to improve the overall efficiency of state government operations. In last year's Analysis we pointed out that substantial annual savings were not being realized because the department's executive management has focused exclusively on achieving economies *within* the department's own operations while not adequately focusing on the *statewide* purposes the operations should be serving. We recommended that a small project unit be formed to (1) identify high payoff areas such as central procurement of office copiers and interagency sharing of heavy equipment, (2) determine priorities for achieving improvements on a cost/benefit basis and (3) direct department and interagency efforts to realize the improvements identified. We recommended, further, specific statewide functions which should be considered by such a unit. The department's executive management, however, expressed reluctance toward applying such an approach and, as a result, the recommendations were not adopted.

Need for Unit to Improve Statewide Efficiency

Various separate state organizations—particularly larger ones—presently have "management system" units which are intended to achieve

TABLE 1
Department of General Services
Total Expenditures by Source of Funds

Source of Funds	*1973–74*	*1974–75*	*1975–76*	*Percent of Total*
Direct support:				
General Fund	$5,990,027	$6,372,088	$6,694,366	
State School Bldg. Aid Fund	1,150,823	1,190,897	1,017,889	
Architecture Public Bldg. Fund	1,564,103	1,901,639	2,016,841	
Deferred Compensation Plan Fund	19,040	42,218	44,921	
Total	$8,723,993	$9,506,842	$9,774,017	6.4%
Revolving funds:				
Service Revolving Fund, printing	$20,349,118	$21,380,544	$25,083,085	
Service Revolving Fund, other activities	85,383,209	101,109,360	109,408,815	
Architecture Revolving Fund	4,764,349	7,434,632	7,988,121	
Total	$110,496,676	$129,924,536	$142,480,021	93.5%
Reimbursements:				
Service Revolving Fund activities	$26,452	$48,374	$2,577	
Architecture Revolving Fund activities	176,118	129,878	139,376	
Total	$202,570	$178,252	$141,953	0.1%
Total Expenditures	$119,423,329	$139,609,630	$152,395,991	100.0%

internal administrative efficiencies. The nature and extent of such units vary substantially. The Department of Transportation, for example, has a number of specialists devoted exclusively to such specific areas as (1) office copier acquisition and use, (2) forms management and (3) EDP training.

No formal organization or program exists for sharing resources or developments among such management system units or for determining which of these developments should be applied on a statewide basis. The Department of General Services would in our opinion, be the logical organization to conduct such a program. We make a specific recommendation to this effect in our analysis of the statewide support services program.

Key Characteristics of the Department

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1975–76.

The department is funded by (1) direct support appropriations (2)

TABLE 2
Department of General Services
Total Expenditures by Source of Funds and Programs
1975–76

	Direct Support Appropriations	*Revolving Fund Appropriations*	*Reimbursements*	*Total Expenditures*	*Percent of Total*
I Property management services	$5,932,247	$45,831,452	$139,376	$51,903,075	34.1%
A. Architecture consulting and construction	2,016,841	9,420,097	139,376	11,576,314	
B. Buildings and grounds ..	–	18,913,558	–	18,913,558	
C. Long-range facilities planning	–	220,333	–	220,333	
D. Real estate services	25,663	1,538,927	–	1,564,590	
E. Space management	–	1,575,426	–	1,575,426	
F. Building Standards Commission	57,706	–	–	57,706	
G. Rented buildings	2,517,892	14,163,111	–	16,681,003	
H. Minor capital outlay	249,145	–	–	249,145	
I. Property acquisition act	985,000	–	–	985,000	
J. Physically handicapped plan checking	80,000	–	–	80,000	
II Statewide support services	3,841,770	93,925,511	2,577	97,769,858	64.2%
A. Administrative hearings	–	1,598,509	–	1,598,509	
B. Communications	49,983	17,758,495	–	17,808,478	
C. Fleet administration	87,905	9,956,668	–	10,044,573	
D. Insurance services	44,921	2,898,690	–	2,943,611	
E. Legal services	–	453,973	–	453,973	
F. Local assistance	1,088,581	–	2,577	1,091,158	
G. Management services office	7,646	7,086,446	–	7,094,092	
H. Office services	–	4,831,686	–	4,831,686	
I. Procurement	–	20,660,925	–	20,660,925	
J. Physically handicapped	1,340,570	3,550,717	–	4,891,287	
K. State printing	–	25,083,085	–	25,083,085	
L. Small business procurements and contracts	141,154	–	–	141,154	
M. State Board of Control..	330,463	46,317	–	376,780	
N. Motor vehicle parking facility	750,547	–	–	750,547	
III Administration	–	2,723,058	–	2,723,058	1.7%
Totals	$9,774,017	$142,480,021	$141,953	$152,395,991	
Percent of Total	6.4%	93.5%	0.1%		100.0%

DEPARTMENT OF GENERAL SERVICES—Continued

revolving fund appropriations and (3) reimbursements. Direct support refers to monies appropriated specifically to support General Services operations. Revolving fund appropriations and reimbursements permit the department to expend specified amounts from revenues it earns from providing services and products to customer agencies. Table 1 shows that 93.6 percent of department costs is supported from revenues earned while only 6.4 percent of the costs is funded by direct support.

Table 2 indicates the wide diversity of functions in which the department is engaged and presents for each such function the total expenditures by source of funds for the 1975–76 fiscal year. Although the functions appear in the budget as program elements, it is more realistic to view them as individual programs because of their magnitude and degree of specialization. The department's line operations fall into two categories, as follows:

1. Those functions relating to state ownership, use or regulation of real property which appear as elements under the "property management services" program.

2. Other operations which appear as elements under the "statewide support services" program.

The administration program contains executive and staff support elements which provide fiscal, personnel and management services to the department's line operations.

TABLE 3
Department of General Services
Staff by Programs 1973–74 through 1975–76

Operating Units	*Filled Positions 1973–74*	*Authorized Positions 1974–75*	*Requested Positions 1975–76*	*Percent of Total*
I Property management services	1,623.7	1,680.9	1,671.4	40.9%
A. Architecture consulting and construction	282.9	338.0	338.0	
B. Buildings and grounds	1,226.4	1,215.5	1,206.0	
C. Long-range facilities planning	7.8	9.7	9.7	
D. Real estate services	52.0	58.5	58.5	
E. Space management	54.6	59.2	59.2	
II Statewide support services	2,182.4	2,385.5	2,338.0	57.3%
A. Administrative hearings	91.9	101.6	62.1	
B. Communications	257.5	310.7	323.7	
C. Fleet administration	152.5	159.4	160.4	
D. Insurance services	9.1	11.1	11.1	
E. Legal services	16.1	17.8	18.7	
F. Local assistance	59.7	63.1	49.0	
G. Management services office	265.3	308.4	299.2	
H. Office services	169.5	199.1	205.1	
I. Procurement	169.6	187.0	186.8	
J. Security and Protection	291.3	302.9	297.5	
K. State printing	688.0	702.4	702.4	
L. Small business procurements and contracts	.9	6.0	6.0	
M. State Board of Control	11.0	16.0	16.0	
III Administration	60.9	74.6	74.6	1.8%
Totals	3,867.0	4,141.0	4,084.0	100.0%
Percent of Increase	–.1%	7.1%	–1.4%	

Table 3, which shows the allocation of staff among the various department functions over the three-year period ending June 30, 1976, indicates the 4,084 requested positions (a net reduction of 57 positions) for the budget year. The most significant changes are as follows:

1. A reduction of 39.5 positions in the Office of Administrative Hearings due primarily to the expiration of a special program to conduct fair hearings for the Department of Benefit Payments pursuant to the Welfare Reform Act of 1971.
2. A decrease of 14.1 positions in the Office of Local Assistance which reflects a decrease in the state building aid program.
3. An increase of 13 positions in the communications division to maintain additional radio equipment acquired by various state agencies.
4. A reduction of 9.5 building maintenance positions in the buildings and grounds division due to phasing out and demolition of the Los Angeles state building.
5. A decrease of 9.2 positions in the management services office due to expiration of an EDP education program.

TABLE 4
Department of General Services
Total Expenditures by Programs 1973–74 Through 1975–76

Operating Unit	*Actual 1973–74*	*Estimated 1974–75*	*Estimated 1975–76*
I Property management services	$43,145,833	$49,466,608	$51,903,075
A. Architecture consulting and construction	7,085,433	10,887,517	11,576,314
B. Buildings and grounds	16,467,910	18,250,190	18,913,558
C. Long-range facilities planning	152,979	210,639	220,333
D. Real estate services	1,160,061	1,555,919	1,564,590
E. Space management	1,276,562	1,492,339	1,575,426
F. Building standards commission	26,750	49,058	57,706
G. Rented buildings	15,371,252	15,697,548	16,681,003
H. Minor capital outlay	447,638	114,000	249,145
I. Property acquisition act	1,074,841	1,120,000	985,000
J. Physically handicapped plan checking	82,407	89,398	80,000
II Statewide support services	74,415,238	87,527,696	97,769,858
A. Administrative hearings	1,899,341	2,397,023	1,598,509
B. Communications	11,324,784	14,200,820	17,808,478
C. Fleet administration	7,378,206	8,550,286	10,044,573
D. Insurance services	2,322,961	2,645,841	2,943,611
E. Legal services	344,309	436,742	453,973
F. Local assistance	1,029,082	1,259,096	1,091,158
G. Management services office	5,470,073	6,734,374	7,094,092
H. Office services	3,565,723	4,462,215	4,831,686
I. Procurement	15,144,226	18,719,323	20,660,925
J. Security and Protection	4,565,779	5,543,899	4,891,287
K. State printing	20,349,118	21,380,544	25,083,085
L. Small business procurements and contracts	27,155	137,910	141,154
M. State Board of Control	199,026	342,251	376,780
N. Motor Vehicle parking facility	795,455	717,372	750,547
III Administration	1,862,168	2,615,326	2,723,058
Totals	$119,423,239	$139,609,630	$152,395,991
Percent of Increase	17.2%	17.3%	9.2%

DEPARTMENT OF GENERAL SERVICES—Continued

Table 4, which presents total expenditures by program element during the three-year period ending June 30, 1976, indicates a $12.8 million increase in the department's total budget for the 1975–76 fiscal year. Program elements showing the greatest increases are state printing ($3.7 million) and communications ($3.6 million).

ANALYSIS AND RECOMMENDATIONS

This analysis is presented in the sequence of expenditures of the operating units in Table 2. The analysis for each unit is preceded by a statement of funding which specifies the type of support, source of funds, proposed expenditures and proposed staff.

I. PROPERTY MANAGEMENT SERVICES

Director Should Select State Architect

We recommend that existing law be modified to allow the Director of General Services to select the state architect rather than have the architect serve at the pleasure of the Governor.

Government Code Section 14950 requires that the Governor appoint the state architect, who is responsible for managing the Office of Architecture and Construction (OAC). The OAC operated in a relatively independent manner under the Director of General Services until July 1, 1973 when it was organized under a common deputy director within General Services along with the department's four other "property management" divisions (buildings and grounds, long-range facilities planning, real estate services and space management). The present organizational relationship is much more logical because it permits the department's executive management to coordinate its property management functions to a significantly greater extent.

In our judgment there is no logical reason for direct Governor's appointment of a state architect and serving at the Governor's pleasure undermines the authority of the agency administrators to whom he reports. In order to remedy this situation, we recommend that the law be changed to have the state architect serve at the pleasure of the director, who is appointed by the Governor.

Program Elements

The property management services program consists of the following ten elements which relate to state ownership, use or regulation of real property.

A. Architecture Consulting and Construction

Funding	Source of funds	Proposed expenditures	Proposed staff
Direct support	Item 157	$2,016,841	338.0
Revolving fund	Item 158	7,988,121	—
Revolving fund	Item 160	1,431,976	—
Revolving fund-reimbursements	Item 160	139,376	—
Total		$11,576,314	338.0

This program element is discussed under our analysis of Items 158 and 157 which make separate appropriations from the Architecture Revolving Fund and Architecture Public Building Fund respectively.

B. Buildings and Grounds

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$18,913,558	1,206.0

The buildings and grounds division is responsible for maintaining state buildings and grounds and for making minor building alterations.

C. Long-Range Facilities Planning

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$220,333	9.7

The long-range facilities planning division is responsible for (1) developing long-range facilities plans to satisfy future state space requirements in metropolitan areas, (2) developing a five-year capital outlay program, (3) analyzing state parking requirements, (4) making economic analyses and (5) reviewing agency building space requests to ensure consistency with long-range state-wide objectives.

Planning Cost Should be Shared More Equitably

We recommend that costs of the long-range facilities planning unit be recovered beginning in the 1976–77 fiscal year by pro rata charges to state agencies based on their number of employees.

Presently, expenses of the planning unit, which are budgeted at $220,333 in the 1975–76 fiscal year, are paid from rents received by General Services under the rented buildings program element. Because the unit is responsible for considering space requirements of *all* state agencies, in our opinion, it would be more logical and equitable if its costs were recovered from pro rata assessments to all agencies, based on their number of employees.

More State-Owned Office Space Required

We repeat the recommendation contained in our analysis of capital outlay (Item 358) that a budget augmentation be made of "$1.5 million for working drawings and a study for construction of 480,000 net square feet (nsf) of state office space in Sacramento."

The state presently is leasing approximately 1.6 million net square feet (nsf) of office space within the greater Sacramento area at an annual cost of approximately $6.7 million. In order to expedite constructon of state-owned space and provide for savings both in state construction and lease

DEPARTMENT OF GENERAL SERVICES—Continued

costs at the earliest time possible, we suggest that the plans for office buildings Nos. 8 and 9 be reused, possibly with minor alterations for architectural appearance, interior modifications and site conditions.

Space Planning Report Required

We recommend that the Department of General Services prior to the budget hearings submit to the Joint Legislative Budget Committee and fiscal committees hearing the department's budget items and the capital outlay item, building space reports as required by Supplementary Report of the Committee on Conference (Budget Bill of 1973).

In our 1973–74 Analysis we pointed out that the state was leasing an excessive amount of office space and that no consideration was being given to constructing state-owned buildings. In order to enable the state to satisfy its present and future office space requirements in a systematic and efficient manner, the Supplementary Report of the Committee on Conference (Budget Bill of 1973) required that the Department of General Services submit to the Joint Legislative Budget Committee by November 1, 1973, for each major metropolitan area in California in which state offices are located, a report of state building space requirements and plans for satisfying those requirements. The reports were to include (1) an inventory of existing state-occupied space and lease terms, (2) identification of agencies that should be consolidated, (3) five-year projections of agency space needs and (4) recommendations as to how the projected space needs should be satisfied based on an economic analysis of each alternative solution and based on an estimated 50-year life of each building.

Department Fails to Submit Space Plans

As of January 1975, the department had not submitted any such reports for major metropolitan areas. It is our understanding that such a report for the Sacramento area was prepared by the department but not released by the Agriculture and Services Agency. Because such information continues to be essential for sound office space planning, we believe the department should submit to the Legislature an approved up-to-date version of the reports required.

D. Real Estate Services

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 155	$25,663	58.5
Revolving fund	Item 160	1,538,927	—
Total		$1,564,590	58.5

The real estate services division acquires, manages and disposes of real property for state agencies.

E. Space Management

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$1,575,426	59.2

The space management division provides services for assignment, coordination, contract and lease management of noninstitutional office and warehouse space.

F. Building Standards

Funding	Source of funds	Proposed expenditures	Proposed staff
Direct support	Item 155	$57,706	—

The Building Standards Commission, which is responsible for reviewing building code regulations and conducting hearings of construction industry appeals, receives staff support from the Office of Architecture and Construction.

G. Rented Buildings

Funding	Source of funds	Proposed expenditures	Proposed staff
Direct support	Item 155	$2,517,892	—
Revolving fund	Item 160	14,163,111	—
Total		$16,681,003	—

The Department of General Services collects rent on a nonprofit basis from occupants of a number of state buildings. All such rent is deposited in the Service Revolving Fund. Payments are made from the fund for all building costs including insurance, building maintenance and amortization of loans of Public Building Construction Fund buildings. The standard monthly rental rate for the 1975–76 fiscal year is 45 cents per square foot for office space and 11.5 cents per square foot for storage space.

The direct support expenditure indicated above for this element represents the amount requested from the General Fund for rental of legislative office space and for the Department of General Services to maintain the State Capitol, Capitol Park and the Governor's Office and residence.

Expenditures Overestimated

We recommend funding of this element be reduced by $168,689 (Reduce Item 155, General Fund) to adjust for overestimation of expenses associated with renting office space and maintaining state property.

An examination of the department's detailed records reveals projected expenses during the 1975–76 fiscal year as being $168,689 less than the amount requested for renting legislative office space and maintaining the State Capitol, Capitol Park and the Governor's Office and residence (General Fund Support). We therefore suggest the funding of this element be reduced accordingly.

H. Minor Capital Outlay

Funding	Source of funds	Proposed expenditures	Proposed staff
Direct support	Item 155	$249,145	—

DEPARTMENT OF GENERAL SERVICES—Continued

The minor capital outlay element consists of five minor alterations planned to state facilities in the 1975–76 fiscal year.

I. Property Acquisition Act

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Gov't Code (Sec. 15850–65)	$985,000	—

This program element represents expenses incurred by the real estate services division and buildings and grounds division in maintaining and improving properties (1) acquired under the Property Acquisition Law and (2) declared surplus to state needs prior to their disposition.

J. Physically Handicapped Plan Checking

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Gov't. Code (Sec. 4454)	$80,000	—

This program element represents expenses incurred by the Office of Architecture and Construction in verifying that plans and specifications of structures purchased by state funds provide for adequate accessibility and use by the physically handicapped.

II. STATEWIDE SUPPORT SERVICES

Need for a State "Management Efficiency" Unit

We recommend that a small project management unit be established under the Director of General Services for directing short-term projects which offer significant improvement in the efficiency or economy of state government. We recommend that the unit report quarterly to the Governor, Joint Legislative Budget Committee and both fiscal committees of the Legislature on the (1) status of projects in process, and (2) recommended additional projects with the costs and benefits associated with each. We recommend further that the department prior to the budget hearings submit a plan and budget for such a unit to the Joint Legislative Budget Committee and the committees hearing the department's budget items.

A number of separate "management system" units exist for the purpose of achieving economies and efficiencies within the individual agencies. No formal organization or program exists, however, for (1) achieving similar efficiencies in other departments or on a statewide basis or (2) directing central or interagency project efforts to achieve such improvements in *statewide* administration.

In our judgment, a small unit of "project management type" individuals is needed to identify, coordinate and direct projects that could be implemented readily and result in significant improvements in state efficiency or economy. Although the management services office has a unit of management analysts, they are used primarily for routine functions or committed to long-term department projects. During the course of a project, the project manager in this recommended unit should be able to acquire temporarily the staff resources required from the variety of technical specialists within General Services, other state agencies or from outside state government. We recommend that initial responsibilities of the unit include directing projects to (1) implement a central state system for acquiring and maintaining state office copier equipment (as recommended in our analysis of the Office of Procurement) and (2) increase interagency sharing of heavy equipment (as recommended in our analysis of the fleet administration division).

Program Elements

The statewide services support program consists of the following 14 program elements.

A. Administrative Hearings

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$1,598,509	62.1

The Office of Administrative Hearings (1) conducts quasi-judicial hearings, (2) compiles and publishes the California Administrative Code and (3) conducts studies of administrative law and procedure.

B. Communications

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 155	$49,983	323.7
Revolving fund	Item 160	17,758,495	—
Total		$17,808,478	323.7

This program element involves planning for and managing state telecommunication facilities, assisting agencies in defining and satisfying their telecommunication requirements, providing installation and maintenance services and ensuring system reliability. Radio, telephone, teletype, closed circuit TV, emergency (911) telephone and data transmission service functions involve communication system planning, design, installation, alteration and maintenance. Telephone services consist of managing the state's leased-line telephone system, operating state switchboards and preparing state telephone directories.

C. Fleet Administration Division

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 155	$87,905	160.4
Revolving fund	Item 160	9,956,668	—
Total		$10,044,573	160.4

The fleet administration division conducts various vehicle service activi-

DEPARTMENT OF GENERAL SERVICES—Continued

ties including vehicle pool operations, garage operations, preventive maintenance, statewide inspection services, parking services for state employees and the public, and central management and coordination.

Interagency Sharing of Mobile Equipment

We recommend that:

1. *A full-time state mobile equipment coordinator be appointed by the Director of General Services to work with the state equipment council and be responsible for directing and expediting implementation of the interagency equipment sharing program.*
2. *General Services, with assistance from the Department of Finance, prepare and submit to the Joint Legislative Budget Committee and fiscal committees prior to budget hearings, a proposed plan, schedule and budget for continued implementation of the equipment sharing program for 1975–76. Funding for the program should be provided in the Department of General Services' budget from pro rata charges paid by participating departments through the Service Revolving Fund (Item 160).*
3. *General Services prepare instructions in the State Administrative Manual requiring departments to (a) participate in the program, (b) submit information on their equipment which should be listed in the mobile equipment inventory and (c) obtain specific approval from the state mobile equipment coordinator before renting from nonstate sources specific types of equipment having high rental rates.*

An interagency heavy equipment council was formed in 1972 for coordinating the acquisition and use of heavy equipment from a statewide perspective. In the 1973–74 fiscal year, the scope of the program was extended to encompass all state "mobile equipment" (motor vehicles and other equipment which can be transported readily) and the council was redesignated as the "state equipment council."

Promising Start

According to a July 1973 report published by the council, the heavy equipment sharing program resulted in total net savings to the state of $119,000 during the 1972–73 fiscal year from interagency transactions involving heavy equipment rentals, repair services and supplies. The council's July 1974 report indicates that interagency sharing of "mobile equipment" (involving both heavy and light equipment transactions) resulted in total net savings to the state of $450,000 during the 1973–74 fiscal year. The council in its October 1974 quarterly progress report indicates net savings of $78,000 resulted during the first quarter of 1974–75.

A significant recent development has been the publication by the council of a detailed inventory of state-owned mobile equipment. The inventory, which is maintained on a computerized data base by the Department of Transportation, identifies mobile equipment items owned by individual state agencies and indicates their location and the organization and individual to contact in order to rent them. The inventory, if properly used, should be an effective device to facilitate interagency equipment sharing.

Greater Savings Possible

The council's July 1973 report stated that significantly greater savings ($3 million per year) could be realized simply by using state heavy equipment vehicles ten percent of the time during which they are idle. The report stressed the need for top management involvement to provide the policy and enforcement direction required in order for the program to be effective.

Project Management Recommended

The equipment council consists of middle management equipment specialists who take time from their regular jobs to participate in the council's activities. Because of the substantial savings possible, we recommended in the 1974–75 Analysis that General Services assign a project manager and provide sufficient staff resources to fully implement the equipment sharing program to achieve maximum state savings in the shortest time possible. In line with the recommendation, an assistant director of General Services was designated as the project director. In addition, an operations research specialist was assigned to provide technical support to the project on a full-time basis. The assistant director, however, was not relieved of his regular duties and, as a practical matter, the program has continued to be managed primarily by the state equipment council.

Project Management Recommended—Again

Continued "management by committee" seems clearly inappropriate if implementation of this program is to be expedited. For this reason, we recommend that the Director of General Services appoint a *full-time* state mobile equipment coordinator to work with the state equipment council and be responsible for directing and expediting the program's implementation.

Plan, Schedule and Budget Required

The council, in its October 1974 quarterly progress report, estimated program costs at $94,000 during the 1974–75 fiscal year and indicated that the costs are to be prorated among departments based on the number of motor vehicles which they own. We are advised by General Services staff, however, that (1) program expenditures do not appear as such, in any department budgets, (2) certain participating agencies are informally donating resources (e.g., manpower, computer time, etc.) to the program and (3) General Services "out-of-pocket costs" associated with the program of approximately $20,000 for the 1974–75 fiscal year are being recovered from charges to customers receiving service from the fleet administration division.

In order to implement the program in an orderly manner, the Department of General Services, with the assistance of the Department of Finance, should develop a proposed plan, schedule and budget for continued implementation of the equipment sharing program through 1975–76. The program should be funded through the Service Revolving Fund and supported entirely from pro rata charges paid by participating agencies.

DEPARTMENT OF GENERAL SERVICES—Continued

Provisions to Ensure Full Participation

It is our understanding that certain departments have indicated a reluctance to (1) provide information on their mobile equipment for inclusion in the mobile equipment inventory and (2) rent their equipment to other agencies. In order to ensure full participation, we believe the Department of General Services should prepare specific instructions in the State Administrative Manual requiring departments to (1) participate in the program, (2) submit information on their mobile equipment for inclusion in the state mobile equipment inventory and (3) obtain specific approval from the state mobile equipment coordinator or his representative before renting specified types of equipment having high rental rates from nonstate sources in order to ensure that comparable state-owned equipment is not available.

Motor Vehicle Reutilization Efforts Should be Intensified

We recommend that:

1. An augmentation be made of $19,074 for salaries and wages plus an amount for related expenses for one assistant equipment coordinator and one-half clerical position (augment budget Item 160, Service Revolving Fund) to expand the motor vehicle reutilization program. The cost should be recovered from savings resulting from increased sales of reutilized equipment.

2. Funds saved by agencies as a result of purchasing used vehicles be reported by General Services to the Department of Finance as a basis for unallocating funds saved from such agencies' budgets.

The fleet administration division administers the state motor vehicle reutilization program. Under that program, the division arranges for state agencies requiring motor vehicles to purchase used vehicles which have been declared as surplus by other state agencies whenever feasible. Net annual savings from the program exceed $1 million. The entire program presently is operated by a single equipment coordinator.

Greater Savings Are Possible

Based on our examination of program activities, at least $100,000 additional annual net savings to the state are not realized because the coordinator's present workload prohibits his locating state agencies which otherwise would purchase and effectively use state vehicles which are declared as surplus and sold at public auctions. In order to remedy this situation, we believe that one assistant equipment coordinator and one-half a clerical position should be added to support the program, funded from savings resulting from increased sales of the reutilized equipment.

Savings Should Be Saved

Presently, funds saved by agencies purchasing used vehicles through the reutilization program may be spent by the agencies for other purposes. In order for such savings to actually be realized by the state, we suggest they be reported by General Services to the Department of Finance as a basis for unallocating funds from such agencies' budgets.

Pilot Shuttlebus Service Should be Discontinued.

We recommend that the Department of General Services discontinue its pilot multipassenger service for employees traveling on state business between Sacramento and the bay area. The department should instead publish regulations in the State Administration Manual directing employees when traveling on state business to (1) use common carriers or (2) drive together in state or personal cars whenever feasible.

The Department of General Services was required by the Supplementary Report of the Committee on Conference (Budget Bill of 1974) to plan and monitor implementation of a pilot multi-passenger shuttlebus service for employees traveling on state business directly between Sacramento and the bay area. According to the department's October 25, 1974 progress report to the Legislature, the program was initiated in June 1974. Each day four trips were scheduled from Sacramento to San Francisco and from San Francisco to Sacramento. Two full-time positions were assigned as drivers of two nine-passenger station wagons which were used in the program. To date participation has been extremely low and, because participation is voluntary, it is doubtful that it will increase significantly.

The department appears to have given no serious attention to (1) the possibility of using common carriers, (2) actively soliciting participation by other state agencies operating car pools or (3) requiring participation by employees traveling between Sacramento and the bay area. In order to achieve even a marginal economic advantage it appears necessary that (1) common carriers be used and (2) employees be required to participate.

D. Insurance Office

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 163	$44,921	11.1
Revolving fund	Item 160	2,898,690	—
Total		$2,943,611	11.1

The insurance office administers a comprehensive program for recovering damages to state-owned vehicles, advises agencies on risk management problems, analyzes agencies' insurance requirements and negotiates for insurance procurement based on such analyses. The office also administers a driver accident prevention program and the state's deferred compensation program.

Automobile Liability Self-Insurance

Legislative Interest Triggers Study. Pursuant to interest expressed by the Legislature during the 1968 Session, our office engaged a consulting firm specializing in risk management to provide expertise in studying the feasibility of the state's assuming self-insurance for all state-owned vehicles. The firm in its January 1969 report entitled *Feasibility Study of Automobile Liability Self-Insurance* stated that:

1. The state should continue its present purchased insurance program provided the insurance company maintained its present rate.

2. The state should investigate the feasibility of self-insurance in antici-

DEPARTMENT OF GENERAL SERVICES—Continued

pation of increased premium rates or cancellation of insurance by the carrier.

3. The insurance office had not maintained adequate historical statistics of premiums and losses over the prior ten-year period.

Statistical Record Keeping Improves. The insurance office improved its statistical record keeping with respect to state automobile losses in order to be able to continuously evaluate the feasibility of state self-insurance. In the 1971–72 Analysis we reported that in the opinion of the insurance officer it was still to the state's economic advantage to continue purchasing automotive insurance. We pointed out, however, that this opinion was based on the state's maintaining existing coverage at reasonably comparable rates and that if insurance rates became unreasonably high the state would have to self-insure.

Auditor General Recommends Self-Insurance. The Auditor General in a December 1974 report recommended that the insurance office cancel the current state automobile insurance policy which provides full liability insurance for losses up to $2 million and (1) begin a self-insurance program for losses below $50,000 per accident and (2) purchase full liability insurance for losses from $50,000 to $2 million.

We are advised by the department that the insurance office itself had been considering this option and based on its historical statistics available at that time had estimated that such a change would reduce state insurance costs $514,800 over the three-year period ending June 30, 1977. According to the department, no-fault insurance could make state self-insurance even more attractive. It is our understanding that the department has recently acquired additional statistical data and presently is evaluating a number of alternatives (including the recommendation proposed by the Auditor General) for reducing state costs by having the state assume full or partial self-insurance against automobile losses. The insurance officer states that he expects to offer specific recommendations on this matter by July 1, 1975. Our office will continue monitoring the department's efforts and progress in this area.

E. Legal Services

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$453,973	18.7

The legal office provides direct services to the Departments of General Services and Finance and various boards and commissions. The office also reviews transactions entered into by other state agencies which are subject to approval by General Services.

F. Local Assistance

Funding	*Source of funds*	*Proposed expenditures*	*Proposed Staff*
Direct support	Item 155	$70,692	49.0
Direct support	Item 162	1,017,889	—
Revolving fund reimbursements	Item 160	2,577	—
Total		$1,091,158	49.0

This office administers the State School Building Aid Program which provides financial assistance to school districts for acquisition and development of school sites, construction of buildings and purchase of equipment. Other activities include (1) reimbursing counties for providing legal counsel to indigents and (2) administering other programs offering financial assistance to local agencies.

G. Management Services Office

Funding	Source of funds	Proposed expenditures	Proposed staff
Direct support	Item 155	$ 7,646	299.2
Revolving fund	Item 160	7,086,446	—
Total		$7,094,092	299.2

The management services office provides a variety of services including accounting, budgeting, data processing, management analysis and state records management. The office also administers the central state EDP education program.

Central State EDP Training

We recommend that:

1. *An augmentation be made of $119,460 for salaries and wages plus an amount for related expenses for adding six data processing systems analysts, two clerical positions and 1.2 temporary help positions (augment budget Item 160, Service Revolving Fund) in order for the central state EDP training program to continue at its present level in the 1975–76 fiscal year.*
2. *Of these positions, one analyst and one and one-half clerical positions be used to initiate a state EDP training coordination program.*

We have continuously supported the development and improvement of the state's central EDP education program. Since its transfer to the Department of General Services in early 1972, the program has operated on a fully reimbursable basis and has expanded significantly. In addition to providing instruction for EDP specialists, the program offers training designed specifically for various types of non-EDP personnel including executives, middle managers, auditors and users of EDP services.

Program Expanded to Accommodate Teale Data Center (TDC)

The program's staff was increased by 9.2 positions in the 1974–75 fiscal year in order to provide training on a reimbursement basis specifically for (1) EDP specialists employed by the TDC and (2) non-EDP personnel from agencies receiving services from that data center. The TDC training program, however, was budgeted for the 1974–75 fiscal year only.

Program Level Should be Maintained

Almost all of the training presently provided by the program for individuals employed or served by the TDC is applicable and can be offered to other state personnel as well. Because of the acceptable quality of the

DEPARTMENT OF GENERAL SERVICES—Continued

training and the continued high demand for it, many of the courses have been heavily oversubscribed.

In our judgment, a valid need continues throughout state service for practical, up-to-date EDP training both for data processing specialists and those responsible for or served by EDP. In order to meet this need adequately, the central state EDP education program staff should be maintained at its present level to (1) satisfy the increased demand for the training presently offered (2) continuously update the program to keep pace with new training requirements and (3) initiate a central coordination effort (described below) to enable the state to make more effective use of its total EDP training resources.

The entire program, however, should continue to be funded on a fully reimbursable basis.

EDP Training Still Is Fragmented

Although the central EDP education program has demonstrated considerable progress, from a statewide perspective EDP training continues to be fragmented and inefficient. Agencies continue developing their own programs independently with little interagency sharing or cooperation. They continue to contract separately with private vendors to satisfy their individual training needs. The quality and extent of EDP training varies greatly among state agencies. While certain larger organizations have extensive programs under their own full-time EDP training specialists, other agencies have inadequate programs or none at all. In short, the state should be making much more effective use of its EDP training efforts and resources.

In order to provide effective EDP training to state employees as efficiently as possible, we recommend that a program be implemented whereby all agencies having EDP personnel are required, with the assistance of General Services, to prepare an annual EDP training plan and budget for approval by the Department of Finance. To initiate the program, we recommend that the state central EDP education unit:

1. Distribute by July 1, 1975 to each state agency having EDP personnel, instructions for preparing its EDP training plan and budget for the 1976–77 fiscal year.
2. Counsel and assist each agency in developing and modifying its EDP training plan to capitalize on and make optimum use of total state resources.
3. Consult with the Department of Finance to secure approval of each agency's EDP training plan and budget.
4. Upon Department of Finance's approval, structure a statewide EDP training curriculum and schedule (to supplement those individual agency programs which continue to be justified) for the 1976–77 fiscal year based on the composite needs of all agencies.
5. Monitor the execution of each agency's EDP training plan.
6. Review and modify the statewide EDP training curriculum as needed.

H. Office Services

Funding	Source of funds	Proposed expenditures	Proposed staff
Revolving fund	Item 160	$4,831,686	205.1

The office services division provides office machine repair, reproduction, mail and clerical services to state agencies.

Interagency Mail Service Should be Expanded

We recommend that the office services division, with assistance of the Department of Finance, survey the use of external messengers by state agencies in the greater Sacramento area and submit to the Joint Legislative Budget Committee by November 1, 1975 a report (1) identifying specific positions being used as messengers which should be eliminated in the various agencies; (2) presenting a plan, schedule and budget for providing interagency messenger service to such agencies and (3) indicating annual net savings in state costs which would result if the recommendations and plan were implemented.

It is our understanding that many state agencies in the Sacramento area particularly those in the outlying areas have employees spending all or most of their time delivering mail between their offices and external locations. For example, in our analysis of the State Fire Marshal's Office (Item 152) we recommend deletion of a position requested to serve as such a messenger and recommend the office receive messenger service instead from General Services. The office services division presently offers interagency mail service in downtown Sacramento, collecting and delivering mail twice daily for a maximum charge of $80 per month.

I. Office of Procurement

Funding	Source of funds	Proposed expenditures	Proposed staff
Revolving fund	Item 160	$20,660,925	186.8

The procurement element consists of three program components: (1) direct purchasing, (2) warehouse-resale and (3) traffic management.

Need to Improve Acquisition of Office Copiers

We recommend that:

1. The Department of General Services, with advice and assistance of the Department of Transportation, prepare a specific plan (including a schedule, budget and projected savings) for implementing a coordinated statewide system for acquiring, deploying, maintaining and replacing office copying equipment on a statewide basis. The plan should be submitted prior to the budget hearings for consideration by the committees hearing the department's budget items.

2. A full-time project manager be designated to implement the plan.

3. General Services purchase copier equipment and lease it to using agencies when purchase is cost-justified.

4. General Services perform a copier reutilization function (similar to its statewide automobile reutilization program).

DEPARTMENT OF GENERAL SERVICES—Continued

5. After the copier program is implemented successfully, it be extended to encompass other equipment, including word processing machines.

High Payoff Potential

Although almost all office copiers in state use presently are leased (according to General Services, approximately 1,800 copiers are leased at an annual cost of $7.4 million), in many cases it would be to the state's economic advantage to own them.

Central System Proposed

In the 1974–75 Analysis, we recommended that the Department of General Services undertake a project to (1) determine statewide office copier requirements, (2) determine the numbers and types of equipment required to satisfy such requirements, (3) arrange for the state, through central volume acquisition, to acquire (lease or purchase) each type of equipment in the most cost/effective manner possible, (4) provide for interagency coordination and sharing of the equipment and (5) have the state maintain the equipment when economically feasible.

In line with our recommendations in the 1974–75 Analysis, the Supplementary Report of the Committee on Conference required the Department of General Services to submit to the Legislature (1) a plan and schedule for implementing a coordinated office copier program by October 1, 1974 and (2) reports by January 1, 1975 and April 1, 1975 specifying the department's progress in implementing the plan and savings achieved as a result of the program.

Department Fails to Submit Plan

The department failed to submit the plan and schedule on October 1, 1974 as required. It is our understanding that such a plan was prepared by the department and submitted to the Cabinet for approval, but that it was not released by the Cabinet. We therefore recommend that the department submit a plan for implementing a central state office copier program in accordance with the approach prescribed in the 1974–75 Analysis and as outlined above.

Capitalize on DOT Expertise

The Department of Transportation presently operates its own comprehensive office copier program under the central direction of a full-time office copier specialist. Formal guidelines and procedures have been published for determining copier requirements, and for selecting, acquiring and maintaining copier equipment on a cost effective basis. In order to capitalize on that department's expertise in this area and apply its procedures to the extent practicable on a statewide basis, we suggest that the Department of General Services seek the assistance of the Department of Transportation in developing a central state office copier program.

Leaseback Procedure Indicated

Although almost all state copiers presently are leased, General Services equipment specialists maintain that in most instances it would be clearly to the state's economic advantage to purchase such equipment. It is our understanding that existing leases of copiers typically are extended simply because sufficient funds have not been budgeted by the using agency for purchasing the equipment. In such cases, when it is to the state's advantage to own the equipment, we believe General Services should purchase it and lease it to the using agency.

Office Copier Reutilization

General Services should implement an office copier reutilization program similar to its statewide automotive reutilization program. Under the latter program, General Services arranges for state agencies requiring motor vehicles to purchase whenever feasible vehicles which have been declared as surplus by other state agencies. (The motor vehicle reutilization program results in annual cost avoidance to the state in excess of $1 million.)

Expand to Other Equipment

After the office copier program is fully operational, it should be extended to include other high payoff areas including word processing equipment and other office machines.

Equipment Should be Purchased When Feasible

We recommend that the Department of General Services and the Department of Finance cooperatively implement procedures to facilitate state purchase (rather than lease) of equipment whenever state ownership of such equipment is economically justified.

Although most equipment acquired by the state is purchased rather than leased, acquisition by lease is the common practice for certain types of equipment, particularly word processing machines and certain other office equipment. Agencies frequently have leased such equipment even when it clearly would be to the state's economic advantage to own it. To remedy this situation, the Department of General Services has implemented procedures requiring departments to prepare lease/purchase analyses for approval by General Services before such equipment may be acquired. As a result, the state is purchasing a greater proportion of the office equipment it uses. It is our understanding, however, that in many cases an agency, after completing a lease/purchase analysis indicating purchase as preferable to leasing, is permitted to lease the equipment because sufficient funds for such purchase have not been budgeted.

Approaches which should be considered include (1) encouraging agencies to systematically forecast their equipment requirements (2) advancing funds to enable the using agency to purchase the equipment and repay such funds at a subsequent time and (3) providing for purchase of the equipment and leasing it to the using agency.

Based on our discussions with General Services equipment specialists, it appears that proper implementation of a system for state purchase of equipment whenever economically feasible would result in annual savings of at least $500,000.

DEPARTMENT OF GENERAL SERVICES—Continued

J. Security and Protection

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 155	$1,340,570	297.5
Revolving fund	Item 160	3,550,717	—
Total		$4,891,287	297.5

The state police division provides services to protect state property and buildings, their occupants and visitors from hazards and criminal actions.

K. State Printing

Fundng	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving Fund	Item 161	$25,083,085	702.4

The Office of State Printing provides printing services for the Legislature and all state agencies except the University of California. It also produces elementary textbooks for distribution to local school districts.

L. Small Business Procurements and Contracts

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 155	$141,154	6.0

This office exists to facilitate small business participation in state procurements and construction contracts.

M. State Board of Control

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 156	$330,463	16.0
Revolving fund	Item 160	46,317	—
Total		$376,780	16.0

The board receives, processes and investigates all claims for money or damages against the state and reviews a variety of specified fiscal transactions. It also determines the pro rata share of statewide administrative costs payable by each state agency and administers the statewide employee suggestion system.

Board Should Operate Independently

We recommend that the Board of Control appear in the Governor's Budget as a separate state entity.

In prior years, the Board of Control appeared in the budget as an independent entity. We are advised by the Department of Finance that (1) the only purpose of including the board as an element in the General Services budget was to "consolidate the budget" by reducing the number of organizations appearing separately and (2) doing so reflects no changes in the board's responsibilities or functions. We believe however, that the Board of Control should remain in the budget as a separate state entity in 1975–76 and in subsequent years in order to operate independently as intended by law.

Sharp Increase in Victim Claims

We recommend an augmentation of $43,356 for salaries and wages plus an amount for related expenses for adding one analyst and four clerical positions (augment budget Item 156, General Fund) to process the increase in victim of violent crime claims.

Last year the Board of Control projected a 44 percent increase in victim claims in the 1974–75 fiscal year as a result of Chapter 1144, Statutes of 1973. The board, based on its recent experience, however, has revised its projections and as of January 1975, estimates the increase at 162 percent for the 1974–75 fiscal year as indicated in Table 5. Because of this substantial workload increase, the board is seriously understaffed. It is our understanding that, as a result, (1) approximately 570 such claims were backlogged as of January 1975, (2) it takes 30 to 60 days from the date a claim is received until an acknowledgement is sent to the claimant (formerly such acknowledgments were sent within five to seven calendar days) and (3) the total time required to process such claims has been extended by up to eight weeks.

Table 5
Victim of Violent Crimes Program

	1971–72	*1972–73*	*1973–74*	*1974–75*	*1975–76*
Claims filed	698	1,081	1,337	3,500 [a]	4,500 [a]
Percent change from previous year	+48%	+55%	+24%	+162%	+29%
Man-years	N/A	N/A	2.7	5.6 [b]	5.6 [b]

[a] Agency estimate.
[b] Does not reflect additional staff shifted from other programs to process victim claims.

Special Studies

We recommend an augmentation of $60,000 (augment Item 156, General Fund) to provide funds to contract for analyst services to conduct required special studies.

The board in carrying out its responsibilities requires that a variety of studies be conducted as a basis for properly adjusting state reimbursement and allowance rates. In the past, General Services management services office has assigned analysts who have conducted such studies for the board at no cost. In the future, however, such analysts are to be available only on a reimbursement basis. In our judgment, the board, rather than adding analysts of its own, should continue using outside analysts. Based on (1) previous study efforts required by the board and (2) published rates of management services office analysts, we have determined that $60,000 should be added to the budget to enable the board to contract for special studies required in the 1975–76 fiscal year.

N. Motor Vehicle Parking Facilities

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Gov't. Code (Sec. 14678)	$750,547	—

DEPARTMENT OF GENERAL SERVICES—Continued

This program element represents expenses incurred by the department's divisions of (1) buildings and grounds, (2) security and protection and (3) fleet administration respectively for maintaining, protecting and administering state parking facilities.

III. ADMINISTRATION

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 160	$2,723,058	74.6

The administration program consists of executive management, fiscal and personnel functions which support the department's operational programs. Program costs are distributed among the department's line programs. The department also provides on a reimbursement basis accounting, budgeting and personnel services for a number of smaller state entities.

Working Capital

We recommend that:

1. The Department of General Services in cooperation with the Department of Finance submit prior to the budget hearings to the Joint Legislative Budget Committee and fiscal committees hearing General Services' budget items a consolidated fiscal statement specifically indicating working capital funding for each operating division for the three-year period ending June 30, 1976.

2. The statement reflect all working capital expenses including projected employee salary increases.

3. The statement either (a) conform entirely to the proposed format as presented in appendix 8 of the department's April 12, 1974 report on working capital to the Assembly Ways and Means Subcommittee or (b) be accompanied by written explanations justifying any modifications.

4. The statement be supplemented by a narrative explaining in nontechnical terms the department's working capital requirements and how the working capital is to be acquired and used.

5. Such a consolidated fund statement and narrative be included in the Governor's Program Budget in subsequent years.

Cash-Flow Problems

We identified problems associated with the department's cash-flow requirements on page 251 of our 1971–72 Analysis and recommended improved management reporting procedures as a partial solution. The department since has improved its cash-flow reporting to both its executive and line management. In addition to the improved reporting, the department initiated a plan during the 1972–73 fiscal year to provide working capital to satisfy its cash-flow needs by adding a two to five percent surcharge to its rates. Prior to using the surcharge approach, General Services relied almost entirely on advance payments from its customer agencies to satisfy its cash requirements.

Legislative Interest

An Assembly Ways and Means subcommittee held a special hearing January 31, 1974 on the subject of General Services' working capital requirements and whether a surcharge approach should be applied in addition to or instead of the advance payments system. At that hearing we issued a statement entitled *Analysis and Recommendations Regarding a Working Capital Approach by the Department of General Services* in which we stated that neither the distortions created by the advance payment system nor those created by a working capital accumulation approach would appear to be particularly significant. The statement also contained specific recommendations for ensuring efficient use of and effective fiscal control over the department's working capital funds. We recommended in the statement for example, that a narrative presenting the department's working capital requirements, objectives, fund condition and operations be included annually in the Governor's Budget and be supplemented by appropriate fund statements.

Working Capital Funding Should be Presented Clearly

At the request of the subcommittee, the Departments of General Services and Finance jointly prepared a report dated April 12, 1974 entitled *Report to the Legislature on General Services Working Capital Requirements* which proposed that the advance cash payment system be phased out and replaced completely by the surcharge approach by July 1976. The report stated that the department's consolidated current surplus statement in the Governor's Budget did not reflect adequately the manner in which General Services accumulates and uses its working capital and, to remedy these deficiencies, proposed a revised fund statement included as Appendix 8 of that report.

The Supplementary Report of the Committee on Conference (Budget Bill of 1974) required that the cash advance system be considered preferable to the surcharge approach and continue to be used in those divisions where feasible. It required further that (1) the 1975–76 Governor's Program Budget include an expanded consolidated fund statement as described in Appendix 8 of the April 12, 1974 report cited above and (2) a narrative accompany the statement explaining clearly in nontechnical terms the department's working capital requirements and how the working capital is to be acquired and used.

Ground Rules Changed/Results Misleading

No narrative appears in the Governor's Budget explaining the department's working capital requirements and the consolidated fund statement which does appear is confusing and inaccurate. It does not conform to the one proposed in the April 12, 1974 report by the Departments of General Services and Finance as was required by the Supplementary Report of the Committee on Conference. The statement contained in the budget fails to segregate working capital funding from equipment funding. The department's budget specialists are unable themselves to determine from the statement the present and projected level of the department's working capital. In addition to mixing working capital together with equipment, the statement fails to reflect anticipated employee salary increase costs and thereby overstates the total projected value of equipment and working capital as of June 30, 1976 by an estimated $9 million.

Department of General Services
OFFICE OF ARCHITECTURE AND CONSTRUCTION

Item 157 from the Architecture Public Building Fund — Budget p. 278

Requested 1975–76	$2,016,841
Estimated 1974–75	1,901,639
Actual 1973–74	1,564,103
Requested increase $115,202 (6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item, along with $1,431,976 from the Structural Revolving Fund, which is continuously appropriated, supports the Office of Architecture and Construction's (OAC) plan checking and construction inspection activities related to all public school and new hospital construction in the state.

The Office of Architecture and Construction does not perform any design work with respect to this program. After the plans have been approved, OAC inspects and monitors construction progress to insure compliance.

OAC receives a set filing fee under the schoolhouse program and a uniform fee based on a percentage of the estimated construction cost under the hospital program.

ANALYSIS AND RECOMMENDATIONS

Table 1 indicates the current estimated trend in schoolhouse and hospital construction activity and the budgetary impact on the plan checking program. The 18 percent increase merely reflects the estimated impact of inflation in the construction industry. Thus, the agency is anticipating no increase in its workload level over 1974–75. The proposed budget increase of $115,202 is only for salary and wage adjustments and price increases.

Table 1
Comparison of Workload Funding and Staffing Changes

Construction Value	*Actual 1973–74*	*Estimated 1974–75*	*Estimated 1975–76*	*Percent change from current year*
Public Schools	$320,000,000	$392,000,000	$462,560,000	18%
Hospitals	200,000,000	336,000,000	396,480,000	18
Total	$520,000,000	$728,000,000	$859,040,000	18%
Total Program Expenditures	2,144,966	3,323,007	3,448,817[a]	3.8%
Production man-years	74	125.3	125.3	–
Revenues:				
Schoolhouse fees	1,670,854	1,960,000	2,312,800	18%
Department of Health	2,034,359	2,352,000	2,775,360	18
Investment	162,102	258,813	187,000	(−28)
Total	$3,867,315	$4,510,813	$5,275,160	15.4%

[a] Includes $2,016,841 from the Architecture Public Building Fund and $1,431,976 from the Structural Revolving Fund.

Department of General Services

OFFICE OF ARCHITECTURE AND CONSTRUCTION

Item 158 from the Architecture Revolving Fund — Budget p. 278

Requested 1975–76	$7,988,121
Estimated 1974–75	7,434,632
Actual 1973–74	4,764,349
Requested increase $553,489 (7.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Future role of OAC. Recommend Department of General Services phase-out its basic architectural and consulting services activities. 230

GENERAL PROGRAM STATEMENT

The Office of Architecture and Construction (OAC) provides two basic services. First, and primarily, OAC functions as an architectural and engineering services organization similar to larger private architectural firms. It provides the full spectrum of architectural and engineering services. However, OAC operates an on-the-job inspection service for all state projects as required by law. Private architects normally do not provide this service as part of their regular contracts. Usually, where a private client desires this type of inspection, he employs the inspectors directly.

Second, OAC functions as a policing agency to assure compliance, with the Physically Handicapped Law and the Field Act. This is primarily a plan checking function with some follow-up field inspection. In terms of the Physically Handicapped Law, OAC is only responsible for reviewing state funding projects. For the Field Act, it reviews all projects for public school entities in the state and all new hospitals administered by the State Department of Health. Additional information about these activities is contained in our analysis of Item 157 which is the funding source for the majority of OAC's plan checking functions.

Compensation for Services

OAC is reimbursed for all of its out-of-pocket and overhead expenses in connection with any one job. In addition, overhead expenses that are not connected with a specific job or authorization must be assumed by jobs in progress. All of OAC's related architectural and engineering activities are funded from the Architectural Revolving Fund, which does not receive any revenue directly. Rather, funds appropriated by the Legislature for specific projects are deposited in the revolving fund as required by the projects progress. Assessments are then made against each project account for the services provided. Consequently, the actual volume of work for the office, and hence the amount of funds available to cover all expenditures, is completely dependent upon the level of capital outlay appropriations provided by the Legislature.

OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

ANALYSIS AND RECOMMENDATIONS

The budget for OAC's Architectural Revolving Fund activities for 1975–76 identifies six major categories of architectural consulting and construction services. Budget year staffing requirements are the same as the current year.

Table 1
Architectural Consulting and Construction Services
Workload Based on Estimated Construction Value

	1974–75	*1975–76*
I. Basic Architectural and Consulting Services	$29,525,000	$34,840,000
II. Nonbasic Architectural and Consulting Services	46,684,000	55,087,000
III. Contract Architect Program	32,739,000	38,632,000
IV. Basic Construction Services	60,970,000	71,945,000
V. Nonbasic Construction Services	42,439,000	50,078,000
VI. Special Services (hours)	(9,233)	(9,233)

The Governor's Budget reports the estimated construction value of projects serviced, in each of the first five categories in Table 1, as a workload measure. In each of these categories, the amount shown for 1975–76 is 18 percent greater than the 1974–75 level. It is our understanding that this percentage is the inflation factor used to adjust current workload levels to 1975–76 construction costs. This projection of current workload levels into the budget year is consistent with the proposed continuation of current staffing levels. While we have not received any detailed workload projections to substantiate budgeted levels, our cursory review of workload generated by the capital outlay program in the Governor's Budget and continued from prior budgets indicates that OAC's budget estimates may be exaggerated.

Future Role of OAC

We recommend that (1) the Department of General Services phase-out the Office of Architecture and Construction's basic architectural and consulting services activities, and (2) the department retain an architectural consulting and construction capacity with adequate staff to:

a. Administer contracts and supervise and inspect construction projects designed for the state,
b. Provide professional programming assistance to state agencies,
c. Coordinate and interpret the state's building program and policies and serve as liaison with private architectural organizations, and
d. Perform certain functions related to state operations such as cost estimating, special investigation, space planning and preparation of reports.

At the time the state began providing its own architectural and engineering services, it was embarking on a large-scale postwar building program. With the volume of work involved, the state developed a large staff of architects and engineers having a continuity of experience with the peculiarities of the state's needs in its various specialized facilities. At the time, there were few private firms that had similar expertise and the capability to turn out such a large volume of work.

However, circumstances have changed. The amount of state construction requiring the services of the Office of Architecture and Construction has diminished due to program changes and a reduction in state college projects assigned to the office. In addition, numerous private architectural and engineering firms have the expertise and production capabilities to perform the work as competently as the state-employed staff and at no increase in cost.

Lack of Flexibility

The State Office of Architecture and Construction does not have the flexibility to adjust to fluctuations in workload as readily as a private firm. This is because of various considerations including rules and regulations governing layoff and demotion. This inflexibility coupled with a rapid decrease in workload led to cost overruns totaling $1,592,647 from 1970 to 1972. This excess cost was ultimately recovered by a one-time deficiency transfer and a surcharge on future work. The potential for this situation to recur is always present because of uncertainties as to the actual size of the state's capital outlay program until the Budget Bill is finally passed.

Valley Workload Ceiling Concept

To alleviate this problem, the Legislature established a valley workload ceiling by incorporating specific language in the Budget Act of 1972. OAC was directed to gradually reduce its staff "in-house" capabilities to a workload volume of $25 million by June 30, 1973. That ceiling has been raised annually by subsequent Budget Acts to compensate for inflated construction costs. The proposed Budget Bill ceiling of $34.8 million continues that policy. The intent of this valley workload concept was to maintain some "in-house" expertise while assuring optimum utilization of OAC staff. At peak workload times, when the work cannot be performed by existing staff in a timely manner, OAC contracts for services with private professionals.

Deficiencies of the Concept

One operational problem the valley staffing concept failed to alleviate was the difficulty associated with scheduling one year's work when the peak workload is concentrated at the start of each fiscal year. To assure a constant workload level and expeditious project flow throughout the fiscal year, some work must be delayed.

OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

Based on past experience, we believe that the preliminary planning or working drawings phase of most state projects, for which OAC is responsible, should not exceed six months. In fact, the present mix should average closer to four months. Only an exceptionally large or complicated project would justify a 10 month working drawing period. With construction costs rising one to 1.5 percent a month, unnecessary project delays can be costly. Out of five hospital air conditioning projects funded in the Budget Acts of 1973 and 1974, four experienced delays that are partially attributable to OAC. Inadequate pr gramming and budget documentation also contributed to the delays. We conservatively estimate that these delays will cost the state an additional $3.6 million because of rising construction costs. A January 1974 status report prepared by the Department of Parks and Recreation identified unnecessary project delays by OAC ranging from one to six months. We estimate the cost of those delays at close to $1 million. Contracting these projects to private firms would have averted these excess costs.

We suggest that the benefits to be derived from maintaining OAC's basic architectural and consulting services are difficult to assess in light of the (1) capabilities of private organizations, (2) lack of flexibility to rapidly adjust to workload fluctuations, (3) inherent problems in scheduling a constant workload level and (4) excess state costs being experienced because of unnecessary scheduling delays.

However, we believe it would be advisable for the state to employ its own estimators, project coordinators and inspectors to interpret policy and program needs, assist agencies in developing budget documentation, control costs and insure compliance with contract documents. Consequently, we are recommending phasing out one function while strengthening others.

Agriculture and Services Agency

DEPARTMENT OF INDUSTRIAL RELATIONS

Items 164 and 165 from the General Fund — Budget p. 299

Requested 1975–76	$46,354,995
Estimated 1974–75	44,661,126
Actual 1973–74	31,140,045
Requested increase $1,693,869 (3.8 percent)	
Total recommended reduction	$12,948

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
164	Departmental Support	General	$35,072,933
165	Local Mandates	General	11,282,062
			$46,354,995

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Administration. Reduce $12,948.* Recommend deletion of an Assistant Information Officer. 61
2. Divisions of Labor Law Enforcement and Industrial Welfare. Recommend legislation to consolidate the divisions (potential savings $200,000 annually). 63
3. Division of Fair Employment Practices. Withhold recommendation pending receipt of backlog data. 64
4. Uninsured Employers' Fund. Recommend either (1) abolishment of the fund, (2) General Fund augmentation of $2,411,423 and corrective legislation, or (3) constitutional amendment to establish a special fund from an additional tax on workers' compensation insurance premiums and corrective legislation. 64

GENERAL PROGRAM STATEMENT

The purpose of the Department of Industrial Relations is to "foster, promote and develop the welfare of the wage earners of California, improve their working conditions and advance their opportunities for profitable employment." To fulfill these broad objectives, the department provides services through the following programs:

1. Administrative Support Services, which includes the Office of the Director and provides overall policy direction, legal and public information, management analysis, fiscal management, personnel and training, duplication and data processing services.

2. The Self-Insurance Plans Unit, which issues certificates of self-insurance to those enterprises demonstrating financial capability to compensate their workers fully for industrial injuries and monitors financial transactions involving such injuries.

3. The State Conciliation Service, which investigates and mediates labor disputes, promotes sound union-employer relationships for preventing disputes and arranges for the selection of boards of arbitration.

4. The Division of Industrial Accidents and the Workers' Compensation Appeals Board, which adjudicate disputed claims for compensating workers who suffer industrial injury in the course of their employment (Proposition 11, approved by the voters in November, 1974, changed the name of workmen's compensation to workers' compensation and the Workmen's Compensation Appeals Board to the Workers' Compensation Appeals Board).

5. The Division of Industrial Safety, which administers the California Occupational Safety and Health Act (Cal-OSHA) enforces all laws and regulations concerning the safety of work places (including mines and tunnels); and inspects elevators, escalators, aerial tramways, radiation equipment and pressure vessels.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

6. The Division of Industrial Welfare, which enforces a total of 15 wage orders promulgated by the Industrial Welfare Commission and other state laws relating to wages, hours and working conditions.

7. The Division of Labor Law Enforcement, which enforces all labor laws not specifically delegated to any other agency including those governing child labor, the payment of wages, the licensing of artists' managers and farm labor contractors.

8. The Division of Apprenticeship Standards, which promotes apprenticeship programs and other "on-the-job" training for apprentices and journeymen, promotes equal opportunity practices in such programs and inspects, approves and monitors such programs for veterans under a contract with the U.S. Veterans Administration.

9. The Division of Labor Statistics and Research, which gathers data regarding collective bargaining agreements, work stoppages, union membership and work-related injuries and illness as part of the Cal-OSHA plan for use, among other things, in identifying high-hazard industries for intensified safety enforcement efforts.

10. The Division of Fair Employment Practices, which enforces laws promoting equal opportunity in housing and employment on the basis of race, religion, creed, national origin, ancestry, sex, age or physical handicaps.

Under Section 2231(a) of the Revenue and Taxation Code the state reimburses local governmental agencies for increased costs mandated by state legislation enacted after January 1, 1973. The budget contains funding for the following four mandates within the program area of the Department of Industrial Relations:

(a) Chapter 1021, Statutes of 1973, which reduced the period over which an injury must extend to qualify a worker for disability benefits ($489,252).

(b) Chapter 1022, Statutes of 1973, which increased workers' death benefits ($2,661,696).

(c) Chapter 1023, Statutes of 1973, which increased the maximum rate of workers' disability payments ($8,118,192).

(d) Chapter 1147, Statutes of 1973, which increased the mileage reimbursement rate paid to workers required to undergo medical examinations for determining eligibility for compensation benefits ($12,922).

ANALYSIS AND RECOMMENDATIONS

The department's proposed General Fund support appropriation of $46,354,995 is 3.8 percent above estimated General Fund expenditures for the current year. This consists of $35,072,933 (Item 164) for support of the department and $11,282,062 (Item 165) for legislative mandates. The department's proposed expenditure program, including reimbursements and federal funds, totals $54,596,981. Table 1 shows funding sources and expenditures by program.

Table 1
Budget Summary
Department of Industrial Relations

	Proposed	Change From Current Year Amount	Percent
Funding			
General Fund Appropriations	$46,354,995	$1,693,869	3.8
Chapter 1040, Statutes of 1973 [a]	52,364	52,364	—
Reimbursements	400,818	−130,602	−24.6
Federal Funds	7,788,804	232,414	3.1
Total	$54,596,981	$1,848,045	3.4
Programs			
Administrative Support Services Distributed to Other Programs	($2,063,727)	($268,437)	15.0
Undistributed or distributed to other state agencies	$99,864	$−71,606	−41.8
Man-years	114.8	−0.3	
Regulation of Workers' Compensation Self Insurance Plans	$286,058	$−4,161	−1.4
Man-years	13.6	—	
Conciliation of Employer-Employee Disputes (State Conciliation Service)	$579,978	$78,604	15.7
Man-years	21.3	2.8	
Adjudication of Workers' Compensation Disputes (Division of Industrial Accidents)	$14,127,632	$1,073,454	8.2
Man-years	636.8	45.7	
Prevention of Industrial Injuries and Deaths (Division of Industrial Safety)	$16,308,886	$751,812	4.8
Man-years	551.6	−9.4	
Promulgation and Enforcement of Minimum Wages and Standards for Hours and Working Conditions (Division of Industrial Welfare)	$1,988,959	$297,095	17.6
Man-years	89.4	10.3	
Enforcement of Laws Relating to Employment, Licensing and Adjudication (Division of Labor Law Enforcement)	$4,267,757	$265,696	6.6
Man-years	208.7	7	
Apprenticeship and Other On-the-Job Training (Division of Apprenticeship Standards)	$2,891,717	$−15,787	−0.5
Man-years	129.3	−7.6	
Labor Force Research and Data Dissemination (The Division of Labor Statistics and Research)	$1,094,564	$81,497	8.0
Man-years	50.2	.7	
The Prevention and Elimination of Discrimination in Employment and Housing (The Division of Fair Employment Practices)	$1,669,504	$87,820	5.6
Man-years	68.9	—	
Subtotal	43,314,919	2,544,424	7.5
Man-years	1,884.6	49.2	
Legislative Mandates	$11,282,062	$−696,379	−5.8
Total	$54,596,981	$1,848,045	3.4
Man-years	1,884.6	49.2	

[a] Chapter 1040, Statutes of 1973, provides for support of a State Workers' Compensation Advisory Committee to study the state's workers' compensation laws in view of the Report of the National Commission on State Workmen's Compensation Laws.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Reasons for Increases

The department's proposed net program increase of $1,848,045 (as reflected in Table 1) consists of an increase of $2,544,424 in support costs partially offset by a decrease of $696,379 in mandated local program expenditures. Legislative mandates decreased because of a one-time adjustment resulting from Chapter 1494, Statutes of 1974, which appropriated $696,379 in the current year to cover a deficiency in 1973–74. The increase in the support budget consists of $1,189,879 in operation expenses and equipment (up 12.5 percent mostly because of inflation) and $1,354,545 in personal services representing cost-of-living increases and a net total of 65.9 new positions. Data on these positions are presented in Table 2.

ADMINISTRATIVE SUPPORT SERVICES

We recommend deletion of an assistant information officer in the administrative support program for a savings of $12,948 annually.

The Governor's Budget proposes the continuation of an assistant information officer administratively established in the current year (by a reclassification) in addition to an existing information officer. We do not believe that the department's current public relations workload justifies two information officers.

PREVENTION OF INDUSTRIAL INJURIES AND DEATHS TO CALIFORNIA WORKERS
(Division of Industrial Safety)

Status of the Cal-OSHA Plan

The federal Occupational Safety and Health Act of 1970 (OSHA) gives the U.S. Department of Labor, rather than the states, jurisdiction over occupation safety and health matters, but permits states to administer programs based on an approved plan.

A total of 249 new positions at a cost of more than $5 million were added to the Department by the Budget Act of 1974 to implement the California Occupational Safety and Health Act (Cal-OSHA), which permits the state to continue a modified industrial safety program in conformance with federal standards. Federal funds are provided to offset up to 50 percent of the costs of administering the plan.

The state has three years beginning June 1973 to develop an acceptable program or face preemption by the federal government. Because the state is now only in the second year of this period and the program is not yet fully developed, reliable statistical data are not presently available to validate the department's staffing estimates for these functions. However, the budget shows a net reduction of 15 positions in the OSHA Appeals Board, reflecting that the initial staffing estimates were too high.

Table 2
Proposed New Positions

Organizational Unit	*Number and Types*	*Annual Cost*	*Source of Funding*	*Justification*
Administration	2 accounting and 1 personnel positions	$30,438	Reimbursements (California Coastal Zone Conservation Commission)	Workload
Administration	3 key data operators	22,320	General Fund, Federal funds	Workload
State Conciliation Service	2 conciliators and 1 clerical position	48,648	General Fund	Workload
Division of Industrial Accidents	8 referee, 8 reporter, 1 medical examiner, 1 rating specialist and 17 clerical positions	504,780	General Fund	Workload
Division of Industrial Accidents	8 rehabilitation and 4 clerical positions	144,000	General Fund	To implement Chapter 1435, Statutes of 1974, establishing a rehabilitation unit.
Division of Industrial Safety	5 engineer, and 1 clerical position	$86,472	General Fund, partially offset by inspection fees	Workload
Cal-OSHA Appeals Board	7 temporary help	102,312	General Fund, Federal funds	Workload
Division of Industrial Welfare	7 agent, 3.5 clerical positions and 0.2 temporary help	137,492	General Fund	Workload
Division of Labor Law, enforcement	3 investigative, 1 clerical position and 0.2 temporary help	47,384	General Fund	Increased enforcement: uninsured employers (workers' compensation) and child farm labor laws.
Division of Labor Law Enforcement	2 investigative and 1 clerical positions	32,736	General Fund	To implement Chapter 1202, Statutes of 1974 regarding prevailing wages on public works projects.
Division of Labor Statistics and Research	1 clerical position	7,248	General Fund, Federal funds	Workload
Totals	87.9	$1,163,830		
Administratively established deleted and reclassified positions:	–22	–284,526		
Net Total New Positions	65.9	$879,304		

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

PROMULGATION AND ENFORCEMENT OF MINIMUM WAGES AND STANDARDS FOR HOURS AND WORKING CONDITIONS
(Division of Industrial Welfare)

The budget proposes seven additional welfare agents and 3.5 clerical positions for the Division of Industrial Welfare. These positions are justified on the basis of increased workload resulting from 15 new wage orders which became effective March 4, 1974 covering men, for the first time, as well as women. These orders have not been in effect long enough to provide reliable data for estimating the additional workload which they will generate. We believe that the workload figures projected in the Governor's Budget for this program are overstated. These figures show an increase of backlogged cases from 10,320 in the current year to 11,420 in the budget year, notwithstanding the addition of the seven new agents. The division's workload statistical report for the first quarter of the current fiscal year shows a downward trend in comparison to the fourth quarter report for the past fiscal year. Based on this trend, the division should open 20,508 new cases in the current and budget years rather than the 21,600 reflected in the Governor's Budget. Table 3, showing our estimates of the division's actual workload, demonstrates that the seven new agent positions should give the division the capability to maintain an existing level of service without extending the backlog.

Table 3
Division of Industrial Welfare Workload
Department of Industrial Relations

	1973–74	*1974–75 (est.)* [a]	*1975–76 (est.)* [a]
New cases opened	17,904	20,508	20,508
Total caseload	23,884	26,858	29,736
Cases completed	17,324	17,630	20,500
Cases backlogged	6,350	9,228	9,236

[a] Estimated by Legislative Analyst.

Consolidate Divisions of Labor Law Enforcement and Industrial Welfare

We recommend legislation to consolidate the Divisions of Labor Law Enforcement and Industrial Welfare for a General Fund saving of at least $200,000 annually.

Over the years, this office has urged the consolidation of the Divisions of Labor Law Enforcement and Industrial Welfare on the basis that their functions and responsibilities are very similar, involving recovery of unpaid wages, reviews of wage records, licensing and enforcement of labor laws. This similarity of function is confusing not only to employers who must constantly deal with both divisions but to employees as well who often do not know with which division to file a complaint. Historically, two separate divisions have been maintained so that special enforcement emphasis could be given to labor laws designed specifically to protect women and minors. However, in view of the court decisions which have declared many such laws affecting women unconstitutional on the grounds that they are discriminatory toward men and the recent legislation which extended to men the provisions of the Labor Code which previously were applicable only to adult women, there is no justification for maintaining Labor Law Enforcement and Industrial Welfare as separate programs.

In 1972 the administration proposed consolidation of these divisions to achieve greater economy and program efficiency, but the Legislature did not accept the proposal. In the interest of organizational efficiency, we again recommend consolidation of the programs for a minimal General Fund saving of approximately $200,000, largely from the elimination of duplication of administrative overhead between the two divisions. We estimate that, at a minimum, consolidation would permit a total reduction of 12 positions from the combined staffs: central office administrative positions from eight to four, area supervisors from eight to five, and five clerical support positions.

This savings estimate reflects retention and reclassification to journeyman levels of three senior positions (now used to supervise district offices), to increase the combined divisional enforcement activities. Further program savings would accrue through more efficient use of field personnel and offices, particularly in regard to travel which will become increasingly more important because of the energy crisis. Personnel of both divisions frequently duplicate field trips to investigate complaints in the same geographical area, especially in the less populated areas of the state.

THE PREVENTION AND ELIMINATION OF DISCRIMINATION IN EMPLOYMENT AND HOUSING
(Division of Fair Employment Practices)

We withhold recommendation on fair employment practices caseload pending receipt of clarifying and substantiating workload data.

As reflected in Table 4, the Governor's Budget shows an increased workload in employment-related discrimination cases without proposing additional staff to avoid a backlog. Part of this workload results from the passage of Chapter 1189, Statutes of 1973, (AB 1126) which extended the division's jurisdiction to include prohibitions against employment discrimination on the basis of physical handicaps (operative July 1, 1974). Although the division reported that this legislation would result in the need for four additional positions, no additional staff has been added or proposed. Our preliminary discussions with the Department of Finance indicate that the workload figures projected in the Governor's Budget are overstated. We therefore are withholding recommendation pending receipt of additional information on the division's staffing requirements and backlog.

Table 4
Division of Fair Employment Practices
Discrimination in Employment Workload
Department of Industrial Relations

	1973–74	*1974–75 (est.)*	*1975–76 (est.)*
Formal cases filed	3,514	4,500	5,000
Formal cases closed	2,603	2,600	2,600
Backlog	1,111	1,900	2,400

UNINSURED EMPLOYERS' FUND

We recommend either (1) legislation to repeal the Uninsured Employers' Fund program, (2) General Fund support of the program (requiring an augmentation of $2,411,423) and legislation to correct program deficiencies, or (3) a constitutional amendment to establish a special fund from an additional tax on workers' compensation insurance premiums and corrective legislation.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

The Uninsured Employers' Fund, established by Chapter 1598, Statutes of 1971 (operative March 4, 1972), provides workers' compensation benefits for employees, injured in the course of their work, whose employers fail to provide compensation. As discussed below, it was contemplated that the program would be self-supporting, but experience to date indicates that this will not be the case.

After making an award to a work-injured employee based on a rating of the disability provided by the State Compensation Insurance Fund, the Director of Industrial Relations is authorized to recover the amount of the award from the uninsured employer through civil action. The recovered award, plus a penalty equivalent to a year's premium cost for workers' compensation insurance (workers' compensation insurance rates range from 17 cents to $18 per $100 unit of payroll) is used to replenish the fund. The Attorney General is charged with the legal defense of the fund and is reimbursed for his service at a rate of $29 per attorney hour in the current year and $32.50 per attorney hour in the budget year.

The State Compensation Insurance Fund charges the Uninsured Employers' Fund at the rate of 12 percent of all awards for providing the disability rating service and a flat $35 fee for determining the rate at which the uninsured employer would have paid workers' compensation insurance for purposes of establishing the employer's penalty. The fund was "seeded" with $50,000 borrowed from the Human Resources Development Contingent Fund, which amount must be repaid.

As shown in Table 5, all assets of the fund are now depleted and, as of November 30, 1974, the fund had $1,030,863 in outstanding obligations which could not be paid.

TABLE 5
FINANCIAL STATUS OF THE UNINSURED EMPLOYERS' FUND
AS OF NOVEMBER 30, 1974
DEPARTMENT OF INDUSTRIAL RELATIONS

Receipts	
Amount initially borrowed from the Human Resources Development Contingent Fund	$50,000
Penalties and recoveries	23,368
Allocation from the Emergency Fund	22,960
Total Receipts	$96,328
Disbursements	
Payments for 57 claims	73,222
Attorney General legal services	16,856
State Compensation Insurance Fund services	1,993
State Controller services	102
Total disbursements	$92,173
Balance in fund as of November 30, 1974	4,155
Unpaid obligations	
166 unpaid claims	778,833
Attorney General legal services (1-1-73 to 10-31-74)	96,609
State Compensation Insurance Fund services (4-1-73 to 11-30-74)	109,576
Repayment to Human Resources Development Contingent Fund	50,000
Total unpaid obligations as of November 30, 1974	$1,035,018
Total unpaid obligations minus balance in fund	$1,030,863

As we have pointed out for the past two years, this program cannot possibly become self-supporting using recoveries and penalties alone because of the large number of insolvent, uninsured employers who are, for all practical purposes, immune from judgment recoveries. This is borne out by the experience of other states such as New York which reports that 50 percent of its uninsured employers fall into this class.

Last year we reviewed the problems of this program and recommended either (1) abolishment of the program or (2) corrective legislation and General Fund support for the program. In demonstrating preference for the second alternative, the Legislature augmented the fund by $150,000 (Item 154.1) in 1973 and $1,366,000 (Item 178.1) in 1974, which the Governor vetoed on the basis that the program should become self-supporting. After authorizing a $22,960 Emergency Fund allocation to pay obligations of the fund in the 1972–73 fiscal year, the administration announced that no additional General Fund support, even for administration or legal services, would be provided for the program.

We believe this policy is unsupportable because claims are now being filed at the rate of 60 per month and, as reflected in Table 5, 166 claims totaling $778,833 have been awarded by the Workers' Compensation Appeals Board but cannot be paid for lack of money. After completing the process of having his claim litigated and awarded, the victim of an uninsured employer is now notified by the department that the fund has no money and that he will be paid when funds are available. The program appears to be of little value if victims of uninsured employers must wait long periods, even years under this policy, to receive benefits. Equally as bad, the state is unable to defend itself adequately against these claims. With the increase in the number of claims and without budgeted financial support, the Department of Justice is not supplying attorneys to defend the state's interest in all proceedings where these claims are litigated. Also, the State Compensation Insurance Fund is unable, without financial support, to supply a medical evaluation of the injury to assist in the defense of the claim.

The General Fund Support Option

Because of these problems, we again recommend either legislation abolishing the fund and its program, or the passage of corrective legislation combined with General Fund support of the program or a constitutional amendment establishing a special fund with revenues derived from a special tax on workers' compensation premiums.

The Department of Industrial Relations has not had sufficient claims experience as a basis for forecasting accurate fiscal requirements of the

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Uninsured Employers' Program. Calculating costs for claims is very difficult because they vary, depending on the nature of the injury, and can range from a few dollars for a minor injury to many thousands of dollars for a death or serious injury. Expenses for very serious injuries and deaths, which involve medical expenses, temporary and permanent disability or death benefits often continue for several years. However, based on the limited experience of the program, we estimate that an appropriation of $2,411,423, would be needed to make the program solvent through the budget year as reflected in Table 6.

Table 6
Estimated Fiscal Requirements of the Uninsured Employers' Fund

1. Current outstanding obligations to November 30, 1974 (as shown in Table 5)	$1,030,863
2. Funding for remainder of the current year (December 1974 to June 30, 1975)	
Claims	401,100[a]
State Compensation Insurance Fund (12 percent of the cost of claims)	48,132
Attorney General	55,416
Subtotal	$504,648
3. Funding for budget year	
Claims	687,600[a]
State Compensation Insurance Fund (12 percent of the cost of claims)	82,512
Attorney General	105,800
Subtotal	$875,912
Grand Total	$2,411,423

[a] This estimate is based on limited experience with the fund, which indicates that 60 claims are being processed monthly, one-half or 30 of which result in an award. Of these 30 awards, one-half are paid by the employer and the remaining 15 become obligations against the Uninsured Employers' Fund. The initial claims which have been paid from the fund average approximately $3,820. Consequently, the cost of claims based on this limited experience will amount to approximately $687,600 annually (15 claims monthly or 180 claims annually at $3,820 each).

The Constitutional Amendment Option

The establishment of a special fund to provide workers' compensation benefits for injured employees of uninsured employers would require a constitutional amendment because (1) as interpreted by the courts, the Constitution does not now authorize the Legislature to require an employer to contribute workers' compensation benefits to any except his own employees, and (2) the Constitution authorizes only specified taxes which can be applied to insurance companies. Therefore, the constitutional proposal would have to amend (a) Section 21 of Article XX to permit the Legislature to provide for the payment of workers' compensation benefits from funds derived from contributions of employers to pay the benefits for which a single employer is responsible and (b) Section 28 of Article XIII to authorize the Legislature to place an additional tax on companies which provide workers' compensation insurance. A 0.1 percent tax on workers' compensation insurance would produce annual revenue exceeding $1,000,000. (The California Inspection Rating Bureau estimates that workers' compensation insurance premiums in the state will total $1,030,000,000 in 1974.) It may, however, be necessary to provide General Fund support until the amendment takes effect.

Corrective Legislation

If the Uninsured Employers' Program is to be continued, we believe the legislative changes summarized below should be adopted.

Increase Employer Penalties and Adopt Posting Requirement. Corrective legislation should establish stringent penalties to discourage employers from failing to obtain adequate protection against work-related employee injuries, thereby reducing the number of claims against the fund. One possible procedure would authorize the Director of the Department of Industrial Relations or his agent to impose administrative penalties of at least $100 per employee against any employer who has not complied with legal requirements to cover employee injury claims.

We also recommend that employers be required to post prominently in their places of employment a certificate issued by their insurance carrier showing the expiration date of their workers' compensation insurance coverage, accompanied by a statement giving the telephone number of the nearest Labor Commissioner office and an invitation for any person to call that number to report the expiration of any such coverage. This posting requirement would broaden the enforcement base of the Uninsured Employers' Program and provide immediate notice of the employer's insurance status to departmental field personnel on routine inspection visits.

Reduce Administrative and Legal Defense Costs. New legislation should simplify and reduce the costs of administering the fund. A flat penalty such as 50 percent of the award limited to $10,000 would eliminate the necessity for the State Compensation Insurance Fund charges to determine the present penalty (which is based on a year's premium for workers' compensation insurance as determined by the uninsured employer's payroll), thereby eliminating the $35 fee charged for this service.

The legislation also should permit the Director of Industrial Relations to utilize, through a contractual arrangement, the legal services of the State Compensation Insurance Fund rather than the Attorney General to defend the interests of the Uninsured Employers' Fund. The State Compensation Insurance Fund is better qualified to defend the Uninsured Employers' Fund because of years of experience in defending its own funds against claims by injured workers. In addition, it already provides administrative as well as legal services to the state and other governmental self-insured employers in the workers' compensation field for which it charges a fee of 12½ percent of the cost of the award. Moreover, legal services by the State Compensation Insurance Fund would result in lower overhead and travel costs because it has offices with attorneys adjacent to each of the 22 Division of Industrial Accidents field offices where uninsured employer controversies are litigated. Because the Department of Justice has only four attorney offices throughout the state, considerable time is expended in traveling to and from the Division of Industrial Accident field offices, and such time (at a cost of $29 per hour in the current year and $32.50 in the budget year) is charged to the fund. The State Compensation Insurance Fund, based on its experience of handling claims for governmental self-insured employers, could probably defend the fund for only minor increases above the 12 percent of awards plus the $35 fee

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

for determining penalties which it currently charges. However, the actual costs for this service would be subject to negotiation between the State Compensation Insurance Fund and the Department of Industrial Relations.

We have recommended that the Attorney General retain two attorney man-years at a cost of approximately $105,000 annually to monitor the legal aspects of the program, handle constitutional and other state legal policy questions, and litigate cases in which the State Compensation Insurance Fund is a party to a dispute as an insurance carrier and cannot handle the legal defense because of the potential conflict of interest.

Clarify Effective Date of Program. The Legislature should clarify the date on which it intended the Uninsured Employers' Program to begin. The court (in *Dude Jenkins vs. Workmen's Compensation Appeals Board*) has recently interpreted existing law to mean that the date of the award and not the date of injury is the factor in determining eligibility. This means that all employees who have sustained injuries in the last five years (working for uninsured employers) may file claims against the fund because the workers' Compensation Appeals Board has continuing jurisdiction over all injury cases for a period of five years by statute.

Exemption of Owner Occupied Residence. The legislation should also exempt owner-occupied residences from being attached by a lien to recover damages from an uninsured employer. This would prevent situations in which a family unknowingly becomes an uninsured employer by employing domestic help on a short-term basis to cope with such things as family illness. Under current law, domestic help are exempt from workers' compensation benefits unless they work more than 52 hours per week for one employer.

Agriculture and Services Agency

WORKERS' COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES

Item 166 from the General Fund — Budget p. 316

Requested 1975–76	$1,462,000
Estimated 1974–75	1,901,000
Actual 1973–74	2,368,225
Requested decrease $439,000 (23.1 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
No-dependency Death Payments. Recommend Department of Finance reexamine the flow of workers' compensation no-dependency death payments and recommend appropriate adjustments as a part of its May revision of expenditures and revenues.	70

GENERAL PROGRAM STATEMENT

Existing law provides that when a worker with a preexisting permanent disability or impairment suffers a subsequent industrial injury resulting in a combined permanent disability of 70 percent or more, the employer is responsible only for that degree of permanent disability arising from the subsequent injury. The balance of the disability benefit obligation is assumed by the state. The purpose of this program is to provide an incentive for employers to hire persons who have a permanent (but partial) disability or impairment.

The cost of this program is paid by an annual budget appropriation and revenue from Chapter 1334, Statutes of 1972 (as amended by Chapter 21, Statutes of 1973) which implemented Proposition 13 of that year. This legislation requires employers or their insurance carriers to pay to the state, in a lump sum, workers' compensation benefits in cases of industrial deaths where there are no surviving heirs. These payments are collected by the Department of Industrial Relations, placed in the General Fund and used to offset the cost of the subsequent injury program. Subsequent injury payments are awarded by the Workers' Compensation Appeals Board and administered by the State Compensation Insurance Fund (a public enterprise). The money appropriated by this item includes the service charges of that agency and the Attorney General who represents the state's interests in the hearings before the appeals board or court.

ANALYSIS AND RECOMMENDATIONS

The proposed funding and expenditures for the subsequent injury program are shown in Table 1.

Table 1
Source of Funding for the Subsequent Injury Program
1975–76

Funding	*Proposed*	*Change from Current Year* *Amount*	*Percent*
General Fund			
Appropriation (Item 166)	$1,462,000	$−439,000	−23.1%
Chapter 1334, Statutes of 1972 (Death Benefit Payments)	1,326,000	234,000	21.4
Total	$2,788,000	$169,827	6.5%

Need to Up-date the No-dependency Death Payment Estimates

We recommend that the Department of Finance reexamine the flow of the no-dependency death benefits payments and recommend appropriate adjustments in the May revision of expenditures and revenues to avoid the possibility of over-budgeting for this program.

It appears that the workers' compensation, no-dependency death benefit payments received by the state may be greater than the amounts estimated in the Governor's Budget ($1,092,000 for the current year and $1,326,000 for the budget year). The Department of Industrial Relations reports that $1 million was collected as of January 1, 1975. If this collection pattern continues, the General Fund appropriation should be reduced. Accordingly, the Department of Finance should reexamine the flow of these funds and recommend appropriate adjustments during its regular

WORKERS' COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES—Continued

May revision of expenditures and revenues.

STATE PERSONNEL BOARD

Item 167 from the General Fund, and Item 168 from the Cooperative Personnel Services Revolving Fund — Budget p. 318

Requested 1975–76	$16,264,715
Estimated 1974–75	12,342,977
Actual 1973–74	14,220,282
Requested increase $3,921,738 (31.8 percent)	
Increase to improve level of service $3,775,627	
Total recommended reduction	None

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
167	State Personnel Board (SPB). For direct support of board's operations.	General	$15,150,180	247
168	Local government services. For support in form of revenues from services provided.	Cooperative Personnel Services Revolving Fund	1,114,535	253
	Subtotal of board's items included in this Analysis.		$16,264,715	
	Reimbursements (to various SPB programs for services to local governments).		1,527,883	
			$17,792,598	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Employee Turnover. Recommend SPB assign analysts and supervisors a minimum of 18 months to jobs requiring detailed understanding of individual departments. 248
2. Salary Compaction. Recommend legislation requiring board in subsequent years to set civil service salaries without regard to statutory or constitutional salaries. 248
3. Planning of Examinations. Recommend SPB implement program for scheduling examinations when required by departments. 249
4. Examinations. Recommend SPB eliminate unqualified candidates promptly. 250
5. Salary Surveys. Recommend SPB in future years survey only organizations having 500 or more employees. 250
6. Administrative Costs. Recommend SPB in subsequent years' implement system for apportioning administrative costs equitably. 253

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts state civil service rules and regulations. The state civil service system is administered by a staff of approximately 540 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees to ensure compliance with federal requirements. The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971 responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries.

Programs and Resources

The SPB conducts six programs. Table 1 presents a summary of the resources required for each of the programs during the three-year period ending June 30, 1976. The table shows that the increase in the board's budget for the 1975–76 fiscal year results from a $3.8 million increase in the career opportunities development (COD) program. The increase represents requested additional General Fund support to restore the jobs for welfare recipients element to its previously intended level. The element's activities were curtailed significantly because its funding in the 1974–75 budget was reduced by $3.5 million in anticipation of receiving additional federal matching funds which did not materialize.

Table 1
State Personnel Board
Summary of Resources Expended by Program

	1973–74		*1974–75*		*1975–76*	
Program	*Man-years*	*Budget*	*Man-years*	*Budget*	*Man-years*	*Budget*
1. Employment services	288.0	$4,144,726	274.0	$4,658,751	272.9	$4,936,373
2. Personnel management services	96.4	1,080,459	91.7	1,786,935	70.9	1,553,450
3. Program development	61.3	1,882,146	58.8	1,835,797	65.6	2,121,994
4. Career opportunities development	68.0	7,376,135	54.3	3,609,373	30.8	7,385,000
5. Local government services	101.0	1,855,971	107.1	1,918,185	96.2	1,795,781
6. Administrative services (distributed to programs 1, 2 and 3)	(130.9)	(2,717,007)	(122.8)	(3,212,561)	(120.4)	(3,695,569)
Totals	614.7	$16,339,437	585.9	$13,809,041	536.4	$17,792,598

Significant Staff Changes

The most significant staff changes are (1) an apparent decrease of 23.5 positions in the COD program, (2) a decrease of 15.7 positions in the personnel management services program and (3) 10.9 positions in the local government services program. The COD staff reduction is illusory, as described in our analysis of that program. The staff reduction in the

STATE PERSONNEL BOARD—Continued

personnel management services program reflects a transfer to the Controller's office effective July 1, 1975 of certain personnel document processing functions and related clerical positions. The transfer is in accordance with the State Controller's assuming responsibility for administering a central state automated Personnel Information Management System (PIMS). The reduction in local government services staff results from transferring a selection consulting center and its employees from the board to a joint powers organization effective July 1975.

ANALYSIS AND RECOMMENDATIONS

Reduce Staff Rotation

We recommend that the SPB assign analysts and supervisors for a minimum of 18 months to job assignments requiring detailed understanding of individual line departments' programs, functions and personnel requirements.

The SPB's employment services division and personnel management services division frequently are unable to respond adequately to line agencies requirements because many of the analysts and supervisors in such divisions are inexperienced or poorly trained as a result of an inordinately high rate of turnover. It is our understanding that the high turnover stems, at least to a significant extent, from the board's policies of (1) serving as a training ground for developing new analysts and (2) rotating analysts within the board in order for them to become "well rounded" in their knowledge of SPB operations.

Salary Compaction

We repeat the recommendation contained in our analysis of the salary increase items (Items 86, 87, and 88) for legislation requiring the SPB in subsequent years to (a) set civil service salaries without regard to statutory or constitutional salaries and (b) include in its annual report to the Legislature and Governor recommendations as to special adjustments which should be made to prevent a recurrance of compaction in civil service and exempt salaries.

Presently employees in 744 higher level state civil service positions and 58 exempt positions are not being compensated adequately in relation to their responsibilities because their salaries are compacted beneath those of their immediate supervisors, the difference being only one dollar per month in some instances. Compaction is serious because it (1) prevents employees from being compensated equitably, (2) deters competent persons from accepting promotions to responsible state jobs and (3) accumulates salary distortions which ultimately require major salary readjustments.

The severity of compaction will increase progressively until remedial steps are taken.

SPB Will Not Comply With Legislative Request

Resolution Chapter 176, Statutes of 1974, (SCR 113) requested the SPB to set salaries of civil service employees for the 1975–76 fiscal year without regard to statutory salaries. It is our understanding that the SPB does not intend to comply with this request.

Individuals accept appointments to various state executive positions for a number of nonmonetary reasons including the opportunity to serve the public, gain recognition and acquire experience. As a result, existing salaries probably are sufficient to attract an adequate number of qualified persons for appointment to such offices. Because compaction will pose a progressively severe problem in acquiring and retaining highly qualified employees in career state employment—particularly in the key leadership positions—we suggest legislation be enacted requiring the SPB in future years to set state civil service salaries without regard to statutory or constitutional salaries and recommend annually to the Legislature and Governor specific adjustments which should be made to prevent salary compaction.

We discuss the compaction problem in greater detail and make additional recommendations for eliminating it in our analysis of salary increase provisions (Items 86, 87, and 88).

Study of EDP Personnel Management Practices

The Legislature approved $100,000 requested in the SPB's 1974–75 budget to conduct a study for the purpose of improving state EDP personnel management practices including recruitment, selection, classification, assignment, compensation and employee evaluation. In order to achieve such improvements, a project team has been formed under a project manager who reports directly to the SPB Executive Officer. Team members include representatives from the Department of Finance, SPB, Department of General Services central EDP education unit, and state consolidated data centers. Objectives, work plans and schedules have been specified clearly in writing and the team appears to be progressing satisfactorily. We have monitored the project from its inception and will continue to do so.

EMPLOYMENT SERVICES PROGRAM

The employment services program includes the responsibility for recruiting, selecting and placing qualified candidates in state jobs.

Need for Systematic Planning of Examinations

We recommend that the employment services division implement a formal program for scheduling civil service examinations at times required by the various line departments.

Although many state agencies are able to forecast their hiring requirements accurately, there is no formal process for coordinating such forecasts with the board's testing program. As a consequence, many agencies are unable to hire employees when needed because qualified candidates are not available for specific job classes at the times required.

In order to satisfy its own hiring requirements, the Department of Conservation prepares and submits annually to the SPB a written plan for

STATE PERSONNEL BOARD—Continued

the future calendar year indicating by employee class the frequency and dates of examinations required. The SPB uses the plan for scheduling examinations for job classes used by the Department of Conservation, thereby ensuring that candidates are available for hire when needed by that department.

SPB Should Apply the Approach Statewide

According to representatives of the Department of Conservation and the SPB, the approach is quite effective and there is no reason why it should not be applied statewide. We therefore suggest the employment services division implement the approach statewide in a systematic manner by (1) requesting all state agencies to specify in writing their forecasted annual hiring requirements and (2) using such forecasts as a basis for scheduling state civil service examinations.

Unqualified Candidates Should be Disqualified Promptly

We recommend that the SPB review applications for civil service examinations in order to eliminate unqualified candidates promptly and efficiently.

Each state civil service job classification has specified minimum qualifications (MQs) typically in the form of education and/or experience requirements which have been approved formally by the five-member State Personnel Board. In order to qualify for many state civil service jobs a candidate, in addition to completing an application form indicating that he possesses the MQs, is required to (1) take a written examination and, if successful, (2) take an oral examination. Such oral examinations typically are conducted by a three-member panel chaired by a SPB staff member.

Presently, many test candidates who obviously do not possess the MQs for the job are not being eliminated until after they have taken the written test and appear before an oral panel. This is a waste of time, both for the state and the candidate, and demonstrates a lack of management concern with the process.

PERSONNEL MANAGEMENT SERVICES PROGRAM

The purposes of this program are to maintain the state classification and pay plan and provide personnel consultation and service to state agencies.

PROGRAM DEVELOPMENT PROGRAM

The stated objective of this program is to improve the performance of the state work force. Program elements include (1) project development and special services, (2) employee development, (3) employee-relations and (4) total compensation administration.

Only Large Organizations Should Be Surveyed

We repeat the recommendation contained in our analysis of the salary increase items (Items 86, 87, and 88) that the SPB in future years restrict its salary surveys to organizations having 500 or more employees.

The board presently includes in its salary surveys organizations having as few as 50 employees. Last year the administration adopted a "total equivalent compensation" (TEC) approach for adjusting compensation of state employees. Under that approach salaries and benefits are considered as interrelated parts of the employee's total compensation. In order to determine the prevailing value of benefit programs offered by nonstate employers, the SPB limits its benefit surveys to include only organizations having 500 or more employees because they are much more likely to offer comparable benefit programs. If the TEC approach is to be used it should be applied consistently, and state salaries as well as benefits should be adjusted in line with prevailing rates in only the larger organizations which are more comparable to the state. It is our understanding that the change we propose would tend to increase the average level of state civil service salaries by at least 2.5 percent.

CAREER OPPORTUNITIES DEVELOPMENT

The objectives of this program are to (1) identify and remove artificial barriers to public employment and (2) establish affirmative approaches for employing disadvantaged persons.

The Welfare Reform Act of 1971 (Chapter 578, Statutes of 1971) assigned additional responsibilities to the COD program for developing and operating (1) a jobs for welfare recipients program (in conjunction with the Employment Development Department [EDD]), (2) a program of grants to cities and counties for local COD projects, (3) a technical assistance program to interested jurisdictions and (4) an expanded level of the COD program in state service.

Program elements are (1) SPB support, (2) coordination and program development and (3) welfare recipients jobs. Resources allocated by program element are displayed in Table 2.

Table 2 also shows an apparent reduction of 23.5 positions in the budget year. The reduction is illusory, however, because 23.5 of the 54.3 man-years appearing in the current year reflect positions added administratively for temporary placement of trainees in various state agencies under a federally funded manpower demonstration program. The rise in COD program costs for the 1975–76 fiscal year results from a requested increase in General Fund support for the jobs for the welfare recipients element. The requested increase would raise the element's expenditures from an average annual level of $2 million to $5.885 million.

Table 2
State Personnel Board
Summary of Resources by Element—Career Opportunities Development Program

	1973–74		*1974–75*		*1975–76*	
Element	*Man-Years*	*Budget*	*Man-Years*	*Budget*	*Man-Years*	*Budget*
SPB Support	68.0	$791,118	54.3	$714,494	30.8	$592,694
Coordination and program development	—	1,299,799	—	1,016,679	—	907,306
Welfare recipients jobs	—	5,285,218	—	1,878,200	—	5,885,000
Total	68.0	$7,376,135	54.3	$3,609,373	30.8	$7,385,000

STATE PERSONNEL BOARD—Continued

Jobs For Welfare Recipients Program

We recommend approval of the $5,885,000 General Fund support requested for 1975–76 to restore the program to its annual level prior to the 1974–75 fiscal year.

The jobs for welfare recipients program, created pursuant to the Welfare Reform Act of 1971, provides for fully reimbursing state and local governments for their payroll costs of employing welfare recipients as COD employees during their initial on-the-job training period. Prior to 1974–75, the program received $7 million annual General Fund support with $5.5 million earmarked for payment of the trainees' salaries and the remaining $1.5 million to be available for administrative support and program development. The program operated on a 50-50 matching funds basis with the work incentive program (WIN) administered by the EDD. Under this arrangement, the $5.5 million earmarked for trainees' salaries was matched by an equal amount from WIN funds, resulting in a total of $11 million which was available annually for reimbursing employers for their payroll costs of trainees hired. The board's COD unit prepared contracts with government jurisdictions and provided technical assistance to them in restructuring jobs, while the EDD provided the candidates to the hiring entities.

In addition to matching funds with the WIN program, the COD unit has entered into separate similar 50-50 funding arrangements with a number of other government entities for placing welfare recipients in government jobs.

Support Reduced in Anticipation of Increased Federal Funds

Because it was anticipated that WIN program funds would be available in 1974–75 at a federal-state ratio of 80-20, the requested General Fund support in the 1974–75 Governor's Budget for the welfare recipients' salary cost portion of the program was reduced from $5.5 million to $2 million.

Legislative Attempts to Preserve Program Level

Due to changes in federal policies after the 1974–75 Governor's Budget was submitted, it became apparent that the additional amount of WIN funds would not become available as anticipated. The program, however, was expected to continue operating on a 50-50 matching basis by using the reduced amount of WIN funds available plus matching funds from various other government sources. The Legislature augmented the budget by $3.5 million, thereby restoring the state portion of the program's salary funds to $5.5 million. The Governor, however, vetoed the augmentation and, as a result, an estimated 1,750 fewer welfare recipients will have entered public employment under the program in the 1974–75 and 1975–76 fiscal years.

High Payoff Potential

According to the SPB's October 30, 1974 *Report to the California State Legislature on State Personnel Board Activities Under the Welfare Reform Act of 1971,* it presently costs a total of approximately $4,000 (about half of which is state cost) to place a welfare recipient under the COD program in an unsubsidized government job. The report indicates further that total government benefits (including reduced welfare costs and other hard dollar savings) resulting from each job placement are calculated at $1,482 during the first year and $9,645 after the first five years.

The $5,885,000 requested for 1975–76 represents the original $5.5 million annual level for salaries plus an additional seven percent ($385,000) cost-of-living adjustment. This level of funding would enable the program (on the continued 50-50 matching fund basis which is expected) to place approximately 2,940 welfare recipients in unsubsidized government jobs. Because the COD program has the capacity to readily place this volume of welfare recipients in such jobs, we suggest the program be funded at the level requested.

LOCAL GOVERNMENT SERVICES PROGRAM

Under this program the SPB (1) provides to local governments on a fully reimbursable basis recruitment, selection and other technical personnel and consultant services and (2) approves or operates merit systems for a number of local government jurisdictions.

ADMINISTRATIVE SERVICES PROGRAM

This program consists of executive management and central support services including accounting, budgeting, personnel, mail and duplicating. Program costs are distributed among the following three SPB programs: (1) employment services, (2) personnel management services and (3) program development.

Administrative Changes Not Apportioned Rationally

We recommend that the SPB in subsequent years implement a system for apportioning administrative costs equitably among all of its line programs.

The SPB budget states that the board's administrative costs of $3,695,569 are largely distributed among the following three programs: (1) employment services ($2,079,496), (2) personnel management services ($669,268) and (3) program development ($946,805). We are advised by the Department of Finance and SPB accounting staff that the COD and local government service programs are budgeted to pay administrative costs of $7,500 and $6,000 respectively from their reimbursement revenues in fiscal year 1975–76. These amounts appear clearly inappropriate in comparison with administration costs borne by the board's other three programs. The board's accounting staff was unable to explain or justify this disparity.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 169 from the General Fund, Item 170 from the Public Employees' Retirement Fund, and Item 171 from the State Employees' Contingency Reserve Fund — Budget p. 330

Requested 1975–76	$9,224,549
Estimated 1974–75	8,453,317
Actual 1973–74	6,492,799
Requested increase $771,232 (9.1 percent)	
Total recommended augmentation (Item 169)	$261,172
Total recommended reduction (Item 170)	261,172

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
169	Social Security and TEC administration for state employees	General	$320,178
170	Retirement administration	Public Employees' Retirement	8,043,647
171	Health Benefits administration	State Employees' Contingency Reserve	860,724
			$9,224,549

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fringe Benefits. Recommendations concerning employee benefits are discussed under Item 86. — 147
2. Experience Study. Recommend data processing responsibility for experience studies be transferred to the actuarial unit. — 257
3. *Funding transfer. Augment Item 169 by $261,172. Reduce Item 170 by $261,172.* Recommend total cost of the Social Security program be supported from the General Fund rather than from fees charged to participating agencies. — 257

GENERAL PROGRAM STATEMENT

The objective of the Public Employees' Retirement System (PERS) is to provide the state and other public employers and their employees the opportunity to participate in the retirement and health benefits plans (including three major medical plans) administered by the system, thereby aiding in the recruitment and retention of competent personnel by assuring a measure of post-retirement financial security for older or long-term employees and financial assistance for active and retired employees in times of illness or other temporary physical impairment. All of these plans are statutorily authorized and are funded jointly in different proportions by the employer and the employee. Responsibility for establishing policy direction and guidance for the system is vested in its board of administration.

The Public Employees' Retirement System administers three distinct programs: a retirement program, a health benefits program, and a social security program. The latter program consists of the administration of the coverage and reporting aspects of the Federal Old Age Survivors, Disability, and Health Insurance Program which applies to most state employees on a mandatory basis and to local public employees whose employers have elected such coverage. Through the Health Benefits Program, the state and (since 1968) other public employers who so elect offer their employees a number of health benefits and major medical plans on a premium-sharing basis.

The administration of a number of alternate retirement plans is the major program of the system. Through this program, the state and various contracting agencies provide their employees with a variety of benefits. The contracting agencies are granted by statute a number of optional retirement plans from which they may choose. Tables 1, 2 and 3 show selected workload data for the system's three programs.

Table 1
Social Security Program, Selected Workload Data

Detail	*1969–70*	*1970–71*	*1971–72*	*1972–73*	*1973–74*
Public employers [a]	2,611	2,631	2,646	2,661	2,651
Public employees	441,000	457,509	495,744	515,508	529,676
Employer and employee contributions [b]	$248.4	$278.7	$310.7	$374.6	$473.2
Net covered wages [b]	$2,630.0	$2,830.0	$2,990.0	$3,470.0	$4,045.0

[a] Variations in number reflect mergers and consolidations of districts and other governmental entities as well as creation of new entities.
[b] In millions of dollars. Cash basis used through June 1973, accrual basis thereafter.

Table 2
Health Benefits Program, Statistical Workload Data

Detail	*1969–70*	*1970–71*	*1971–72*	*1972–73*	*1973–74*
Average monthly enrollment [a]	191,597	206,216	222,289	229,178	251,582
Number basic plans	11	11	11	12	12
Number supplementary (to medicare) plans	6	6	6	6	6
Number major medical plans	4	4	4	3	3
Premium Payments (millions)					
State enrollees' share	$24.5	$28.5	$32.2	$30.4	$34.3
State share	10.8	14.0	17.0	22.9	24.3
Public agency costs [b]	0.6	1.8	3.9	4.7	5.9
Total premium cost	$35.9	$44.3	$53.1	$58.0	$64.5
State administrative (millions) cost [c]	1.3	1.8	2.0	1.1	1.2
Total state cost [d]	$12.1	$15.8	$19.0	$24.0	$25.5

[a] A member enrolled in two plans is counted as two enrollments.
[b] Includes employer and employee contributions.
[c] Includes contributions to the State Employees' Contingency Reserve Fund for reserves.
[d] Includes administrative and premium contributions.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 3
Retirement Program, Selected Workload Data

Detail	*1969–70*	*1970–71*	*1971–72*	*1972–73*	*1973–74*
Membership					
State and U.C.	171,584	169,084	172,319	175,973	177,823
Public agencies	254,084	264,342	291,007	305,277	322,386
Total	425,668	433,426	463,326	481,250	500,209
Retired members	57,086	62,623	72,571	82,087	91,618
Number contracting agencies	670	715	743	804	850
Public employers' contributions [a]	$248.9	$273.7	$298.8	$347.1	$389.8
Public employees' contributions [a]	$191.8	$209.2	$221.0	$263.8	$278.5
Benefit payments [a]	$120.1	$131.1	$168.1	$203.6	$244.1
Death benefits [a]	$13.6	$13.5	$14.8	$16.8	$17.9

[a] In millions of dollars.

The board of administration and staff of the Public Employees' Retirement System also administer the Legislators' Retirement System, as well as the investments of the Legislators' Retirement Fund. The system is not reimbursed for the cost of these services, which amounts to approximately $30,000 annually. The Legislators' Retirement Fund is reviewed under Item 15 of this analysis.

ANALYSIS AND RECOMMENDATIONS

Table 4 outlines the system's funding and expenditures by program element. The $285,271 reduction in reimbursements reflects the transfer of data processing operations of the Department of Veterans Affairs and the State Teachers' Retirement System from the PERS computer to the Teale Data Center. A 3.4 man-year reduction in administration staff also results from this transfer. A 2 man-year reduction in health benefits program reflects the elimination of temporary positions which instituted a pilot alcohol treatment project for state employees.

Table 4
Budget Summary

		Change From Current Year	
	Proposed	*Amount*	*Percent*
Funding			
General Fund	$320,178	$104	-
Special funds	8,904,371	771,128	9.5%
Subtotal	$9,224,549	$771,232	9.1
Reimbursements	526,172	-258,271	-32.9
Total	$9,750,721	$512,961	5.6
Program			
Administration	$5,082,011	$96,761	1.9
Man-years	147.1	-3.4	-2.3
Retirement	$3,727,814	$419,316	12.7
Man-years	295.2	7.9	2.7
Health Benefits	$695,724	$-12,037	-1.7
Man-years	34.1	-2	-5.5
Social Security	$245,172	$8,921	3.8
Man-years	15.8	-	-
Total	$9,750,721	$512,961	5.6%

Recent Legislation and Proposed New Positions

Some 50 bills were chaptered in 1974 which affected the operations of PERS. To reflect this legislation and general workload increases, a total of 86.6 positions were administratively added in the current year and 89.3 positions are requested for the budget year.

Legislation requiring staff increases included (1) Chapter 374, the state employee TEC bill (26.5 positions), (2) Chapter 1398, which granted retirement credit for accumulated sick leave to noncertificated school employees (12 positions), and (3) Chapter 1439, which established the "state industrial member" category with added benefits for certain state employees (9.3 positions).

Experience Study

We recommend that the data processing responsibility for PERS actuarial experience studies be transferred from the data processing unit to the actuarial unit.

Government Code Section 20127 requires PERS to make a quadrennial actuarial investigation (experience study) into the mortality, service, and compensation experience of its members. The last study was for the period July 1, 1965 through June 30, 1969 and was adopted by the PERS board on April 1970. Therefore, according to law, a study should have been completed by April 1974. Because of the long time period between such studies, the data processing unit has had difficulty maintaining and updating the necessary computer programs. The actuarial unit has the necessary programming expertise to maintain and update the required programs and does not have the high personnel turnover that typically occurs in a programming unit. Transferring the programming duties from the data processing unit to the actuarial unit would result in better program continuity and place all the responsibility for the study under one unit.

Administrative Fee

We recommend that General Fund Item 169 be augmented by $261,172 and Item 170 be reduced by that same amount so that the total cost of the Social Security program would be funded from the General Fund rather than from fees charged to participating agencies.

Public agencies may contract for social security coverage of their employees through PERS. Those which do are charged an administrative fee. PERS submits to the federal government quarterly wage reports and the employer and employee contributions due on the wages. The moneys submitted by local agencies are held by PERS in the "Old Age and Survivors Insurance Revolving Fund" before they are remitted to the federal government. Such moneys are invested by the state and the interest accrues to the General Fund. The total amount of the funds annually submitted to the federal government is large (approximately $400 million), and interest earned by the state on these funds for the few days each quarter they are held amounts to approximately $2 million annually. Because the state earns a substantial amount of interest on these funds, it is not appropriate to charge the public agencies a fee for administering this program.

The funds proposed to support this program in the budget year total $279,172. Of this amount, $18,000 is from the General Fund (Item 169) for the state's share of administrative costs for its employees, and the remaining $261,172 (in Item 170) is derived from the fees charged to the various public agencies covered by the social security agreement.

STATE TEACHERS' RETIREMENT SYSTEM

Item 172 from the Teachers' Retirement Fund — Budget p. 336

Requested 1975–76	$5,646,117
Estimated 1974–75	5,651,240
Actual 1973–74	4,896,335
Requested decrease $5,123	
Total recommended augmentation	$170,900

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Disability Staffing. Augment by $52,900.* Recommend two claims analysts and one clerk be added for review of disability claims.	258
2. Disability Review. Recommend disability application review process be restructured.	259
3. *Microfilm Project. Augment by $70,000.* Recommend purchase of microfilm equipment to complete this project begun in 1970.	260
4. *Department of Finance Audit. Augment by $48,000.* Recommend retention of 12 permanent positions scheduled for termination in budget year.	261

GENERAL PROGRAM STATEMENT

In 1913, the Legislature established a statewide system for paying retirement benefits to public school teachers in California. A public Teachers' Retirement Salary Fund was established to support the system. In 1944, the name of the system was changed to the State Teachers' Retirement System (STRS). The retirement system remained under the direct jurisdiction of the State Board of Education until 1963 when it was removed from the Department of Education and placed under the management of a nine-member State Teachers' Retirement Board.

ANALYSIS AND RECOMMENDATIONS

Table 1 outlines the system's funding and expenditures by program element. The budget and staffing reductions will be discussed later in the analysis under the Verification Project and the Department of Finance audit.

Disability Staffing

We recommend an augmentation of $52,900 to add two claims analysts and one clerk for review of disability claims.

Table 1
Budget Summary

		Change From Current Year	
Funding	*Proposed*	*Amount*	*Percent*
Special Fund	$5,646,117	$−5,123	-
Reimbursements	230,000	-	-
Total	$5,876,117	$−5,123	-
Program			
Records and Statistics	$3,113,031	$−13,602	0.4
Man-years	175	−22.5	−11.4
Services to Members	$2,173,654	$−6,129	−0.3
Man-years	114.7	−17	−12.9
Administration	$589,432	$14,608	2.5
Man-years	10	0	-
Total—Expenditures	$5,876,117	$−5,123	-
Man-years	229.7	−39.5	11

Significant benefit improvements in the STRS disability program enacted by Chapter 1305, Statutes of 1971, effective July 1, 1972, resulted in disability retirement applications increasing by over 500 percent annually, i.e., from less than 100 in 1971–72 to 650 in subsequent years. Approximately 66 percent of the applications received were approved in fiscal year 1973–74, with a liability to the system estimated at $200,000 each.

There has been no increase in professional staff to offset the added workload. One associate government program analyst examines all claims. Considering the fact that the insurance industry recommends an average assignment of 250 cases annually per examiner for maximum effectiveness, it is clear that STRS disability applications do not receive adequate investigation. Two additional examiners (associate governmental program analysts) plus one clerical support position should be added for disability review for workload increases. This level of staffing would produce an average load of 220 cases per examiner. The added positions have a total cost of $52,900 (salaries and operating expenses), but they would probably produce offsetting savings by eliminating those marginal disability cases which now become a liability to the system because of inadequate review.

Disability Review Process Needs Improvement

We recommend that the disability application review process be restructured as follows:

(a) The STRS board should adopt written guidelines to insure uniform action on all disability applications.

(b) Staff examiners, after completing an intensive in-service training program, should be authorized to approve disability claims subject to strict guidelines.

(c) The current Disability Review Board (DRB) should be granted formal authority to act for the STRS board. DRB should review all application denials and, on a random sample basis, review all application approvals to insure compliance with the guidelines. DRB would hear appeals and additional evidence from denied applicants and could overturn any staff decision by a majority vote.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

(d) The board's chief executive officer should be removed from the normal appeals process.

(e) Claimants or STRS may appeal DRB decisions to an administrative hearing officer and ultimately to the full STRS board (before appealing to the courts).

Currently the claims examiner reviews the disability application and an accompanying medical opinion from the applicant's physician, collects additional medical information as required, and prepares a recommendation of approval or disapproval to be submitted to the Disability Review Board. The Disability Review Board, an informal organization comprised of the assistant chief executive officer, the member services supervisor, and the assistant member services supervisor, rules on all applications. If the board approves the application, the claimant is so notified and benefits are payable from the date of disability. If the board disapproves the application, the claimant may appeal the decision administratively in the following order: Disability Review Board (rehearing); STRS Chief Executive Officer; Administrative Hearing Officer; and STRS board.

The above process is extremely time-consuming, often requiring as much as six months before resolution of an appeal, and involves the risk of inequity due to lack of established written standards for screening disability applications.

Microfilm Project

We recommend an augmentation of $70,000 to purchase the necessary equipment to complete the microfilming project which was begun in fiscal year 1970–71, provided STRS receives the necessary staffing from federally funded public service employment programs.

Currently almost all of the individual member records held by STRS are in file folders containing many kinds of documents relating to the member's employment and salary history. These individual files must be sent to the operating units for processing retirement applications or responding to other types of requests. This procedure is time-consuming and ten employees are required to process the files.

In 1970 STRS began to microfilm the records of all new members and files of teachers reentering the system (existing member files were not included). Microfilm has many advantages over the "hard copy" system because (1) copies can be cheaply made and furnished to the operating units, thus reducing control staff necessary to protect against file loss, (2) less storage space is required and (3) files can be updated with computer salary information, which is a faster and cheaper method.

At the current rate of microfilming, all system files would not be converted to microfilm for another 30 years. In the meantime, STRS is operating two records systems (microfilm and hard copy), which is cumbersome. We believe a two-year project should be undertaken to microfilm all the active member files (350,000). Such a project would require nine positions for two years plus one-time equipment costing $70,000 in the first year and $30,000 in the second. Ongoing operating equipment cost (film, etc.) would approximate $12,000 annually. STRS is currently seeking to obtain funding for the required nine positions from federally financed public service employment programs. Our recommended $70,000 augmentation for microfilm equipment would therefore be contingent upon the availability of federal funding for the positions.

Verification Project Nears Completion

Since 1965, when ten employees began to verify some member service records before retirement applications were received, the verification unit has grown to a currently authorized staff of 84 positions (34 permanent and 50 limited to June 30, 1976). The unit has verified the service of all members over the age of 50 and is currently working on the records of members who are age 49. This project has produced efficiencies in the processing of retirement applications by eliminating the requirement to obtain needed employer information (salary, length of service, etc.) after a retirement application is received. The verification of all member records was originally scheduled for completion by June 30, 1976.

Rather than proceeding with plans to terminate all 50 limited-term positions on June 30, 1976, the Department of Finance agreed to phase out the project over a two-year period beginning a year earlier than originally planned and ending a year later. This procedure is reflected in the budget by eliminating 50 limited-term positions in the Data Management and Verification Division and replacing them with 37.5 limited-term, temporary help positions. The $312,241 requested for these 37.5 positions is sufficient to allow STRS to phase out 25 positions annually by attrition over the next two years. The verification unit will be reduced to its normal working force of 34 permanent positions by June 30, 1977.

Department of Finance Audit

We recommend an augmentation of $48,000 to retain 12 permanent positions which are scheduled for termination in the budget year.

In June of 1974, the Audits Division of the Department of Finance completed a management review of STRS which made many recommendations concerning the operations, organization and staffing of STRS. We concur with most of these recommendations, but disagree on the level of reduction in staff. The proposed budget reduces the STRS staff by 27 positions pursuant to the management review. We believe a more realistic reduction for the 1975–76 year would be 15 positions. Hence, our augmentation for 12 positions (27 positions minus 15 positions).

The Department of Finance based its reduction on the relationship between historic staffing patterns for the years 1963–64 through 1972–73 and workload measured by system membership and service retirements. When this historic relationship was projected forward, the current staffing level appeared high. We agree that the current staffing level is higher. However, our conclusion is not based on an historic projection but on an assessment of actual departmental services to its membership.

Prior to 1970, STRS was severely criticized for inefficient operation. Delays of 18 months after the effective date of retirement before receiving the initial benefit payment were common. Active members did not receive their annual statements until two to three years after the end of the fiscal year in which contributions were made. Lack of up-to-date informa-

STATE TEACHERS' RETIREMENT SYSTEM—Continued

tion often resulted in members discovering that they owed large balances only after they had applied for retirement. These problems have been overcome by an increase in the utilization of electronic data processing and revised operating procedures. For example, prior to July 1, 1969, STRS received information from employers on salary contributions, service, etc., on an annual basis, which contributed to the delays mentioned above. Since that time, the reporting units have been shifted to a monthly reporting procedure.

Additional staff was added to STRS to implement these new procedures and to help clear the backlog. STRS has reached the point where the new procedures are producing economies and some staffing reductions are justified. We have worked with the department and have identified 15 positions (six in monthly reporting, four in benefit calculations, and five in accounts receivable and key punch) which can justifiably be eliminated. Additional economies can be expected in the future with further streamlining of the new procedures.

DEPARTMENT OF VETERANS AFFAIRS

Items 173, 175, 176, 177 from the General Fund, and Item 174 from the Veterans' Farm and Home Building Fund — Budget p. 339

Requested 1975–76	$13,187,045
Estimated 1974–75	12,673,616
Actual 1973–74	8,584,528
Requested increase $513,429 (4.0 percent)	
Total recommended reduction	None

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
173	Administration	General	$1,093,635
174	Administration	Farm and Home Building	294,955
175	Educational Grants	General	4,585,100
176	Hospital Administration	General	6,213,355
177	Local Assistance	General	1,000,000
			$13,187,045

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Service Fee. Recommend department insure that its service fee for "consents-to-encumber" be applied uniformly.	264
2. Eligibility Requirements. Recommend legislation authorizing the educational assistance program to require the veteran to show (1) need and (2) satisfactory educational progress.	264

3. Benefit Level. Recommend California State Scholarship and Loan Commission annually determine an adequate schedule of educational benefits for *needy* veterans. 265
4. Transfer of Programs. Recommend Postsecondary Education Commission study feasibility of transferring educational assistance programs from Department of Veterans Affairs to the State Scholarship and Loan Commission. 266

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs administers a program of services for qualified California veterans and dependents. The department's principal aim is to help qualified and needy veterans or dependents obtain direct federal or state aid and to provide a hospital-nursing-home-domiciliary facility for those veterans requiring such services not otherwise available to them.

In addition, the department administers a loan program to enable veterans to own their own homes, farms or mobilehomes on a more economical basis than would be available to them by conventional means. This service is self-supporting and self-liquidating from regular payments made by participating veterans.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 details the department's administrative cost by program and funding sources as appropriated in Items 173, 174 and 176. Item 175 provides $4,585,100 for educational grants and Item 177 provides $1,000,000 for local assistance to county veteran service offices.

Table 1
Budget Summary

		Change From Current Year	
Funding	*Proposed*	*Amount*	*Percent*
General Fund (Item 173)	$1,093,635	$33,989	3.4
General Fund (Item 176)	6,213,355	352,965	6.0
Total General Fund	$7,306,990	$386,954	5.6
Special Fund (Item 174)	294,955	26,475	9.8
Special Fund (Continuing Appropriation)	3,673,997	−348,930	−8.7
Subtotal	$3,968,952	−$339,477	−7.9
Federal (direct)	3,468,545	−46,235	−1.3
Reimbursements	2,164,202	141,548	7.0
Grand Total	$16,908,689	$142,790	0.9
Program			
Farm and Home Loan	$3,673,997	−$348,966	−8.7
Man-years	196.6	0	0
Educational Assistance	$248,662	$7,807	3.2
Man-years	15.3	0	0
Veterans' Claims and Rights	$572,707	$17,423	3.1
Man-years	37.7	0	0
Home and Hospital	$11,845,902	$448,278	3.9
Man-years	756.2	0	0
General Administration	$567,421	$18,248	3.3
Man-years	29.6	0	0
Total	$16,908,689	$142,790	0.9

DEPARTMENT OF VETERANS AFFAIRS—Continued

The $339,477 reduction in special fund support results primarily from one-time expenses incurred in the current-year for remodeling the Sacramento headquarters and relocating the Sacramento area office. (This reduction is also reflected in the Farm and Home Loan Program in Table 1.) The direct federal funding consists of medical and billet payments in behalf of residents of the Veterans Home. The reimbursements represent federal funds paid through the veteran to the home for "aid and attendance" and fees paid directly by the veterans. The reduction in direct federal support results from a reclassification in the levels of patient care (from 3 categories to 5) at the Veterans' Home to reflect more accurately the type of care needed by the individual veterans. For example, a veteran might be reclassified from the "rest-home" category (requiring 24-hour nursing supervision) to the "residential care" category which requires limited nursing supervision. Because direct federal support is based on the level of care provided, the net result of the reclassification is a reduction in direct federal payments. However, this revenue loss is more than offset by increases in federal reimbursements and adjustments in veterans' fees which we recommended last year.

FARM AND HOME LOAN PROGRAM

Standardize Service Fee

We recommend that the department's service fee for issuing "consents-to-encumber" be applied uniformly to veterans seeking home improvement loans.

The Cal-Vet loan program differs from conventional private financing in that the department acquires the property desired by the veteran, retains title to it, and then sells it to the veteran under a contract of sale. The title passes to the veteran only after he has completely paid off the contract. Because the department does not make home improvement loans, Cal-Vet loan holders must obtain second mortgages for such purposes from outside conventional lenders. The veteran is required to secure the department's approval for the loan ("consent-to-encumber"). Depending on the amount of time required for the department to evaluate the loan proposal (i.e., check the veteran's finances, reappraise the property and provide for increased home insurance), a fee of either $50 or $100 is charged for this service. Because the amount of the fee is determined by the district offices based on their interpretation of departmental guidelines, the amount charged for essentially the same service varies among the nine district offices. At least one district office does not collect a fee under certain circumstances. The department should clarify its fee guidelines and take appropriate administrative action to insure that its district managers apply the fee uniformly.

EDUCATIONAL ASSISTANCE TO VETERANS

Eligibility Requirements

We recommend legislation authorizing the department to tighten eligi-

bility requirements for educational assistance by requiring veterans to show (1) need and (2) satisfactory educational progress.

Chapter 460, Statutes of 1974, appropriated $2.5 million from the General Fund to reinstitute state-funded educational benefits for California veterans. The same level of funding is proposed for the budget year. The benefit, $100 per month for 12 months is granted to all California veterans provided they:

(1) are full-time students pursuing a course of study leading to a recognized degree, license, certificate, or diploma;
(2) have exhausted all federal veterans' administrative benefits; and
(3) have been discharged from military service within the last 12 years.

All other General Fund scholarship programs require the recipient to show financial need and satisfactory educational progress.

The department has the authority to implement such requirements in this program if available funds are not sufficient to provide benefits to *all* applicants, but this has not been done because sufficient monies are available to fund the $100 benefit level. The recommended requirements for demonstrating financial need should parallel those promulgated by the State Scholarship and Loan Commission.

Review Adequacy of Benefit Level

We recommend that the California State Scholarship and Loan Commission annually determine an adequate schedule of educational benefits for needy veterans and that legislation be enacted to implement this benefit level automatically to secure more equitable utilization of available funding.

For full-time students, monthly federal educational benefits start at $270 for a single veteran and increase to $388 for a veteran with four dependents. In view of this level of benefits, the state flat $100 per month statutory benefit probably is inadequate for a *needy* veteran. If a needs tests is established as recommended, a lower number of veterans would qualify for state assistance, thereby permitting a higher level of aid for needy veterans within the available funding.

The "need" concept is a distinct departure from the established program in which the veteran, for his military service, has earned the "right" to state assistance regardless of need. This right in turn is related to the assumption that his education may have been interrupted and he is entitled to be aided in reestablishing his educational program. Whether he requires the financial need is not a consideration except as it relates to exhaustion of federal benefits first.

On the other hand, the demands incurred under this "right" concept cause the amount made available by state appropriation to be less per veteran than it would be if need were a criterion. The $100 limit thus is small in relation to the needs of many veterans. Abandoning this right to the $100 makes it possible to use the available funding so as to more nearly meet the requirements of needy veterans. In our opinion, this change in concept will come closer to achieving the fundamental purpose of the program.

DEPARTMENT OF VETERANS AFFAIRS—Continued

Transfer of Programs

We recommend that the Postsecondary Education Commission study the feasibility of transferring educational assistance programs from the Department of Veterans Affairs to the State Scholarship and Loan Commission and report thereon to the Legislature by November 15, 1975.

The Department of Veterans' Affairs administers two educational assistance programs. One is for veterans (previously discussed) and the other is for veterans' dependents. The State Scholarship and Loan Commission administers all other state-funded scholarship programs. There probably would be economy of scale, more consistency in administrative regulations and continuity of aid programs if administration of the two Veterans Affairs programs is transferred to the State Scholarship and Loan Commission.

VETERANS CLAIMS AND RIGHTS

The population of California includes over three million veterans who are qualified to participate in both state and federal veterans assistance programs. Annually, the state and federal governments enact legislation affecting the veteran or his dependents. The department renders assistance to veterans in these areas through the following activities.

A. Claims Representation

Claims representation is actually a form of joint venture involving the department, county veteran service offices and various veterans organizations. Collectively, their purpose is to provide assistance to veterans in preparing and submitting claims to the federal Veterans Administration as well as to the department or any agency providing some form of assistance to veterans.

Monetary benefits paid to California veterans by the Veterans Administration approximate $500 million annually while the state cost to assist in the recovery has been around $500,000.

B. Cal-Vet Eligibility

All of the services offered by the department are based on a demonstration of eligibility of the applicant veteran or dependent. Consequently, an important function of the department is to establish or help to establish the facts in each case. This includes questions of residency, period of active service, and other factors. Veterans who have received or are now receiving a bonus from another state are not eligible.

C. County Subvention

As mentioned earlier, the assistance rendered to veterans in establishing their claims and rights involves a joint venture including the county veteran service offices which operate in 55 of the state's counties. The state has recognized that the cost of the service provided by the county offices is to some degree chargeable to the state and as a result the Legislature has provided subvention funds.

Prior to January 1, 1975, this subvention was limited to $75 monthly for each county veteran service officer. The annual subvention totaled approximately $500,000. Chapter 1431, Statutes of 1974, removed this monthly limit and increased the total annual subvention to $1,000,000. This increased subvention level will allow counties to implement a program to obtain federal veterans benefits for veterans who are on welfare. Such veterans could then be taken off welfare with estimated state and local savings of $3 million annually.

VETERANS' HOME AND HOSPITAL

The state-owned facility at Yountville has a capacity of 1,489 domiciliary beds and 854 beds for general medical, surgical and chronic purposes plus all of the necessary supporting facilities such as dining rooms, nurses' and employees' quarters, recreational facilities, etc. In the past there has been a steady downward trend in the domiciliary population at the home while there has been a continuing waiting list for the hospital facilities. Of the eight domiciliary buildings on the premises, only four are partially occupied by veteran members. However, in the past three years this domiciliary population has remained fairly constant at about 500. A slight increase in domiciliary membership is expected in the budget year. Table 2 summaries the workload statistic over a four-year period.

Table 2
Veterans' Home and Hospital
Selected Workload Data

Category	*1972–73*	*1973–74*	*1974–75*	*1975–76*
Domiciliary membership	485	485	510	550
Hospital patient-days	148,861	146,000	148,000	149,500
Annex-patient-days	138,585	136,869	140,000	140,000
Domiciliary outpatient visits	13,842	13,772	14,000	14,000

Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 178 from the General Fund — Budget p. 351

Requested 1975–76	$8,663,849
Estimated 1974–75	8,436,476
Actual 1973–74	7,531,101
Requested increase $227,373 (2.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Fee Structure. Recommend department review fee structure so General Fund revenues from this source can be increased to cover departmental support. 270