

State Scholarship Commission—Continued

on contract; thus the project involves no new positions or funds to be allocated to commission operating expenses. We understand that the findings and final recommendations will be available for consideration at the 1965 General Session of the Legislature.

With the exception of the deletion of the agricultural awards program and related operating expenses, we recommend approval as budgeted.

BOARD OF CONTROL

ITEM 124 of the Budget Bill

Budget page 295

**FOR SUPPORT OF STATE BOARD OF CONTROL
FROM THE GENERAL FUND**

Amount requested	\$24,893
Estimated to be expended in 1962-63 fiscal year	19,232
Increase (29.4 percent)	\$5,661
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

The Board of Control, which meets twice monthly, consists of the Director of Finance, who is designated by law as chairman, the State Controller, and a third member appointed by and serving at the pleasure of the Governor.

The board makes rules governing travel allowances for state employees and use of state cars and acts as an administrative tribunal. The most significant activity, in terms of both workload and fiscal impact is the approval of claims against the State for which settlement is provided by law but for which no funds are available, or the settlement of which is not otherwise provided for by law.

After review by the board, and hearings in some instances, if approved by the board and the Governor, these claims are included in a separate budget bill item for legislative claims to provide money for payment. The amounts approved by the Legislature for the last five years are:

<i>Budget Act year</i>	<i>Budget Act item number</i>	<i>Amount</i>
1958	266	\$707,536
1959	273	240,599
1960	268	118,869
1961	276	355,081
1962	271	116,654

Another activity of the board, acting as an administrative tribunal, is that of approving certain tax refunds, primarily for those taxes administered by the Board of Equalization and Franchise Tax Board.

Making merit awards to state employees for suggestions increasing the efficiency of state operations and discharging state officers and agencies from their accountability for collecting or refunding small amounts of money are the remaining functions performed by the board in the capacity of an administrative tribunal.

Board of Control—Continued

The Department of Finance through its legal, audit and organization and cost control divisions performs technical staff work for the Board of Control, to the extent of an estimated four to five units of personnel full time per year. The cost of this work is not included in the amount budgeted for the Board of Control.

ANALYSIS

The \$24,893 requested for the 1963-64 year represents an increase of 29.4 percent over that expected to be spent in 1962-63, and provides for the addition of an intermediate stenographer position to the secretary and senior stenographer currently authorized.

The State Supreme Court in *Muskopf v. Corning Hospital District* abolished the doctrine of governmental immunity from tort liability effective February 27, 1961, the date on which the decision became final. Chapter 1404, Statutes of 1961, re-enacted this doctrine for the period between February 27, 1961 and the 91st day following adjournment of the 1963 Regular Session of the Legislature, but also provided in effect that in the absence of new legislation the State could be sued after that date provided a claim had been filed with the Board of Control in the interim and denied by that board.

The effect of this decision and related legislation has been to increase the number of claims against the State filed with the Board of Control since filing of a timely claim and subsequent denial by the Board of Control is a condition precedent to bringing suit.

Following are the number of claims filed with the Board of Control for the last two years, together with estimates for the current and budget years:

Fiscal year	Number	Increase over prior year	
		Number	Percent
1960-61 Actual -----	703		
1961-62 Actual -----	884	181	25.7
1962-63 Estimated -----	1,120	236	26.7
1963-64 Estimated -----	1,425	305	27.2

The increase of 181 for 1961-62 over 1960-61 undoubtedly is attributable in part to the court action in the *Muskopf* case.

The additional position is requested, in part, for overall increases in workload over a period of years, which can no longer be absorbed by the existing staff, and in part because of anticipated increases in the number of claims. The agency states that it is needed regardless of any action which may be taken by the 1963 Legislature regarding the doctrine of governmental immunity from tort liability.

We recommend approval as budgeted.

Economies and Efficiencies Requiring Legislation

In our 1961 Analysis, page 292, and in our 1962 Analysis, page 258, we suggested that the requirement for Board of Control approval of certain tax refunds and cancellations be eliminated.

It appears to us that this requirement is a vestigial remnant of a by-gone era when governmental activities were less efficiently conducted than at present and that its elimination would not only reduce costs to the Board of Control but would also result in savings in the tax

Board of Control—Continued

agencies and make for a more businesslike administration of the taxes involved.

It should be further noted that Board of Control approval for refund or cancellation of certain taxes is not required under existing law and that refunds and cancellations of such taxes exceed both in numbers and total amounts those where Board of Control approval is required. These are unemployment insurance and disability insurance taxes and refunds to consumers of gasoline tax used for nonhighway purposes.

We believe that postaudits by the Auditor General plus internal audits by the Department of Finance provide all necessary safeguards under modern conditions, and accordingly *recommend legislation, similar to that proposed in Senate Bill No. 1443 of the 1961 session which would eliminate the need for Board of Control approval of any tax refunds or cancellations of state taxes.*

STATE CONTROLLER

ITEM 125 of the Budget Bill

Budget page 296

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

Amount requested	\$4,512,841
Estimated to be expended in 1962-63 fiscal year	4,575,116
Decrease (1.4 percent)	\$62,275
TOTAL RECOMMENDED REDUCTION	\$93,588

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Inheritance and Gift Tax Division			
Inheritance Tax Appraisers' Conference	\$5,150	301	28
Tax-Deeded Lands Division			
5 District managers	\$44,150	303	23
1 Senior clerk	5,832	303	23
1 Intermediate clerk	4,662	303	23
2.5 Intermediate stenographers	13,200	303	23
Salary saving	—500	303	30
Total salary and wages	\$67,344		
Operating expenses	21,094	303	44
Total reduction	\$93,588		

The State Controller

GENERAL SUMMARY

The State Controller, an elected constitutional official, has three diverse areas of responsibility:

1. His primary function is accounting for and disbursing state money. Employees in the accounting (67)*, auditing (70.3) and disbursement (189.1) divisions, with about half of this agency's authorized positions, or 326.4, assist the Controller in carrying out this function.

* Number of positions in 1962-63 revised budget.

State Controller—Continued

2. Another responsibility consists of serving on 18 different state boards and commissions, practically all of which deal with taxes or are financially oriented. As Table 1 shows, formal meetings alone consume about one-fourth of the Controller's time.

3. The remaining responsibilities consist of supervising the local government fiscal affairs division (28.6) which reports on the financial transactions of local government; the tax-deeded lands division (20.5) which supervises property which has been deeded to the government for the nonpayment of local property taxes, and two divisions which are primarily concerned with tax collection.

These tax divisions are (a) tax collection and refund (78.2) and (b) inheritance and gift tax (104.9). The former participates with the State Board of Equalization in the administration of the motor vehicle fuel (gasoline) and motor vehicle transportation (truck) taxes. The State Board of Equalization assesses and this division collects these taxes. The tax collection and refund division also administers the motor vehicle fuel tax refund program and participates with the Insurance Commissioner and the State Board of Equalization in the administration of the gross premiums tax on insurance companies. The Insurance Commissioner receives these tax returns and payments, the board makes a pro forma assessment, and this division collects the taxes.

The inheritance and gift tax division participates with the courts in the administration of the inheritance tax. The State Controller appoints a panel of noncivil service part-time personnel to appraise estates of deceased persons. The courts set the taxes and this division's staff audits the returns and collects the revenue from the county tax collectors. This division has the sole responsibility for administering the self-assessed gift tax.

Table 1 shows that the Controller was scheduled to attend 91 board and commission meetings during 1961-62. The total meeting time for the 12 organizations which held meetings was about 54 eight-hour days, or an average of 4.5 days per month. This time refers strictly to the length of the formal meetings and it does not include any time in preparation for these meetings, attendance at staff conferences, or handling problems involving the work of these boards and commissions. The length of these formal meetings varied from 15 minutes to 12 hours, with an overall average of $4\frac{1}{4}$ hours per meeting.

State Controller—Continued

Table 1. State Controller's Schedule of Meetings on Boards and Commissions During 1961-62

Board or commission	Number of meetings	Meeting time	
		Total days during year	Average hours per meeting
State Board of Equalization *-----	19	28.50	12
Reapportionment Commission *-----	0	0.00	0
State Highway Finance Board *-----	0	0.00	0
State Board of Control-----	30	15.00	4
State Lands Commission-----	12	6.00	4
Pooled Money Investment Board-----	6	0.75	1
Franchise Tax Board-----	5	2.00	3½
State School Building Finance Committee-----	5	0.16	¼
Veterans Finance Committee-----	4	0.17	⅓
State Construction Program Committee-----	3	0.38	1
Retirement Investment Board, State Teachers-----	2	0.38	1½
California Water Resources Development Finance Committee-----	2	0.25	1
Reciprocity Commission-----	2	0.25	1
Harbor Improvement Bond Committee-----	1	0.03	¼
San Francisco Harbor Bond Finance Board-----	0	0.00	0
State Park Finance Board-----	0	0.00	0
Unemployment Relief Finance Committee-----	0	0.00	0
Committee to Fix Interest on Registered Warrants-----	0	0.00	0
Total -----	91	53.87	4½

* The Controller's membership specified by the State Constitution.

Increases in Controller's Budgets

The Controller's total budgets, all funds, for the most recent four-year period are shown in Table 2.

Table 2. Controller's Budgets 1960-61 to 1963-64

Fiscal year	(1) As originally proposed	(2) As approved by Legislature	(3) Revised estimate one year later	(4) Actual expenditures
1960-61-----	\$4,864,213	\$4,864,213	\$5,048,435	\$5,065,242
1961-62-----	4,784,231	4,821,982	5,204,702	5,184,110
1962-63-----	5,047,388	5,026,148	5,625,396	NA
1963-64-----	5,554,524	NA	NA	NA

The amounts shown in column (1) are the amounts originally included in the printed budget, including employees' retirement, health and welfare, while those shown in column (2) are after any adjustments made by the Legislature. Those shown in columns (3) and (4) are the amounts for the corresponding year as shown in succeeding printed budgets.

It is customary in budget presentation, both in the Governor's Budget and in our analysis, to compare the proposed expenditures for the budget year, that is the year to which the new budget relates, with the revised estimates of expenditures for the current year. On this basis the last two presentations for the Controller's budget, including all funds, showed decreases over the prior year, as indicated in Table 3.

State Controller—Continued

Table 3. Budgets as Presented to Legislature in 1961 and 1962

1961-62 Compared With 1960-61:		
Proposed expenditures 1961-62	-----	\$4,784,231
Revised estimate 1960-61	-----	5,048,435
Decrease (5.2%)	-----	—\$264,204
1962-63 Compared With 1961-62:		
Proposed expenditures 1962-63	-----	\$5,047,388
Revised estimate 1961-62	-----	5,204,702
Decrease (3.0%)	-----	—\$157,314

However, when expenditures for the same periods are compared on an actual or actual and revised basis, where actual figures are not yet available, increases rather than decreases are indicated, as shown in Table 4.

Table 4. Actual Expenditures and Revised Estimates Compared

1961-62 Compared With 1960-61:		
Actual expenditures 1961-62	-----	\$5,184,110
Actual expenditures 1960-61	-----	5,065,242
Increase (2.3%)	-----	\$118,868
1962-63 Compared With 1961-62:		
Revised estimate 1962-63	-----	\$5,625,396
Actual expenditures 1961-62	-----	5,184,110
Increase (8.5%)	-----	\$441,286

The reason why budgeted decreases were never realized in these instances, and actual increases resulted, is due in large part to allocations from the Emergency Fund and emergency authorizations approved by the Department of Finance subsequent to legislative action on the budget for the years involved. These changes totaled \$387,604 for 1961-62 and \$435,560 for 1962-63.

These were due in part to workload increases resulting from actions or conditions which could not have been anticipated at the time of budgetary presentation to the Legislature, such as the adoption by the 1961 Legislature of legislation providing for integration of the State Employees' Retirement System with social security, and the adoption of the new employees' health and welfare program, and unforeseen complications in programing for electronic data processing, but it appears to us that there are at least two instances where Emergency Fund money was provided for activities which should have been foreseen and provided for in the regular budgetary process.

The 1962-63 Allocation From the Emergency Fund

The Controller's total Emergency Fund allocation during the current fiscal year amounted to \$366,696 and went primarily to three divisions. Our discussion, however, will relate only to the programs in the accounting and inheritance and gift tax divisions which we believe should have been financed from regular budgeted appropriations.

State Controller—Continued

1. Accounting Division—Unclaimed Property, \$67,279

These emergency funds are for the support of 12 man-years of temporary help which will be used to screen about 28,000 abandoned safe deposit boxes and to prepare the contents of about 7,000 of them for public auction. This screening of safe deposit boxes is a new program which began in October of 1961 and is the result of the enactment of the "Uniform Disposition of Unclaimed Property Act" (Chapter 1809, Statutes of 1959) which made the Controller the custodian of a variety of abandoned assets.

The first action in the safe deposit box program occurred in November of 1960, when the banks made their initial report on the contents of all boxes which remained unclaimed in their possession for seven years or more as of the previous June 30th. This report covered about 40,000 boxes, but the Controller did not begin to receive the contents until October of 1961. No provision was made in the Controller's 1961-62 budget for additional personnel to screen these boxes because the agency underestimated both the volume and the work involved in conducting this screening. The agency hoped that the existing staff might be able to handle most of this screening.

In September of 1961, the Controller asked the Department of Finance to allocate 23 man-years of Emergency Fund temporary help during 1961-62 to conduct this screening. The Department of Finance gave the Controller approval to start this screening program but left the size of the staff subject to later review. In January of 1962, the Department of Finance reduced the Emergency Fund temporary help allocation in half, to 11.5 man-years, for 1961-62, on the grounds that it did not have information to indicate whether or not this program would yield sufficient revenues to warrant the screening of all safe deposit boxes. No provisions was made for the support of this program in the Governor's 1962-63 budget.

The Controller's position was that the request for temporary help was not a revenue question but one of meeting his legal obligations imposed by the Unclaimed Property Act. This act placed a responsibility upon this agency to accept and take appropriate care of these abandoned properties. In fact, one section of the act specifies that "all abandoned property other than money and securities . . . delivered to the State Controller under this chapter shall within one year after delivery be sold by the State Controller to the highest bidder at public sale . . .". Other sections require the Controller to make certain determinations regarding the value of these properties, and such judgments can only be made after the contents of these boxes are screened.

In June of 1962, the Department of Finance gave the Controller permission to continue the screening program during 1962-63 at its existing level (about 12 man-years). This first step in approving an allocation of emergency funds for the current fiscal year was made before the results of the first auction of the contents of these boxes, in August of 1962, were available.

In our opinion the screening of safe deposit boxes during the current fiscal year should have been financed from regularly budgeted tem-

Property, \$67,279

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State Controller—Continued

porary help funds. The facts as stated above do not indicate any un-
forseen circumstances necessary to justify the use of emergency funds.

2. Inheritance and Gift Tax Division—Gift Tax Compliance, \$12,395

These emergency funds were used to finance two temporary help
positions, plus operating expenses.

In August of 1961, a consultant to the Department of Finance made
a report concerning possible modifications in the Inheritance and Gift
Tax Law. One of his findings was that the State is losing revenue be-
cause of the lack of compliance machinery.

Evidently as the result of this report, the Controller in October of
1961, started a new program of checking on property transfers where
no federal revenue stamps were affixed; to ascertain if any gift taxes
were due and not paid to the State. The staff of this program consisted
of an auditor and a clerical position, both of which were temporary
help financed from emergency funds. The Controller had conducted
two similar, but very limited, programs during the early 1950's which
proved profitable.

No provision was made in the Governor's Budget to continue this
program on a permanent basis during 1962-63, but there was an under-
standing that if the test study proved successful, then the program
probably would be included in the 1963-64 Budget.

In June of 1962, the Department of Finance gave the Controller
permission to continue this program during 1962-63, with the financial
support to come from the Emergency Fund.

The Controller has had difficulty in keeping the audit position filled,
e.g., it was vacant for about three weeks during the early part of 1962,
and again for over four months during the last half of the year. How-
ever, even with these personnel problems this program has produced
about \$2.74 in revenue per dollar of direct cost, as the following table
shows:

	Revenue and Costs of the Gift Tax Compliance Program		
	Oct. 24, 1961 to June 30, 1962	July 1, 1962 to December 31, 1962	Total
Assessments and revenue.....	\$18,595	\$5,739	\$24,334
Direct costs (no overhead).....	6,382	2,506	8,888
Revenue per dollar of cost.....	\$2.91	\$2.29	\$2.74

*In our opinion, the financing of this gift tax compliance program
solely from emergency funds has been an abuse of good budgetary pro-
cedure. There was no emergency in October of 1961 which justified the
starting of this new program at that date. The Controller should have
submitted the request for this new program to the 1962 Legislature
for review and approval.*

State Controller—Continued

Additional Inheritance Tax Revenue Possible by Administrative Action of State Controller

Inheritance tax appraisers are compensated by fees received from two sources.

1. The estates. Section 609 of the probate code provides for commissions based upon the appraised value of the estate at the rate of one-tenth of 1 percent up to \$500,000, with a minimum commission of \$5, and one-twentieth of 1 percent of values in excess of \$500,000. The section also provides that the appraiser is entitled to his actual and necessary expenses as allowed by the court.

2. Inheritance tax money in the hands of the county treasurer. Section 14772 of the Revenue and Taxation Code provides for compensation in such amount as the court shall fix provided a claim for payment is first approved by the State Controller.

Most of the compensation which the appraisers receive, which we estimate to be in excess of \$1,000,000 per year, comes from the first source. Payments from the second source amounted to \$199,558 during 1961-62.

Controllers, for years, have placed a limitation of \$3,200 on the amount of compensation in the second category which they would approve for any one appraiser during a given year. The present Controller has reduced this still farther in the case of those appraisers who receive income from the first source in excess of specified amounts.

Our view is that if the Controller can place arbitrary limits on this type of compensation he can reduce it to zero by simply refusing to approve any claims. We recommend that such action be taken since it will increase General Fund revenues by \$200,000 per year.

Elsewhere in this analysis we are recommending the repeal of Section 14772 of the Revenue and Taxation Code.

Recommended Changes in Inheritance Tax Administration Requiring Legislation

As we have pointed out in some detail in the past, notably in our 1959-60 Analysis, pages 1 to 4 and in our 1961-62 Analysis pages 298 to 301, we believe that the present system of inheritance tax administration under which responsibilities are divided among independent inheritance tax appraisers, county treasurers, the probate courts and the State is not conducive to good tax administration.

It can result in such happenings as that in Alameda County where the judge assigned an appraiser to one of the largest estates ever probated in that county on the day before the appraiser was removed from the panel by the Controller. The assignment was made by the judge on June 5, 1961, and the man was removed on June 6, 1961. The Controller gave as his reason that the man did not live up to the high standards he expected of his appointees.

Court records indicate that this man is continuing to act as the appraiser for this estate and is the only appraiser assigned to the case with fees for the appraiser reasonably calculated to approximate \$24,000 to \$26,000 for this estate alone.

State Controller—Continued

In an article entitled "Your Harpers Magazine for August" appraiser tax appraisers in California:

"What does the appraiser do? "In most cases," an expert just a matter of sitting down with stocks and bonds in the Wall Street Journal, even do that but simply appraise the bank or trust company's assets. A real problem, they're allowed on a per diem basis. To make a nice little allowance, of course, comes out of the appraisal business makes no sense.

Our own studies have led us to conclude that we repeat the recommendation in our analysis, page 244, and which reads:

"We recommend that appraisers' inheritance tax appraisers' workloads be reduced that such action will reduce the number of appraisers in appointment, together with the practice as poor supervision of workloads, and inequities.

Placing this staff on a full-time basis will only result in better and more efficient appraisals produce additional revenue for the State from assessment practices, since certain types of assets included in the appraisal at the present time.

There were 143 appraisers on the staff in 1959 or 91.6 percent had been appointed in 1959 and November 9, 1960, as follows:

Occupation	
Attorney	-----
Realtor	-----
Insurance	-----
Rancher	-----
Labor union official	-----
Schoolteacher	-----
Former schoolteacher	-----
Concrete construction contractor	-----
Legal secretary	-----
Wholesale merchandise distributor	-----
Public relations counsel	-----
Tire distributor	-----
Planning consultant	-----
Dentist	-----

State Controller—Continued

In an article entitled "Your Unknown Heirs" which appeared in *Harpers Magazine* for August 1961, and which touched upon inheritance tax appraisers in California the following appears on page 32:

"What does the appraiser do?"

"In most cases," an experienced California judge told me, "it's just a matter of sitting down to check the value of the estate's stocks and bonds in the *Wall Street Journal*. Some of them don't even do that but simply approve the appraisals already made by the bank or trust company handling the estate. But if they have a real problem, they're allowed to bring in professional appraisers on a per diem basis. To make things sweeter, appraisers can also get a nice little allowance for their "clerical" help. All this, of course, comes out of the estates being "appraised." The whole appraisal business makes no sense here."

Our own studies have led us to the same conclusion.

We repeat the recommendation which first appeared in our 1945-47 analysis, page 244, and which reads as follows:

"We recommend that appropriate steps be taken to place inheritance tax appraisers under civil service. We are convinced that such action will reduce the possibility of political favoritism in appointment, together with such other consequences of such a practice as poor supervision, low morale, inequitable distribution of workloads, and inequality of compensation."

Placing this staff on a full-time professional career basis would not only result in better and more uniform appraisals but would probably produce additional revenue for the State through application of uniform assessment practices, since we have good reason to believe at least certain types of assets included in estates are frequently undervalued at the present time.

There were 143 appraisers on the panel at June 1, 1962, of which 131 or 91.6 percent had been appointed subsequent to January 1, 1959.

Occupations of 95 of these appraisers appointed between January 1, 1959 and November 9, 1960, as shown by Controller's press releases are as follows:

Occupation	Number
Attorney	34
Realtor	25
Insurance	8
Rancher	3
Labor union official	2
Schoolteacher	2
Former schoolteacher	2
Concrete construction contractor	1
Legal secretary	1
Wholesale merchandise distributor	1
Public relations counsel	1
Tire distributor	1
Planning consultant	1
Dentist	1

Controller

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State Controller—Continued

Occupation	Number
Operator of a sight correction clinic.....	1
Title company official.....	1
Certified public accountant.....	1
Guardianship appraiser for Los Angeles Superior Court.....	1
Public accountant.....	1
Builder and subdivider.....	1
Investment firm official.....	1
Auto agency owner.....	1
Accountant.....	1
Former county assessor.....	1
Property manager.....	1
Manager of land company.....	1
Total	95

We believe that the tax should be placed on a self-assessed basis and administered entirely at the state level, with payment made direct to the State. This would eliminate commissions now paid to county treasurers, which totalled \$613,506 in 1961-62 and would result in increased interest earnings to the State of an estimated \$100,000 per year because of earlier receipt of the money.

In our view such a change would lead to the most effective and economical type of administration both from the standpoint of the taxpayer and the State. However, we do not believe that any significant improvements in inheritance tax administration are possible until the proper tools are available with which to work, namely a staff of technically qualified, permanent, professional personnel chosen on a merit system rather than on a patronage basis.

Such a complete revamping of the administration of the inheritance tax could best be carried out by a centralized revenue department, as recommended in this analysis under item 129.

Short of such a complete reorganization we make the following recommendations:

We recommend repeal of Section 14772 of the Revenue and Taxation Code which would result in additional revenue to the State of \$200,000 per year. We believe that compensation to the appraisers is adequate without these fees.

We recommend amendment to Section 14771 of the Revenue and Taxation Code to remove the requirement that at least one appraiser be appointed in each county of the State. This would permit an appraiser to serve in a number of counties in certain areas in the State where the workload is very small.

Pending creation of a centralized revenue department we recommend the transfer of the Inheritance and Gift Tax Division from the Controller's office to the Franchise Tax Board, a recommendation first made in our 1949-50 analysis on page 214.

Our reasons for this recommendation are:

1. The Inheritance and Gift Tax Division has no community of interest with any of the other seven divisions in the Controller's office. Major emphasis in this agency is on accounting and disbursing functions, not on tax administration.

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State Controller—Continued

2. The federal government has both income and death taxes administered through a single agency.

3. By being part of the Franchise Tax Division would utilize the results of federal income tax audits as invaluable tools in checking the completeness of inheritance and gift tax returns. These two tax functions are separated in the Controller's office, causing hesitancy to make most effective use of the information.

4. Since World War II, many states have transferred the administration of their inheritance taxes to a central agency rather than local administration; having patronage appointees make the tax self-assessed instead of tied to the Franchise Tax Board, because of the personal income and corporate income tax. The Inheritance and Gift Tax Division is necessary for the modernization of the law.

5. The merging of these two divisions would result in more efficient enforcement at less cost.

We recommend that the law governing inheritance tax cases be amended so that the State can require a difference between the valuation for gift tax purposes.

If this law change takes place, the Inheritance and Gift Tax Division will arrange for copies of all federal estate tax returns.

No legislation is required for the transfer. The Franchise Tax Board has conducted audits for over 10 years, and they have access to federal gift tax returns.

No effort has been made on federal estate tax audits in the Controller's office completed after the expiration of the statute of limitations for such audits. The court fixes the tax, which is usually paid at the date of death and the limitation period. This difference in timing means that the Controller is not in a position to use the returns because they are received too late.

ANALYSIS

The Controller is asking for eight existing positions in his

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ministration of the inheritance alized revenue department, as 129. tion we make the following

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State Controller—Continued

2. The federal government and 85 percent of the states which impose both income and death taxes have them administered by the same agency.

3. By being part of the Franchise Tax Board, the Inheritance and Gift Tax Division would automatically have access to state personal income and corporation franchise tax returns. It also would have the results of federal income tax audits at its disposal. Such records can be invaluable tools in checking on the accuracy and especially the completeness of inheritance and gift tax returns. Unfortunately, when these two tax functions are separated in two different agencies, there is a hesitancy to make most effective use of each other's records.

4. Since World War II, many states have modernized the administration of their inheritance taxes, placing more emphasis on state rather than local administration, having full-time state employees rather than patronage appointees make the appraisals, and requiring the tax to be self-assessed instead of tied to the probate process. The staff of the Franchise Tax Board, because of its experience in administering the personal income and corporation franchise taxes, is in a position to give the Inheritance and Gift Tax Division the professional guidance necessary for the modernization of the California inheritance tax.

5. The merging of these two tax functions should result in more efficient enforcement at less cost to the State.

We recommend that the law relating to the statute of limitations governing inheritance tax cases be amended to conform with federal law, so that the State can reopen any case where there is a significant difference between the valuations imposed for state and federal purposes.

If this law change takes place we recommend that the Inheritance and Gift Tax Division arrange with the federal government to receive copies of all federal estate tax audits that pertain to California.

No legislation is required for the second part of our recommendation. The Franchise Tax Board has had access to copies of federal income tax audits for over 10 years, and the Controller very recently arranged to have access to federal gift tax audits.

No effort has been made on a systematic basis to obtain copies of federal estate tax audits in the past because normally they are completed after the expiration of the inheritance tax statute of limitations. The statute of limitations for state purposes runs six months after the court fixes the tax, which is usually from 8 to 14 months after date of death. The federal estate tax return is not due until 15 months after date of death and the limitation period expires 3 years thereafter. This difference in timing means that under existing law the Controller is not in a position to use the results of federal audits to reopen a case, because they are received too late.

ANALYSIS

The Controller is asking for 48.6 new positions and proposes to delete eight existing positions in his 1963-64 budget. Table 5 shows that this

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amounts to a net increase of \$198,844 in salaries and wages, most of which goes to the disbursement division.

Table 5. Change in the Number of Authorized Positions and Salaries and Wages in the Controller's 1963-64 Budget

Division	New positions		Elimination of existing positions		Net change	
	Number	Salary and wages	Number	Salary and wages	Number	Salary and wages
Administration	.6	\$2,282	0	0	.6	\$2,282
Accounting	2.0	11,224	0	0	2.0	11,224
Audits	1.0	5,280	0	0	1.0	5,280
Disbursements	42.0	206,632	-2.5	-\$15,294	39.5	191,338
Inheritance and gift tax	3.0	14,656	0	0	3.0	14,656
Local government fiscal affairs	0	0	0	0	0	0
Tax collection and refund	0	0	-5.0	-23,296	-5.0	-23,296
Tax-deeded lands	0	0	-0.5	-2,640	-0.5	-2,640
Total	48.6	\$240,074	-8.0	-\$41,230	40.6	\$198,844

Table 6 shows that the Controller's proposed expenditures during 1963-64 are estimated at \$70,872 less than those in the revised 1962-63 budget. These figures seemingly are in conflict with those in Table 5. The explanation of this discrepancy is that Table 5 refers to changes in permanent positions, while the revised figures for 1962-63 in Table 6 include \$366,696 in emergency funds which were used to support 60.4 positions which were not budgeted by the last Legislature.

Table 6. Total Expenditures Including Emergency Funds in 1962-63 and 1963-64, by Division and Fund

Division	Total expenditures		Increase (—) Decrease		
	Revised 1962-63	Proposed 1963-64	Total	General Fund	Other funds
Administration	\$332,511	\$334,096	\$1,585	\$1,606	-\$21
Accounting	625,400	563,679	-61,721	-61,352	-369
Audits	608,093	620,924	12,831	9,581	3,300
Disbursements	1,806,950	1,784,439	-22,511	-22,511	-
Inheritance and gift tax	1,004,682	1,012,342	7,660	7,660	-
Local government fiscal affairs	361,553	367,917	6,364	5,245	1,119
Tax collection and refund	696,894	683,865	-13,029	-403	-12,626
Tax-deeded lands	189,313	187,262	-2,051	-2,051	-
Total	\$5,625,396	\$5,554,524	-\$70,872	-\$62,275	-\$8,597

A more realistic comparison between the proposed and current budgets is contained in Table 7 which shows that the proposed budget has 14.9 less positions than the revised, but 52.6 more than the last enacted budget.

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Table 7. Comparison of the Total With Those in the 1962-

Division	Salary
Administration	-----
Accounting	-----
Audits	-----
Disbursements	-----
Inheritance and gift tax	-----
Local government fiscal affairs	-----
Tax collection and refund	-----
Tax-deeded lands	-----
Total	-----

All eight divisions in the Controller's budget are entirely supported by special funds, the Motor Vehicle Fund. Table 8 shows the distributions of these funds.

Table 8. 1963-64 Expenditures

Division	General
Administration	\$308,625
Accounting	517,573
Audits	494,976
Disbursement	1,784,439
Inheritance and gift tax	1,012,342
Local government	176,479
Tax collection and refund	31,145
Tax-deeded lands	187,262
Total	\$4,512,841
Percent of total expenditures	81.3%

Administration

This division provides general administrative support for the entire agency as well as technical assistance in the capacity as a member of 18 state advisory committees.

During 1962-63, this division had 14.9 less positions than the revised budget. Emergency Fund. Now the Controller's budget of temporary help funds be made available.

We recommend that the \$2,282,000 of temporary help, be approved, but not exceed 52.6 more than the last enacted budget.

A portion of these funds will be used to fill positions in the personnel unit, because of the adoption of the new personnel programs. The remaining funds will be used in the central services unit, which is now spread out a

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Table 7. Comparison of the Total Number of Budgeted Positions in 1963-64 With Those in the 1962-63 Enacted and Revised Budgets

Division	1962-63		1963-64	Change for 1962-63	
	Enacted	Revised	Proposed	Enacted	Revised
Administration	31.2	31.8	32.2	1.0	.4
Accounting	54.3	67.0	56.0	1.7	-11.0
Audits	69.3	70.3	72.6	3.3	2.3
Disbursements	139.0	189.1	182.0	43.0	-7.1
Inheritance and gift tax	100.9	104.9	106.6	5.7	1.7
Local government fiscal affairs	28.7	28.6	29.1	.4	.5
Tax collection and refund	78.9	78.2	76.7	-2.2	-1.5
Tax-deeded lands	20.6	20.5	20.3	-.3	-.2
Total	522.9	590.4	575.5	52.6	-14.9

All eight divisions in the Controller's office receive some, and three divisions are entirely supported by, General Fund moneys. Of the special funds, the Motor Vehicle Fuel is the most important. Table 8 shows the distributions of these expenditures by fund and division.

Table 8. 1963-64 Expenditures by Division and Fund

Division	General	Expenditures by Fund			Total
		Motor vehicle fuel	State school building aid	Motor vehicle transportation	
Administration	\$308,625	\$17,185	\$4,198	\$4,088	\$334,096
Accounting	517,573	-	46,106	-	563,679
Audits	494,976	-	125,948	-	620,924
Disbursement	1,784,439	-	-	-	1,784,439
Inheritance and gift tax	1,012,342	-	-	-	1,012,342
Local government	176,479	191,438	-	-	367,917
Tax collection and refund	31,145	487,854	-	164,866	683,865
Tax-deeded lands	187,262	-	-	-	187,262
Total	\$4,512,841	\$696,477	\$176,252	\$168,954	\$5,554,524
Percent of total expenditures	81.3%	12.5%	3.2%	3.0%	100%

Administration Division

This division provides general housekeeping and staff services for the entire agency as well as technical assistance to the Controller in his capacity as a member of 18 state boards and commissions.

During 1962-63, this division had \$3,180 budgeted for regular temporary help, which was augmented by an allocation of \$2,282 from the Emergency Fund. Now the Controller is requesting that this new level of temporary help funds be made permanent in the 1963-64 budget.

We recommend that the \$2,282 increase to finance 0.6 man-years of temporary help, be approved, budget page 297, line 20.

A portion of these funds will be used to support a part-time typist position in the personnel unit, the workload of which has increased because of the adoption of the new retirement and medical care programs. The remaining funds will be used to continue a part-time clerk in the central services unit, who performs messenger service for the agency, which is now spread out among five buildings in Sacramento.

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Accounting Division

This division, with 56 authorized positions, is composed of an administration unit with 4 positions, and the following three bureaus: (1) Control Accounts, 35½ positions; (2) Financial Analysis, 8 positions; and (3) Unclaimed Property, 8½ positions.

The Bureau of Control Accounts maintain records covering all funds in the State Treasury. These accounts record the receipts and disbursements on about 150 funds, together with statements showing their resources, liabilities and balances.

The Bureau of Financial Analysis prepares the annual report of the State Controller and the month ending statements concerning the revenues derived from all major taxes and the receipts and expenditures of the General and School Funds.

The Bureau of Unclaimed Property administers the escheat program regarding the property of deceased persons, and the custodial program pertaining to a variety of abandoned assets, including the contents of safe deposit boxes. In our general summary the latter program was discussed in detail. The Controller expects to complete during 1962-63, with 12 man-years of Emergency Fund temporary help, the screening of safe deposit boxes reported in November of 1960 and 1961. The Controller proposes that with the reduction in Emergency Fund temporary help, two new permanent positions be added to this bureau's budget during 1963-64.

We recommend that the new general accountant II (\$7,080) and intermediate typist-clerk (\$4,144) positions for the Bureau of Unclaimed Property be approved for one year only, budget page 298, lines 13-14.

The Controller requested these positions, as temporary help, to institute a program to assure compliance by all holders of abandoned and escheated property. Without such a program, he stated, it is not possible to determine whether a significant number of holders of unclaimed property are failing to make reports or deliver the property to the State.

The Governor's Budget proposes that these two positions be permanent. We believe that this type of a compliance test is desirable, but that the positions should only be authorized for one year, in the event the program proves unfruitful.

Audits Division

This division has 71 permanent positions and 0.7 man-years of temporary help. Five of the positions are in administration, 31 in the Field Audit Bureau, and 35 in the Claim Audit Bureau.

No changes in the level of service or staffing are contemplated in the Field Audit Bureau. The 27 auditor positions will be assigned as follows: nine to the State School Building Aid program, 2½ to the Davis-Grunsky and civil defense reimbursable programs, and 15½ to General Fund activities.

The Claim Audit Bureau is asking for one new position on a workload basis.

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We recommend that the new claim auditor position, \$5,280, be approved, budget page 298, line 71.

The following table shows that the number of claims per auditor has increased from 128,171 in 1960-61 to an estimated 151,632 in 1963-64. The agency estimates that the latter figure is more than the existing auditors can handle. They would prefer that the 1961-62 workload of 137,500 per auditor be maintained. The addition of one new position will result in a 1963-64 workload of 142,712 per auditor which is still above their desired level.

	Claim Audit Workload			
	1960-61	1961-62	1962-63 (est.)	1963-64 (est.)
Number of claims audited _____	2,050,733	2,200,557	2,310,585	2,426,114
Number of auditors—existing_____	16	16	16	16
proposed --				17
Number of audits per auditor—				
existing _____	128,171	137,535	144,411	151,632
proposed _____				142,712

Disbursement Division

In the last year and a half, this division has been responsible for undertaking three new programs. On July 1, 1961, the state payroll and warrant system was converted to an electronic data processing (EDP) operation. On January 1, 1962, the state medical care act and the integration of social security with state retirement went into effect.

During 1962-63, the staff of this division was augmented by 48.1 man-years of temporary help financed from the Emergency Fund; salary savings were also reduced, and one-half of an existing position deleted. As the following table shows, these changes resulted in a net staff increase of 50.1 man-years, or 36 percent.

Staff of the Disbursement Division, 1962-63

	As enacted	Revised	Change
Permanent positions _____	112.5	112.0	-.5
Temporary help _____	8.0	56.1	48.1
New positions ^a _____	26.0	26.0	--
Salary savings _____	-7.5	-5.0	+2.5
Total _____	139.0	189.1	50.1

The additional temporary help was needed to handle the unanticipated increased workload which resulted from the integration of social security with state retirement, and the adoption of the medical care program. This agency was required to make the original workload estimates, which proved incorrect, during the summer of 1961, or six months before these programs took effect. Therefore, the agency did not have any actual experience upon which to base their estimates.

Now, after a year's experience with these programs, the Controller estimates that this division's 1963-64 workload will be adequately supported if: (1) 42 of the Emergency Fund temporary help positions are made permanent, (2) the remaining 6.1 temporary help positions are discontinued, and (3) two existing programmer positions are abolished.

We recommend that the following 42 new permanent positions for the disbursement division, \$206,632, be approved.

^a Approved by 1962 Legislature.

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Number	Position	Salary	Budget	
			Page	Line
Sacramento Office :				
2	Accounting technician III	\$12,578	299	77
6	Senior tabulating machine operator	33,336	299	79
7	Intermediate account clerk	31,556	299	80
9	Intermediate clerk	41,529	299	81
2	Intermediate typist-clerk	9,051	299	82
San Francisco Office :				
1	Accounting technician III	6,289	300	7
4	Intermediate account clerk	19,952	300	8
1	Intermediate typist-clerk	4,560	300	9
Los Angeles Office :				
1	Accounting technician III	6,289	300	11
1	Accounting technician II	4,908	300	12
5	Intermediate account clerk	22,914	300	13
3	Intermediate clerk	13,670	300	14
42	Total	\$206,632	300	16

Inheritance and Gift Tax Division

The following table shows the three offices of this division and the distribution of personnel by classification.

Authorized Positions in the Inheritance and Gift Tax Division, 1962-63

Office	Legal	Auditing	Accounting	Clerical	Temporary		Total
					help		
Sacramento	6	7	9	14	2		38
San Francisco	6	6	0	9	0		21
Los Angeles	10	13	0	22	0		45
Total	22	26	9	45	2		104

The temporary help is for the entire division and may be assigned to any office.

About 10 of these authorized positions are engaged in administering the self-assessed gift tax, while the remainder are assigned to the inheritance tax. Prior to 1961, the Sacramento staff audited all gift tax returns. Since then, some cases have been assigned to the Los Angeles and San Francisco offices for auditing, but the vast majority are still processed in Sacramento.

The manner in which inheritance taxes are administered by this division is somewhat unique. Each office has almost complete control over the cases assigned to its geographic jurisdiction. Unlike other tax agencies in California, this division lacks regular procedures whereby cases audited in the field are reviewed for accuracy and consistency by the headquarter's staff.

The Controller is requesting two new permanent positions during 1963-64 to conduct a gift tax compliance program.

We recommend approval of one auditor I and one intermediate typist-clerk for the gift tax compliance program, budget page 301, lines 6 and 7.

This program was started in October of 1961, and has been financed since then by emergency funds. In the General Summary, we indicated disapproval of the method of financing, but not of the program itself. The first phase of this program has consisted of checking property

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transfers where no revenue stamps were affixed to ascertain if any gift taxes were owed to the State. To date, a portion of the 1959 and 1960 transfers in nine counties have been checked, and the program has yielded \$24,334 in assessments and revenue at a direct (no overhead) cost of \$8,888. Future activities will consist of checking property transfers in other counties and for later periods, plus comparing for the first time federal and state gift tax audits. This access to federal audits was only obtained in December of 1962, and therefore, is a new activity.

The Controller also is requesting one new intermediate typist-clerk position to type gift tax audit assessments.

We recommend approval of the new intermediate typist-clerk position for the Gift Tax Audit Unit, budget page 301, line 7.

This position was originally requested and budgeted during 1962-63. However, after its approval, the Controller transferred the position to the cashiering unit which he deemed had a more critical workload. Gift tax audit assessments then were typed by an emergency fund temporary help position during the current fiscal year.

We recommend that the inheritance tax appraisers' conference costs be reduced \$5,150, budget page 301, line 28.

These funds are used to finance the travel and per diem expenses of the staff of the inheritance tax division and the inheritance tax appraisers who attend a three-and-a-half-day annual training conference. These conferences have been held for approximately 40 years. The following table shows that amounts budgeted for this item have exceeded actual expenditures by substantial percentages in recent years.

Inheritance Tax Appraisers' Conference Costs

Year	Amount budgeted	Amount expended	Unexpended balance	
			Amount	Percent of budgeted
1957-58 -----	\$5,902	\$4,200	\$1,702	29.8%
1958-59 -----	5,902	5,594	308	5.2
1959-60 -----	6,000	—	6,000	100.0
1960-61 -----	6,000	3,332	2,668	44.5
1961-62 -----	6,000	3,673	2,327	38.8
Total Actual -----	\$29,804	\$16,799	\$13,005	43.6%
1962-63 Estimated -----	6,000			
1963-64 Proposed -----	6,000			

The intent of this recommendation is to eliminate funds for payment of any expenses for the inheritance tax appraisers and to limit the amount to payment of expenses of the Controller's own staff, which approximated \$850 in 1961-62. Inheritance tax appraisers are not state employees in the ordinary sense but officers of the court and we believe that it is highly inappropriate that state funds be used for payment of their expenses.

At one time the Controller himself apparently took the same view since he did not allow the appraisers to claim any expenses during 1959-60, although a training conference was held during that year.

In 1960-61, the Controller issued a ruling which denied both per diem and travel expenses to appraisers who grossed over \$15,500 in fees dur-

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ing the previous fiscal year. Those who grossed less than this amount were entitled to three days of per diem expenses, and if they lived over 150 miles from the conference site, they were entitled to travel expenses. The 1961-62 limitations were basically the same as the previous year, except that the geographic restriction governing travel expenses was deleted. The conference for the current fiscal year has not as yet been held.

Fifty-seven inheritance tax appraisers submitted claims totaling \$2,826 for the conference held during 1961-62. The highest claim was \$87, the lowest \$14, and most of them averaged between \$40 and \$50. Twenty-seven other appraisers were eligible for, but did not submit expense claims. Seventeen members of the Inheritance and Gift Tax Division attended this conference and their total claims amounted to \$847.

We also recommend that when the civil service employees of this division prepare valuations of partnerships or closed corporations for some of the inheritance tax appraisers, that the State be reimbursed for the actual expenses incurred.

Inheritance tax appraisers, who are noncivil service personnel, are paid on a fee basis to make valuations of decedent's estates. Some of them, however, do not have the experience necessary to prepare valuations of closely held business interests such as partnerships or closed corporations. As a result, they either have to hire someone to perform this service, or the work has to be done by state employees at no cost to the appraisers.

The following table shows that practically all of these valuations by state employees occurred in the Los Angeles office of this division. The chief inheritance and gift tax examiner in this office, an examiner III at a salary of \$10,440 per year, spends from one-third to one-half of her time performing this service. Very few such valuations are prepared by the legal staff in San Francisco and none by the staff in Sacramento. As a result, some of the appraisers in the Los Angeles region receive the fees based on these valuations without either performing the work or paying a private accountant to make the valuations.

Number of Valuations of Partnerships and Closed Corporations Prepared by State Employees for Inheritance Tax Appraisers

	<i>Los Angeles</i> ^a	<i>San Francisco</i>	<i>Sacramento</i>	<i>Total</i>
1963-64 estimated	666	35	---	701
1962-63 estimated	622	33	---	655
1961-62	571	30	---	601
1960-61	258	14	---	272

^a The Los Angeles figures are slightly overstated because valuations for gift tax purposes have been included in these totals since 1961-62. During that year, which is the latest actual experience, 437 of these cases, or 76 percent, referred to inheritance tax valuations.

Local Government Fiscal Affairs Division

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

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During the current fiscal year this division has 29.1 authorized positions.

We recommend approval of the amount requested.

Tax Collection and Refund Division

This division has two major functions, refund of gasoline taxes to nonhighway users, and the collection of five taxes assessed by other agencies. During the current fiscal year this division has 82.2 authorized positions, but three positions were voluntarily eliminated at the start of 1962-63 for a savings of \$12,928. The division also proposes to eliminate two more positions during 1963-64, for an additional savings of \$10,368. The reductions were made because of the reduced workload associated with gasoline tax refunds and truck tax collections, plus the efficiencies resulting from the use of electronic data processing equipment.

We recommend approval of the amount requested.

Tax-deeded Lands Division

This division has a proposed authorized staff of 20.3 positions for 1963-64, approximately half of which are in the headquarters office and the remainder in five field offices. The following table shows the distribution of personnel by classification and location:

Monthly salary range	Position	Head- quarters	Field offices					Total
			Sacra- mento	Oak- land	Fresno	L.A.	River- side	
\$1,008-\$1,225	Chief -----	1	-	-	-	-	-	1
870- 1,058	Assistant chief -	1	-	-	-	-	-	1
619- 753	District manager	1	1	1	1	1	1	6
399- 486	Senior clerk ---	1	-	-	-	1	-	2
362- 440	Intermediate stenographer ---	1	-	1	0.5	-	1	3.5
345- 419	Intermediate clerk -----	2	-	-	-	1	-	3
345- 419	Intermediate typist -----	3	-	-	-	-	-	3
415	Temporary help	0.8	-	-	-	-	-	0.8
Total-----		10.8	1	2	1.5	3	2	20.3

The district manager in the headquarters office is working on the special assignment of preparing a manual for county tax collectors. This assignment should be finished by September 1, 1963.

The following reductions have been made in this division's budget during the last two years.

1. In 1961-62, four clerical positions in the headquarter's office that processed tax delinquent lists were deleted after the Legislature enacted Senate Bill No. 1441 of the 1961 General Session, which eliminated this function. Although the bill was subsequently pocket vetoed by the Governor, the budget reduction was not affected. The division voluntarily discontinued a district manager position that worked on a reimbursable program of compiling abstracts of tax delinquent properties for the counties, when the incumbent retired from state service.

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2. In our 1962-63 analysis we recommended that the seven field offices of this division and 14 positions be deleted. The Controller agreed to the closing of two of the field offices, Eureka and Santa Barbara, and the deletion of one district manager and two assistant district manager position, which reduction was approved by the Legislature.

In the 1963-64 Budget, the Controller proposes to substitute a half-time position for the existing full-time intermediate stenographer position in the Fresno office.

We recommend that the five field offices of this division with 9.5 positions, be abolished, for an annual saving of \$88,438, and that the county tax collectors be given the function of renting and managing tax-deeded property.

This proposed budget reduction consists of the following items:

<i>Salaries and Wages</i>	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
5 District manager -----	\$44,150	303	23
1 Senior clerk -----	5,832	303	23
1 Intermediate clerk -----	4,662	303	23
2.5 Intermediate stenographer -----	13,200	303	23
Salary savings -----	-500	303	30
<hr/>			
9.5 Total salaries and wages -----	\$67,344		
<hr/>			
<i>Operating Expenses</i>			
General -----	\$1,039	303	39
Communications -----	1,549	303	40
Travel—in-state -----	9,000	303	41
Rent -----	9,506	303	42
<hr/>			
Total operating expenses -----	\$21,094		
<hr/>			
Total—Field offices -----	\$88,438		

The remaining headquarters personnel would consist of a chief, and assistant chief and one district manager who could act as a field team to provide advice and counsel to local tax collectors, and 7.8 supporting clerical positions.

Before discussing the reasons for our recommendation, a short explanation of tax-deeding and the functions of this division will be given.

Explanation of Tax-deeding

The term tax-deeded refers to property which the State now owns because the former owner failed to pay the delinquent local property taxes. There is a waiting period of over five years between the date the property first becomes delinquent and when it is deeded to the State. At any time prior to deeding, the taxpayer can redeem his property by paying the outstanding taxes, interest, penalties and a \$1.50 redemption fee to the county tax collector. After deeding, the owner loses his rights in the property, but they still can be reclaimed by paying the above costs up until the hour the property is sold at public auction by the local tax collector. All taxes, interest and penalties on delinquent and deeded property go to local governments. The \$1.50 redemption fee goes to the State General Fund.

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Activities of the Field Offices

In July of 1962, this division started a new time reporting program for the staff of the field offices. The results of the program, which covered only the working hours during the last half of the year, are shown in Table 9. Two of the programs within the supervision of tax-deeded property function, i.e. demand letters and property management, had some tangible results that could be measured, while the other three were merely supporting activities. The remaining major functions, advising and tax sale information, were such that it was not possible to measure tangible results.

In order to evaluate the time spent on these various functions, we have estimated the total cost of each activity. Our cost estimate was computed by taking the total salaries and wages of the 10 positions in the field offices, adding retirement, medical care, and operating expenses, and then dividing this figure by five and the result by the number of working hours in the year (1,824) to arrive at an average cost of \$10.63 per hour. This, in effect, represents the average cost per hour of the district manager's time including supporting clerical help and expenses. This average cost then was applied to the number of hours reported for each activity.

Since the time reported in Table 9 referred only to the last half of 1962, one activity of the field offices which takes place between April and June of each year, i.e. predeed notices, was not mentioned. The state predeed notices, which are sent to only some of the taxpayers, are reminders that their property will be deeded to the State in the following July unless the delinquent taxes are paid. The county tax collectors are required by law to send similar notices to all affected taxpayers. They are also required to publish a legal notice on three different occasions during the month of June calling attention to the properties which will be deeded. In past years, the state notices were mailed about the same time as the county notices. This year, the state notices were mailed from a month to two months earlier.

Table 9. Distribution of District Managers' Working Time
by Function During the Last Half of 1962
(In hours)

Function	Field offices					Total	Percent
	Sacra- mento	Oak- land	Fresno	Los An- geles	River- side		
1. Supervising tax-deeded property							
A. Demand letters-----	370.5	223	126	144.5	151	1,015	22.87
B. Property inspections	88	42.5	202.5	32.5	92.5	458	10.32
C. Property management	3.5	209.5	124.5	92.0	113.5	543	12.23
D. Inspecting deeds-----	71.5	131.75	113.5	87.5	82	486.25	10.96
E. Inspecting documents	97.5	149	56.5	132.5	54	489.5	11.03
Subtotal -----	631	755.75	623	489	493	2,991.75	67.41
2. Advising local officials and the public	107.5	101.5	110.5	131	114	564.5	12.72
3. Tax sale information----	6.5	61	12	22	29	130.5	2.94
4. Miscellaneous -----	92.5	112.5	152.5	198	196	751.5	16.93
Total time-----	837.5	1,030.75	898	840	832	4,438.25	100.00

State Controller—Continued

A discussion of each of these functions and their estimated costs follows:

1. Supervising Tax-Deeded Property

A. Demand Letters

Total time -----	1,015 hours
Number of letters -----	458
Total cost -----	\$10,789.45
Cost per letter -----	\$23.56
Cost per profitable field case -----	\$70.98

Program. In July of 1962, the counties deeded 3,507 pieces of property to the State. The field offices sent the former owners of 458 of these properties, or 13 percent of the total, a demand letter telling them that the property must be vacated unless permission to remain was received from these offices. The purpose of these letters is to encourage the former owners to redeem the property and if this is not feasible, then to collect some rent until the property is sold at public auction. All rental proceeds are given to local governments.

Workload and Results. The first step in processing these letters is to review the lists of deeded properties to determine which ones should receive letters. Normally only those with rental potential are chosen. This review process is a minor time consuming task. Properties redeemed before a staff visit also are an insignificant workload factor. Most of the district managers' time is spent on processing the field workload cases. This task includes a personal visit to these properties, and arranging for redemption or rental if possible.

The following table shows the uneven results of this program. For example, the Oakland field office was responsible for 65 percent of the total rental agreements, and the Riverside office for 48 percent of the redeemed properties.

	Field offices					Total
	Sacramento	Oakland	Fresno	Los Angeles	Riverside	
1. Number of properties deeded to State -----	229	670	615	1,219	774	3,507
2. Number of demand letters -----	49	90	99	67	153	458
Percent of total deeds -----	21.4%	13.4%	16.1%	5.5%	19.7%	13%
3. Properties redeemed before staff visit -----	12	12	18	6	43	91
4. Field workload						
A. Cases closed:						
Profitable:						
(1) rented -----	0	17	5	1	3	26
(2) redeemed ----	7	27	22	9	61	126
Nonprofitable:						
(3) vacant -----	0	1	1	4	8	14
(4) nonrentable -	11	4	36	8	17	76
Subtotal -----	18	49	64	22	89	242
B. Cases pending January 1, 1963 -----	19	29	17	39	21	125

Cost of Program. The following estimates were obtained by multiplying the number of hours indicated in Table 9 times the cost per

State Controller—Continued

hour of \$10.63, and then dividing this cost estimate by the above workload factors.

The cost estimates per profitable field case, which ranged from \$25 in Riverside to \$562 in Sacramento, are the most indicative figures in this table.

	Field offices					Total
	Sacramento	Oakland	Fresno	Los Angeles	Riverside	
Total cost	\$3,938.41	\$2,370.49	\$1,339.38	\$1,536.03	\$1,605.13	\$10,789.45
Cost per demand letter	80.37	26.34	13.53	22.93	10.49	23.56
Cost per closed field case	218.80	43.38	20.93	69.82	18.03	44.58
Cost per profitable field case	562.63	53.87	49.61	153.60	25.08	70.98

Footnote: Seventeen counties did not receive any demand letters during 1962, and 13 other counties had no profitable field cases during the last half of the year.

B. Property Inspections

Total time	458 hours
Number of inspections	373
Total cost	\$4,868.54
Cost per inspection	\$13.05

Program. When district managers visit deeded property while processing demand letters, they may prepare an inspection (or appraisal) report which summarizes the characteristics of the property, its location, condition, and name of the former owner or existing tenant. The inspection report serves as a field office record on the property and it can be used to determine the amount of rent that might be charged, to answer questions from the public, and to determine whether the property warrants any further processing by the field staff.

Workload—Costs. The following table shows that 373 inspection reports were made during the last half of 1962 at a cost of \$4,868.54. The average cost per report varied from \$5.87 in Oakland to \$18.56 in Fresno.

This division does not have any workload data which would indicate the results of these reports.

	Field Offices					Total
	Sacramento	Oakland	Fresno	LA	Riverside	
Number of inspection reports	67	73	116	31	86	373
Total cost	\$935.44	\$451.77	\$2,152.57	\$345.47	\$983.27	\$4,868.54
Cost per report	13.96	5.87	18.56	11.14	11.43	13.05

C. Property Management

Total time	543 hours
Total cost	\$5,772.09
Number of rentals	59
Cost per rental	\$97.83

Program. In the two previous programs, the district managers contacted prospective tenants of tax-deeded property. The time spent on this program consists of preparing and executing the rental agreements, handling collection problems and in general managing the property.

State Controller—Continued

Workload and Cost. The following table shows that only 14 of the 58 counties had any tax-deeded property rented during the last half of 1962. The total number of rentals amounted to 59, but some of these were for very short periods, a month or less. At the end of 1962, only 43 rental agreements were in effect throughout the State.

The rentals consist of residences, flats, shacks, vacant land, sign board locations, etc. Many of the properties are in a slum condition and this division has problems keeping the rental payments current.

The cost of managing these properties varied from \$12.40 per unit in Sacramento to \$172.36 in Riverside. These figures may understate the actual cost because about 40 percent of these rentals were made prior to July 1, 1962, and the headquarters office handles all collection work except delinquencies. Also the figures do not differentiate between annual and monthly accounts. The former require almost no effort.

	Field Offices					
	Sacramento	Oakland	Fresno	LA	Riverside	Total
Number of counties in district -----	17	14	17	4	6	58
Number of counties with rentals -----	1	5	4	1	3	14
Total rentals in district -----	3	32	11	6	7	59
Total cost -----	\$37.21	\$2,226.98	\$1,323.43	\$977.96	\$1,206.50	\$5,772.09
Cost per rental -----	12.40	69.59	120.31	162.99	172.36	97.83

D. *Inspecting Deeds*

Total time -----	486.25 hours
Total cost -----	\$5,168.84
Number of deeds inspected -----	4,353
Cost per inspection -----	\$1.19

Program. Before the district managers visit tax-deeded property, they normally inspect the county deed records to determine if the property has recently been redeemed and therefore is no longer a problem. These inspections are a supporting function to the demand letter and property management program.

Workload and Cost. The following table shows that the cost per inspection varied from 75 cents in Fresno to \$3.69 in Sacramento.

	Field Offices					
	Sacramento	Oakland	Fresno	LA	Riverside	Total
Number of deeds inspected -----	206	635	1,602	1,099	811	4,353
Total cost -----	\$760	\$1,400.50	\$1,206.50	\$930.12	\$871.66	\$5,168.84
Cost per inspection -----	\$3.69	\$2.21	\$0.75	\$0.85	\$1.07	\$1.19

E. *Inspecting Records*

Total time -----	489.5 hours
Total cost -----	\$5,203.88

Program. This clerical activity consists of inspecting county records on redemption certificates, cancellations, and delinquent lists to determine if the field offices' records coincide with the county records.

Workload and Cost. The workload figures are not uniform among the field offices, and therefore it is impossible to obtain a reliable cost per unit.

State Controller—Continued

	Field Offices					Total
	Sacramento	Oakland	Fresno	LA	Riverside	
Total cost	\$1,036.42	\$1,583.87	\$600.59	\$1,408.47	\$574.02	\$5,203.38

2. Advising Local Officials and the Public

Total time	564.5 hours
Total cost	\$6,000.63

Program. The time reports do not segregate this advice activity into public and official sectors.

The district managers give most of their advice to the personnel in the county tax collectors' offices. The field staff attempts to visit each of these offices about once a month. During the interval between visits, advice is sometimes given over the phone or by letter. The following table lists the number of phone calls and letters to public officials during the last half of 1962.

	Field Offices					Total
	Sacramento	Oakland	Fresno	LA	Riverside	
Total phone calls	42	83	4	54	30	213
Average per month	7	13.8	.7	9	5	7.1*
Total letters	0	1	12	7	10	30
Average per month	0	.2	2	1.1	1.7	1*

* Per office.

Since less than two phone calls per week are made on the average by each of the field offices, this advice function is not in great demand.

Some of the larger counties do not rely upon the district managers for advice because they have trained personnel working in this area, and they can receive assistance from their county counsel or the Sacramento headquarter's office of this division. We are of the opinion that only a small fraction of the time currently devoted to this activity is really necessary.

3. Tax Sale Information

Total time	130.5 hours
Total cost	\$1,387.21

Program. This activity consumed less than 3 percent of the total time, and consists mainly of supplying the public with information about property tax sales and redemptions.

4. Miscellaneous

Total time	751.5 hours
Total cost	\$7,988.44

Reasons Why the Field Offices Should Be Abolished

1. While the supervision of tax-deeded property is supposed to be a statewide program, its benefits accrue only to a limited number of counties and affect only a small percentage of the tax-deeded property.

For example:

A. Demand letters were sent to only 13 percent of the properties deeded to the State in July 1962.

B. Seventeen counties did not receive any demand letters and 13 others had no profitable field cases.

State Controller—Continued

- C. Only 14 counties had tax-deeded rentals during the last half of 1962. Sixty-eight percent of these rentals were either in the counties where the field offices are located, or in directly adjacent counties.
- 2. The results of the demand letter and property management programs do not warrant the cost the State is paying for these services. In Sacramento, for example, it cost almost \$4,000 to have seven pieces of property redeemed. Almost \$6,000 was spent statewide on 59 rentals. Local governments receive all the proceeds from these activities and the State bears the entire cost.
- 3. Due to the small number of properties involved and their location, it would be more economical for local governments to handle the management and renting of tax-deeded property.
- 4. We do not believe it is the state government's responsibility to have its employees spend their time in personally contacting delinquent local property taxpayers, when local governments, which rely upon the property tax base, do not perform the same service.
- 5. The assistant chief of this division and the one remaining district manager position in the headquarters office should be sufficient staff to provide the necessary advice and counsel to local tax collectors. The field offices are not needed to continue this service.

STATE CONTROLLER

ITEM 126 of the Budget Bill

Budget page 296

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

Amount requested	\$168,954
Estimated to be expended in 1962-63 fiscal year	174,120
Decrease (3 percent)	\$5,166
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This appropriation is for the cost of collecting the Motor Vehicle Transportation (truck) Tax, the details of which are included under Item 125.

We recommend approval.

Department of Finance—Continued

an estimation which bears little relationship to the ultimate amount paid.

We recommend that the procedures for selecting the carrier, the coverage, and budgeting for insurance be subjected to review.

In addition to the factors mentioned, from one accident the State faces a possible damage claim amounting to \$400,000. If the State loses this claim the liability can be settled only through a special appropriation or by an increase in current insurance costs.

Public Buildings Construction Fund

In our 1962-63 analysis, we recommended that operating statements for this fund, which is managed by the Department of Finance, be included in the Governor's Budget. Budget pages 1077 to 1079 contain these statements, which indicate that during the budget year, of those buildings experiencing a full year operation, three are expected to operate at a profit, while three will reflect a loss, summarized as follows:

Loss		
Oakland	-----	\$115,596
Fresno	-----	97,025
San Diego	-----	7,179
		\$219,800
Profit		
Los Angeles State Building	-----	\$46,064
Los Angeles Garage	-----	520
San Francisco State Building	-----	3,622
		\$50,206
Net loss	-----	\$169,594

The loss is deducted from the accrued revenue account which is expected to be \$653,488 on July 1, 1963, and was developed through rental received prior to initial principal repayments.

Section 15816 of the Government Code states:

“If at any time funds are available by law to retire any certificates or revenue bonds issued to repay the cost of any public building, such funds shall be applied to the redemption of certificates or revenue bonds secured by the rentals and revenues from said public building.”
(Emphasis added.)

However, Section 15812, added by Chapter 914, Statutes of 1961 provides, generally, that excess revenues from one building may be applied to any other building.

The policy of the department is to establish a rental rate for all buildings, currently 33 cents per square foot, regardless of actual cost for maintenance, interest and principal, which results in the situation described.

We recommend that the possible conflict in statutes and established policy of the Department of Finance regarding repayments be reviewed and resolved by the Legislature and that in resolving this policy issue that a critical examination of the reasons for the losses be undertaken to determine the advantages or disadvantages of making each building stand on its own feet as originally contemplated in the law.

Department of Finance—Continued

Communications Reporting and Control

Chapter 1071, Statutes of 1947, established the Communications Advisory Board, the purpose being to improve and co-ordinate the use of publicly owned and operated radio and other communications systems. This legislation was intended to eliminate duplication and interference and thereby bring about economies in the use of radio communications by the State, the cities, counties and other political subdivisions at a time when the expansion of these systems was imminent. One of the duties of the communications board was to survey existing and proposed publicly owned and operated communications facilities within the State for the purpose of providing advice concerning an adequate communications system or systems available to public agencies at the least possible expenditure of public funds, and to report annually to the Governor and to the Legislature its findings and recommendations with reference thereto. The most recent meeting of the board was December 14 and 15, 1960; the annual report referred to has been discontinued for quite some time.

The Division of Communications within the Department of Finance was established by the same statute creating the Communications Advisory Board. In 1953, Sections 13800 through 13802 were added to the Government Code to further outline the duties of the Division of Communications. As it now functions, the Division of Communications is involved in statewide radio communications in an advisory and engineering capacity to include supervision of the radio maintenance activity found in the Service Revolving Fund discussed in Item 291 of this Analysis. It also functions in an advisory capacity on wire systems which include teletype, audio, paging, public address, intercommunication, and telephone systems. We wish to make it clear, however, that no degree of control is exercised except under Section 4502 of the State Administrative Manual which requires that agency budget requests for communications expenditures be reviewed in co-operation with the Budget Division.

Recent and proposed changes in telephone communications have forcefully demonstrated the lack of consolidated information in this area and the need for centralized control. The Department of Finance, through the Buildings and Grounds Division manages the central switchboard exchanges and selects leased line facilities both of which are completely reimbursed through pro rata charges to the agencies. The agencies, on the other hand, budget for communications equipment, the pro rata charges, and toll charges.

Experience in Los Angeles demonstrates that the system selected by the Department of Finance had a substantial effect on agency communication equipment requirements. Furthermore, expansion of leased line facilities by the Department of Finance are predicated on decreases in agency toll charges.

Unless properly controlled, significant increases can result, which without consolidated information will be virtually impossible to determine.

Department of Finance—Continued

We recommend that consideration be given to centralizing communications control and reporting.

A recent Pacific Telephone proposal for increased leased line use by the State costing \$924,000 indicates that there are at least 3,450 state telephone accounts with 35 companies. Toll charges for one month between 37 cities studied in this connection were \$67,252. Agency toll charges from Sacramento alone are expected to total \$680,000 for 1963-64. Charges for central telephone equipment in three locations will approach \$2,000,000.

We feel that the Legislature should be provided with these costs and a means whereby unwarranted increases can be prevented.

Purchasing Activities

The Central Purchasing office undertakes all purchasing activity which is not regional by nature, as determined by point of delivery, to include statewide contracts and price agreements. This includes drugs, store supplies, commodities purchased on credit cards and noncompetitive name brand items.

The area offices undertake purchase activity which is regional by nature.

The specifications and testing unit assists in determining the acceptability of products under given bid specifications such as paints.

The various state departments initiate purchasing activity (1) through a purchase request to either the central or area offices of the Division of Purchases depending upon point of delivery, (2) through the use of subpurchase orders direct to vendors under specified conditions, or (3) under the terms of a contract for supplies previously arranged by Purchasing Division or approved by the administrative advisor.

The purpose of centralized purchasing, as given in the State Administrative Manual is as follows: "By concentrating all purchases in one organization it is possible to achieve standardization, elimination of duplication of effort, and lower prices as a result of volume buying."

However, review by this office has disclosed certain deficiencies in the central purchasing as it now functions.

For example, as a result of central purchasing the State achieves specific savings, such as where an agency may have budgeted for equipment at a given price and as a result of purchasing effort or volume buying a substantially lower cost results. These savings, rather than accruing to the State generally, are available to the agency and may be used for the purchase of items not budgeted.

Also, many purchase orders are awarded on the basis of a discount quoted in the request for bids under the competitive bid system, i.e. 2 percent if paid 10 days after delivery. The purchasing division has no means of assuring that the discount will actually be realized and, in fact, the discounts are frequently lost due to the delay normally associated with payment of vendors invoices, if the Controller issues the warrants.

Another weakness is that of subpurchase order use. In its budget request, the purchasing division states, "We estimate that at the

Department of Finance—Continued

present nearly one out of every five dollars expended by the State for materials, supplies, or equipment is spent on a subpurchase order prepared by agencies and receiving only a cursory after-the-fact review by the purchasing division." Misuse by agencies could be extremely costly.

By far the most obvious deficiency is, however, the inability or unwillingness of the purchasing division to achieve the degree of standardization which would result in further savings to the State, as in office furniture.

Thus, it appears that the role of central purchasing and the manner in which it functions requires review.

Correspondingly, we recommend that a thorough review of the State's purchasing policy be made, with an eye towards improving the weaknesses under the existing system.

Regarding the role of centralized purchasing, we feel that it now provides service to agencies, but has insufficient staff and authority to exercise a desirable degree of control.

We feel that to maximize savings, the initial step would be for the purchasing division to vigorously establish standards. Currently, Section 13391 of the Government Code allows the departments to specify quality, subject to the Board of Control determination if the Department of Finance protests. Seldom has reference been made to the board.

Although the department has indicated that voluntary actions in this direction could be taken through the State Purchases Standards Committee, (Government Code Section 13408), there have been no meetings of this committee since the 1960-61 fiscal year.

Furthermore, once standardized, purchases could be scheduled to permit consolidation of purchase requests for volume orders.

In addition to monetary savings resulting from consolidation and standardization of purchases, manpower savings to centralized purchasing would result, which would not entail offsetting increases at the agency level. This man power would then be available for increased purchasing activity occasioned by the growth of state services and also could immediately be effectively utilized to more adequately screen subpurchase orders. Additional effort in this direction would disclose misuse and enlarge the central stores activity by requiring the use of standard stores items rather than allowing the use of subpurchase orders for comparable items as is now the case.

One approach to assuring that savings through volume purchasing and discounts would be realized would be by a transfer of funds from the requesting agency's appropriation to a revolving fund in the amount of the purchase estimate when the estimate is forwarded to purchasing division for action.

In the event that the cost of the item was more than budgeted the agency would have the option of (1) accepting a substitute, (2) providing the additional amount required, or (3) allowing the budgeted funds to revert. Some adjustment would be required for flexibility within the agencies. If the purchasing activity were able to save money, such savings would accrue to the revolving fund.

Department of Finance—Continued

In this connection, the State Educational Agency for surplus property, under the Department of Education, is directed by Sections 451-457 of the Education Code to co-operate with federal agencies in securing federal surplus property for distribution to eligible institutions. Its activities are financed out of the Surplus Property Revolving Fund. A recent inquiry by this office revealed that certain eligible state agencies realize tremendous savings through this program, as indicated in the following table of acquisitions of federal surplus property during 1961-62 by certain state agencies:

<i>Agency</i>	<i>Amount budgeted at fair market value</i>	<i>Actual cost to the State</i>	<i>Saving</i>
University of California and State Colleges -----	\$3,588,271	\$313,220	\$3,275,051
Department of Mental Hygiene -----	130,827	46,451	84,376
California Disaster Office -----	390,225	10,665	379,560
Total -----	\$4,109,323	\$370,336	\$3,738,987

We feel that close co-ordination of this activity with that of the purchasing division could result in the purchase of federal surplus items by eligible departments rather than new equipment, with savings to the State. Furthermore, the savings which result from the purchase of surplus property and currently become available to the individual agency in this case also for subsequent purchase of unbudgeted items under Section 3521.5 of the State Administrative Manual, could also accrue to a revolving fund instead.

The placement and function of the Surplus Property Reutilization Section, a quasi-revolving fund activity which receives surplus state property for subsequent sale to other state agencies, should also be reviewed in this connection.

In another area, we find that certain nonpersonal and personal services acquired through contract, may or may not require prior approval by the Department of Finance. Those requiring approval should be subjected to review by the purchasing division if they are proposed in lieu of purchase, rather than by the Administrative Advisor who considers only the legal merits of proposed contracts. Purchasing division would presumably be concerned with substantive considerations.

ANALYSIS

The total amount available to the Department of Finance for its proposed expenditure program is shown in the following table:

<i>Item</i>	<i>Analysis of Total Expenditure Program</i>			
	<i>Actual 1961-62</i>	<i>Estimated 1962-63</i>	<i>Proposed 1963-64</i>	<i>Increase over 62-63</i>
Direct Appropriations:				
General Fund -----	\$7,832,189	\$8,814,670	\$9,161,763	\$347,093
School Building Aid Fund -----	811,020	889,187	887,828	—1,359
Fair and Exposition Fund -----	228,468	264,102	270,748	6,646
Federal funds -----	—	376,636	607,261	230,625
Subtotal -----	\$8,871,627	\$10,344,595	\$10,927,600	\$583,005
Reimbursements -----	8,632,715	9,814,165	11,308,297	1,494,132
Total -----	\$17,504,342	\$20,158,760	\$22,235,897	\$2,077,137

Department of Finance—Continued

In addition, the State Lands Division, item 140, \$1,166,248, is considered to be a part of the Department of Finance. The Service Revolving Fund activities are also supervised by various divisions of the department.

This budget includes provisions for 69 new positions in addition to a net gain of 66.3 for the Buildings and Grounds Division. This figure, however, is not indicative of the program contemplated due to the substantial increase in reimbursements.

Executive Office

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

The director's office contains the director, who is the highest salaried officer in state government exclusive of the University of California, State College Chancellor and the Governor, and his staff consisting of three deputy directors, one of whom is located in Washington, D.C., and three assistant directors. Seven positions provide secretarial support.

The legal section is composed of the administrative adviser, 10 attorneys and six stenographers. This section assists in the execution or approval of contracts and in other legal matters. An attorney position, authorized to June 30, 1963 for the State Building Standards Commission which was transferred to the Department of Finance, is proposed for permanent status in the legal section, rather than in the State Building Standards Commission.

We recommend disapproval of one assistant counsel (\$8,604), budget page 312, line 64.

This position was approved for continuation to June 30, 1963 in order to complete preparation of a State Building Standards Code for the State Building Standards Commission. While completion of this code is not expected before the end of the 1963-64 fiscal year, it does not appear to us that its completion will require the services of a full-time attorney. *Accordingly we recommend deletion of the attorney position and the substitution therefore of \$4,700 for professional services, as discussed later under State Building Standards Commission.*

The insurance section is comprised of an insurance officer, his assistant and two clerical positions. An additional assistant insurance officer position was added administratively during the current year to allow the existing insurance officer to devote more time to subrogation claims, or those in which state vehicles suffer physical damage through the negligence of others. This budget proposes a continuation of this position.

We recommend deletion of an assistant insurance officer (\$9,036), budget page 312, line 63.

In the 1962-63 budget, \$9,000 was provided under contract services to provide for a review of the insurance office. To date such a review has not been initiated. In the absence of the proposed review, or a similar study to establish the current workload and review existing procedures, we cannot recommend additions to the present staff.

Department of Finance—Continued

Administrative Service Office

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

The staff of the latter three sections in recent years, as indicated in the current year column of the budget which includes positions administratively established, is as follows:

Authorized	Accounting	Data processing	Personnel
1958-59 -----	61½	8	12
1959-60 -----	59½	10	12
1960-61 -----	59½	17	12
1961-62 -----	57	36	12
<i>Estimated</i>			
1962-63 -----	59	36	13
<i>Requested</i>			
1963-64 -----	60	35	13

Accounting

An administrative analyst position is requested in this budget to develop better internal methods and procedures.

We recommend disapproval of one assistant administrative analyst, \$7,080, budget page 313, line 46.

Although the need for this position exists, we recommend that it be provided through the reclassification of an existing position. There are few tangible standards by which we may measure functions performed in the accounting section but there are indications that a degree of over-staffing exists in that office.

It is our opinion that this condition resulted from the shift of work from the accounting section to the data processing section. Additional positions were provided for the data processing section as workload was transferred to it but a corresponding reduction was not made in the accounting section. Also certain work performed by the accounting section no longer requires the detail which was formerly needed.

Personnel

This budget requests that a position of assistant personnel analyst, established administratively during the current year, be continued on a permanent basis.

In 1962-63 budget funds totaling \$9,800 for an interagency agreement with the State Personnel Board were provided. In lieu of this interagency agreement, the Department of Finance established this position and wishes to continue it permanently.

We recommend approval of one assistant personnel analyst, \$8,536, budget page 313, line 48.

Our approval of the contract service item in the 1962-63 year was predicated upon the temporary nature of the request. The method by which a need was to be fulfilled appeared to us to be logical. Although we have been given no facts supporting further need, the nature and

Department of Finance—Continued

size of the staff supported by this section appear to warrant this position. Also, weaknesses in personnel practices disclosed in a recent personnel management survey by the Personnel Board require action by this section.

Data Processing

In our 1962-63 analysis we recommended that nine positions established administratively for the data processing section be approved for one year only, and that they be shown as proposed new for the 1963-64 if they were required. Eight of the nine positions so limited have been requested on a permanent basis.

The department indicates that they will be used in (1) requisition work for central stores, resulting in reduction of two clerks in that function, and (2) trip mileage computation formerly done by the state garage personnel, obviating the need for additional clerks there. It further states that personnel and equipment needs are being established in conjunction with staff from the Organization and Cost Control Division.

We feel that in order to resolve the question of need, a review of the development of this section and its functions is required rather than reliance on an evaluation of the justification submitted relating specifically to these positions.

This section grew from 17 positions in 1960-61 to 36 in 1961-62. Ten of these were authorized by the Legislature, and the nine, eight of which are currently under consideration, were added administratively and subsequently requested on a permanent basis.

This section operates under what is frequently termed a "service bureau" program, its work falling into numerous small, independent jobs. New functions were cited in justifying added positions. We find that many jobs mentioned are not currently active. As examples, equipment records of the department, accounting and clerical operations for Local Allocations Division, property and lease records, automobile inventory, automobile parking, bills and financial and population statistics have either never been initiated or have been discontinued.

The following table shows proposed reimbursements to the section, indicating the actual major areas of work proposed. We have calculated the total cost, by combining authorized and proposed positions exclusive of health and welfare and operating expenses, in order to develop percentages. Reimbursements are also exclusive of health and welfare and retirement.

<i>Function</i>	<i>1963-64 Amount</i>	<i>Percent</i>
Reimbursable work:		
Printing -----	\$103,500	39.3
Garage -----	35,500	13.5
Central stores -----	33,000	12.5
Miscellaneous -----	8,000	3.0
Subtotal—Reimbursable -----	\$180,000	68.3
Nonreimbursable work -----	83,651	31.7
Total—Data processing -----	\$263,651	100.0

Department of Finance—Continued

Actually, the justification cited in this case is invalid as (1) the trip mileage computation formerly done by the state garage personnel will be accomplished by mechanization, but such mechanization will also reduce the requirement for key punch operators in this section by use of an optical scanner, and (2) the requisition work to be performed is a byproduct of preposting stores requisitions rather than after supply action is taken.

Regarding the statement to the effect that the Organization and Cost Control Division has been assisting them in establishing personnel and equipment needs, the nature of work performed in this section and other similar data processing units is such that workload data which give rise to staffing and equipment standards are relatively simple to develop. Card volumes, which are known, and machine running times, which are easily obtainable, immediately provide an insight into requirements. The most recent utilization reports on this unit obtained by our office indicate that use of equipment and personnel is sub-standard.

In light of the conclusions necessarily drawn from the above, *we recommend deletion of the following positions:*

Position	No.	Amount	Budget	
			Page	Line
Accounting tabulating supervisor II-----	1	\$7,428	313	50
Accounting tabulating supervisor I-----	2	13,244	313	52
Tabulating machine operator-----	3	17,119	313	54
Key punch operator-----	2	8,904	313	55
Total-----	8	\$46,695		

We recognize that this section has experienced difficulties and has been unsuccessful in attempting to resolve them, but we do not feel that staff additions are the answer to the problem. Furthermore, we do not feel that new equipment, currently under consideration although not reflected in the budget, will provide the answer. In our opinion new more complex equipment should not be considered until such time as the existing equipment is utilized effectively. The department would be compounding its difficulties by adding new equipment which would necessitate forms redesign, training of operators, and programing or wiring and testing of equipment, as well as rewriting internal processing procedures. Furthermore only with a base of cost under efficient procedures can the feasibility of new equipment be adequately established.

Our suggestion to solving the problem takes a different approach.

The Department of Finance, in order to perform mechanized accounting for the State Printing Plant which was desired by the Legislature, modified and accepted in part a vendor's proposal dated December 1959. The original proposal recommended staffing and equipment to do the job at the plant location which would have resulted in a reduction of \$49,271 in printing plant accounting costs. The modifications made by the department placed this work under the existing data processing unit of the accounting office instead of a separate unit at the plant, and changed certain of the reports and procedures recommended.

Department of Finance—Continued

In addition to the difficulties evidenced by this request, this decision has resulted in an increase in costs in excess of \$65,000 over the manual system, rather than a savings when the proposed reimbursements for this work and staff retained at the printing plant are totalled.

Also legislative hearings during the past year have disclosed dissatisfaction with the work performed for the plant as well as the increased costs.

We recommend that mechanized accounting and cost control work for the printing plant be performed by a data processing unit physically and organizationally separate from the Department of Finance Administrative Service Office.

It is obvious that the "service bureau" concept attempted has not functioned as intended. Through this recommendation, not only will the workload remaining in this section be more easily handled, but also, a reduction to the printing plant costs should result and the reports desired by the Legislature produced. If accepted, reductions in the existing authorized staff and equipment of the Department of Finance data processing section should also be made. As printing plant work represents approximately 40 percent of the total, we feel that 10 positions (40 percent \times 26) could be deleted. Some of these would undoubtedly be re-established under the printing plant which, as a revolving fund activity is not subject to position control, but the reimbursement item, and some existing printing plant accounting personnel could be dropped.

Television Co-ordinator

Provisions are made during the current and budget year for a television co-ordinator and operating expenses as provided by Chapter 2065, Statutes of 1961 Section 2 states: "This act shall become operative only on the date when federal grants in aid for educational television first becomes available to public agencies in this State."

At this writing, federal action on this subject is still pending.

Temporary Help

Temporary help in the amount of \$17,000, representing three positions, was added administratively during the current year to provide consultant services. In the budget year this amount is proposed for continuation.

We recommend a reduction in temporary help, \$17,000, budget page 313, line 60.

There has been no further justification provided for the amount requested. The existing temporary help, \$31,500, shown in the salary supplement on page 252, line 11, would be in addition to this amount, and should be adequate. Furthermore this budget provides \$21,500 under contract services for unspecified purposes.

Audits Division

This division is engaged largely in making internal audits of state agencies. These are internal in the sense that they are conducted by a staff responsible to the same official, the Director of Finance, who is also responsible for overall state fiscal administration, as distinct from

Department of Finance—Continued

independent audits made by the Auditor General who is responsible only to the Legislature.

The authorized staff of this division has been as follows exclusive of clerical personnel, since the establishment of the office of Auditor General in 1955:

<i>Fiscal year</i>	<i>Authorized staff</i>
1955-56	105
1956-57	92
1957-58	92
1958-59	87
1959-60	87
1960-61	93
1961-62	95
1962-63	109

The division is requesting three new examiner positions, budget page 314, lines 59 to 61 for increased workload.

We recommend deletion of the following three positions:

1 Supervising financial examiner, budget page 314, line 59	\$10,440
1 State financial examiner III, budget page 314, line 60	8,604
1 State financial examiner II, budget page 314, line 61	7,080
Total	\$26,124

In our 1961-62 analysis, page 344, we stated that in our opinion the total audit effort of the State was not being expended in the most effective manner and suggested that a review be made by the Auditor General, taking into consideration the recommendations made by Price Waterhouse and Company, a nationally known firm of certified public accountants in a survey for the Joint Legislative Budget Committee in 1954 on "Accounting and Auditing for the State of California."

Such a review has been completed by the Auditor General and a report issued in December 1962.

This report contains some far-reaching recommendations for a re-deployment of the existing internal audit staffs, both of the Department of Finance and individual departments. In addition the report contains the following, on page 2:

"The implementation of the above recommendations will require the amendment of certain statutes and considerable administrative action. We have made certain other recommendations which we believe should be placed into effect immediately, as they involve deficiencies which could be corrected without legislative action. These recommendations are as follows.

We recommend that:

- (4) The Audits Division establish proper controls over interim letters.
- (5) The Department of Finance develop methods for accelerating agency response to interim letters.
- (6) State agencies implement audit recommendations without the assistance of the Organization and Cost Control Division.

Department of Finance—Continued

- (7) The Audits Division reduce the amount of time spent on financial auditing and on recurring surveys of certain procedures.
- (8) The Audits Division perform work on a current basis."

In view of these recommendations, particularly (7), which implies a degree of overstaffing in the Audits Division, we are recommending against any increase in the Audits Division staff at present, since it appears to us that any increase in workload can be absorbed by the existing staff by implementing the recommendations of the Auditor General.

Budget Division

The Budget Division of the Department of Finance, which is responsible for the preparation and administration of the annual budget, has recently been reorganized into three units, (1) procedures and methods, consisting of three analysts, (2) economic and demographic research, which is also referred to as financial and population research and consists of 14 positions including those on a reimbursable basis for population estimating, and (3) budget operations. The latter, budget operations, consists of a fiscal control section, and four operating sections, described below.

Section 1—The statutory Health and Welfare and Corrections Agencies.

Section 2—The nonstatutory Revenue and Management, Business and Commerce, and Employment Relations Agencies.

Section 3—The statutory Resources and Highway Transportation Agencies, and nonstatutory Public Safety Agency.

Section 4—Higher Education.

Five positions are requested, three for the budget operations section, and two for the financial and population research section.

We recommend approval of the following positions for budget operations:

Position	No.	Salary	Budget	
			Page	Line
Assistant chief budget analyst.....	1	\$11,520	315	50
Senior budget analyst	1	10,440	315	51
Associate budget analyst	1	8,604	315	52
Total	3	\$30,564		

We feel that the agency plan reorganization requires higher level staff participation by the Budget Division and concur with the division's reorganization and staffing proposal to provide this support.

The financial and population research section requires additional positions due to greater interest in and reliance on its program.

We recommend approval of an associate demographer \$8,604 and an intermediate account clerk \$4,140, budget page 315, lines 53 and 54, for the financial and population research section.

Department of Finance—Continued

The necessity for information developed by this section on revenue estimates which are a requisite for proper long range planning appears to justify the additional positions.

Included under contract services budget page 315, line 73 is \$13,000 which is a continuation of an amount budgeted for the 1962-63 year, for research and development of computer applications regarding enrollment and population projections.

Joint Tax Commission

A new item for \$150,000 is shown on budget page 315, line 75, for a Joint Tax Commission. As indicated in the program and performance discussion in the final paragraph, it is anticipated that legislation will be introduced to define the scope of activities in this proposed commission.

specific continuing appropriations or an allocation from a general appropriation for fairs activity. In the latter category, Section 19627 of the Business and Professions Code appropriates \$4,860,000 annually from which allocations are made for operations of the 71 district and county fairs not otherwise specifically mentioned. Any balance in the fund is then available for the purpose of Section 19630, Business and Professions Code, which appropriates the balance not to exceed \$2,250,000 for capital outlay projects for the same 71 fairs and the citrus fairs. Any remaining balance then becomes revenue to the General Fund. Table 1 shows the total appropriation contemplated from the Fair and Exposition Fund.

As may be noted, \$2,808,399 is allocated for capital outlay, exceeding the amount established by the Legislature under Section 19630 of the **Buildings and Grounds Division**

This division, on a reimbursable basis where applicable, provides for maintenance of 56 state-owned and other buildings. In addition, the activities of the State Gardener and his staff, state police, and space utilization and central telephone exchange personnel are a part of this division.

The budget proposes the elimination of 54.5 previously authorized positions and the addition of 120.8 new positions for various reasons. The following table provides a breakdown of these gains and losses.

Location	Reduction	Addition	Net gain
Sacramento:			
Telephone operator -----	16	--	--16
Legislative session -----	5	--	--5
Other -----	23.5	11.5	--12
Retirement Building -----	--	98.3	+98.3
San Francisco -----	4	9	+5
Lós Angeles -----	6	1	--5
San Diego -----	--	1	+1
	54.5	120.8	66.3

We recommend approval as budgeted.

Department of Finance—Continued

Table I

Fair activity and applicable section of Business and Professions Code	Proposed appropriation from the Fair and Exposition Fund for Fiscal Year 1963-64		
	Support	Capital Outlay	Total
State Fair and Exposition:			
Section 19622 -----	\$250,000		
Section 19624 -----	15,000		
Total -----	265,000		\$265,000
California Museum of Science and Industry:			
Section 19622 -----	15,000		15,000
48 District Agricultural Fairs:			
Section 19627 -----	2,868,100	\$1,734,399	
Total -----			4,602,499
23 County Agricultural Fairs:			
Section 19627 -----	1,310,700	1,049,000	
Total -----			2,359,700
Citrus Fairs:			
Cloverdale Section 19626 (c)-----	30,000		
National Orange Show Section 19626 (b)	150,000	25,000	
Total -----	180,000	25,000	205,000
Other: Section 19622:			
Los Angeles County Fair-----	250,000		
I A District Agricultural Association---	250,000		
48th District Agricultural Association---	125,000		
Total -----	625,000		625,000
Total -----	\$5,263,800	\$2,808,399	\$8,072,199
Sources of Funds:			
Continuing appropriations -----	5,263,800	2,250,000	7,513,800
Transfer from Section 19627 proposed---		501,200	501,200
Sale of assets-----		57,199	57,199

From the amount available under Section 19626 for support, \$501,200 is requested to be transferred to capital outlay. This transfer would, in effect, deprive the General Fund of a like amount of revenue. Our analysis of this proposed transfer will be found in our discussion of the control sections to be furnished at a later date.

This request for support of the Fair and Expositions Division out of the Fairs and Exposition Fund includes provisions for a position of intermediate typist-clerk for one year only, to handle increased workload of a temporary nature.

We recommend approval of one intermediate typist-clerk for one year only (\$4,140), budget page 319, line 63.

In the 1962-63 budget, the position of electrical inspector II, shown in the Salary Supplement, page 256, line 24, was approved for the purpose of reviewing electrical needs of capital outlay projects and repairs, related to these fairs. The cost of the position was to be recovered through reimbursements for construction supervision and would have

Department of Finance—Continued

resulted in a savings from the previous method in which the Division of Architecture provided this supervision.

In this budget, no provision has been made for an increase in construction supervision reimbursements proposed to offset the cost of this position in either the 1962-63 or 1963-64 fiscal years.

We recommend an increase in construction supervision reimbursements of \$8,604, budget page 320, line 9.

By increasing reimbursements as had been originally proposed when this position was approved the General Fund stands to gain in a like amount. Although reimbursements will ultimately be from the Fair and Exposition Fund, it will be from the amount allocated for capital outlay which is limited by statute. If on the other hand the cost of this position is included in this support item, the balance of the Fair and Exposition Fund eventually reverting to the General Fund would be decreased accordingly.

Local Allocations Division

This division, under the direction of the State Allocation Board, allocates state funds to political subdivisions for public works projects and other related activities authorized by the Legislature.

Support of the school building aid program which represents virtually all of the work of the division is financed out of the State School Building Aid Fund. Activity under the veterans housing program, established by Chapter 28, Statutes of 1946, the only other program currently active, has diminished to the point where it requires General Fund support of only approximately \$2,500.

A new program, which will require approximately \$100,000 in additional support under this item is that in connection with a proposed housing improvement and development program. This increase represents 9 new positions requested, budget page 320, line 47, plus housing unit expenses, budget page 320, line 66, less salary savings related to the 9 positions.

Under item 440, budget page 1018, \$2,000,000 is requested in subventions for other purposes related to this program. We have no further information nor have we seen the proposed legislation and are, therefore, unable to evaluate the request for either support or subvention items.

As we are unable to resolve questions relating to this proposal, we cannot make a recommendation at this time.

Organization and Cost Control Division

This division was established by Chapter 1837, Statutes of 1957, and provides consultation services and makes studies at the request of any state agency on management problems and organization, procedures, administrative policy, records management, and accounting systems. Co-ordination of the work of this staff with that of the Budget Division is essential, but difficult under the present circumstances such as organizational placement and physical location.

Two sections, management research and accounting systems, undertake to perform these surveys and provide consultation. The accounting

Department of Finance—Continued

systems staff is further subdivided into accounting and electronic data processing systems. The staff of the suggestion system is also housed in this division. Recent staffing of the division is shown in the following table:

Section	1962-63		1963-64
	Authorized	Revised	Requested
Chief of division	1	1	1
Clerical	6	6	6
Accounting systems	10	11	11
Data processing	6	5	7
Management research	20	20	20
Suggestion systems staff	5	5	5
Total	48	48	50

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

Year	Amount
1957-58	\$30,188
1958-59	25,352
1959-60	15,819
1960-61	11,076
1961-62	38,329
1962-63 (estimated)	28,708
1963-64 (estimated)	10,800

The nature of work undertaken by this division fluctuates with the requests by agencies, which work may or may not be reimbursable. In recent years, however, the increase in qualified staffs in major state agencies, which is now nearly double that in this division, has reduced the requirements for surveys or projects with application to specific agencies. The trend in the division is, therefore, toward those projects of statewide application. We feel that this trend is in the right direction, due to evidence that requesting agencies are reluctant to give effect to recommendations of this division, and results obtained by those which were affected have not met expectations.

Two additional data processing systems analysts are requested to meet the increased demand for review of agency proposals for such equipment. In our 1962-63 analysis, we recommended that this staff devote its time to the review and control of existing and proposed installations and projects of general, agencywide nature. We understand that this recommendation is being effected, and that a format for agency studies and cost analyses is being prepared.

We recommend disapproval of two data processing systems analyst, \$17,208, budget page 321, line 38.

It would appear that this request is in line with our previous recommendation, however, the job specification for the data processing systems analyst indicates that the job is oriented to the operational detail of data processing rather than feasibility aspects. Detailed working papers furnished this office in support of this budget indicate that limited and minor projects constitute the bulk of the work projected for the budget year by this section.

Department of Finance—Continued

Presumably, therefore, the major effort of this section will be misdirected to time-consuming and unproductive detailed review.

We believe assistance in defining objectives, organizing the study and reviewing the cost comparison made by the agency should be the objective of this division, rather than a review of specific procedures, programs, and equipment selected, which we feel are the departments' responsibility and prerogative.

Furthermore, the table above indicates that the division revised its staffing for the current year, thereby reducing the data processing staff by one position, and adding one in accounting systems. We have been offered no explanation for this action and feel that before requesting additional staff, this position should have been reinstated in the data processing staff.

Suggestion System

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

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

We do not believe that this operation is very effective as it is presently organized and administered. More meaningful analysis of management's relationship to these suggestions is needed, with follow-up by the Department of Finance.

Commission on State Government Organization and Economy

This commission was established by Chapter 2038, Statutes of 1961. Money for its support, \$43,838, to provide for a staff of two persons and expenses of the commission is included in the budget of the Department of Finance as a matter of convenience only, since the commission is not subject to the control or direction of the Director of Finance.

Planning Office

The first planning agency at the state level since 1948 was established by Chapter 1890, Statutes of 1955, which created the Local Planning Advisory Committee to assist the State Allocation Board in securing reports, information and recommendations relating to local planning in connection with school districts.

Chapter 33, Statutes of 1956, First Extraordinary Session provided for a Local Planning Advisory Committee to provide guidance to the Department of Finance in the planning function and required the Department of Finance to employ personnel, make space available and make its facilities available to perform the functions related to local,

Department of Finance—Continued

regional or state planning in accordance with the policies and advice of the committee.

The State Office of Planning, as it exists today, was created by Chapter 1641, Statutes of 1959, in effect September 18, 1959.

The agency has particular responsibility for (a) the preparation, maintenance and periodic revision of a comprehensive state development plan. (b) The co-ordination of public works programs undertaken by state agencies. (c) The provision of planning assistance to local, district, and regional planning agencies and to other public agencies on request. (d) The undertaking of such other physical planning and co-ordinating studies and activities as will implement the policies and intent of the Legislature.

The amounts expended for the planning function since 1955 out of state funds, to the extent which they can be identified in the printed budget, and exclusive of retirement and health and welfare, are as follows:

<i>Fiscal year</i>	<i>Expended</i>
1955-56	-----
1956-57	----- \$16,530 ¹
1957-58	----- 30,371
1958-59	----- 52,304
1959-60	----- 51,746
1960-61	----- 82,340
1961-62	----- 128,917
1962-63 Estimated	----- 210,694
1963-64 Proposed	----- 287,926

¹ Salaries and wages only. All other amounts shown include related operating expenses and equipment.

The amount appropriated for 1960-61 included an augmentation of \$30,000, proposed after the 1960-61 Budget was printed, for a metropolitan area study. In 1962-63, the Capitol Building and Planning staff was also transferred to the planning office.

While we do not feel that the amount proposed is excessive for good planning, we do feel that substantive reports for evaluation should be made on past accomplishments and future goals, as well as the current status of planning efforts. We recognize that objective or quantitative accounting is difficult in this area but suggest that the attempt to record activities in these terms will assist both the Legislature and the agency in judging the requirement for the programs.

The organization of the State Office of Planning by functional grouping with related staffing in recent fiscal years is shown in the following table:

	<i>Authorized</i>			<i>Author- ized Proposed</i>		<i>Increase over</i>
	<i>1959-60</i>	<i>1960-61</i>	<i>1961-62</i>	<i>1962-63</i>	<i>1963-64</i>	<i>1962-63</i>
Chief of Division	1	1	1	1	1	-
Advance Planning Section (state development plan)	1	3	3	5	10	5
Local Planning Section						
701 Program	1	2	2	3	4	1
Area redevelopment program	-	-	-	3	3	-
Current Planning Section	-	1	1	2	2	-
Clerical	2	3	3	5	8	3
Total	5	10	10	19	28	9

Department of Finance—Continued

In addition to the 19 positions originally authorized by the Legislature for 1962-63, two clerical positions were established administratively during the current year, and are included in the nine requested on a permanent basis.

Advance Planning Section

During the current year a federal planning grant of \$376,636 was made available to the State, under Section 701 of the Housing Act of 1954, in order to initiate a state development plan. As it now is conceived, the plan will consist of three phases: phase I, to be completed by October 1, 1963; phase II and the initial plan, by December 1964; and phase III which will be the implementation and periodic revision of the plan for an indefinite period.

The plan itself will take the form of a policy statement of the State's role in urban expansion, natural resources, intergovernmental affairs, etc. A progress report will be furnished during the current legislative session.

The proposed budget indicates the scope of the phases, and the proposed allocation of the one-third state and two-thirds federal matching funds. Part of the state share is derived from the application of funds budgeted for ongoing projects in other agencies such as the Division of Small Craft Harbors and the Division of Highways. These total \$138,413 for 1962-63, and some part of \$250,000 for 1963-64. By far the greatest expenditure, however, is through the media of contracts with private consultants for studies in the area of economic, urban, and resources developments as examples, substantially all of which is identified as being paid from federal grants in both the current and budget years.

Six additional positions are requested for phase II of the state development plan.

We recommend approval of the following positions:

Position	Number	Amount	Budget	
			Page	Line
Associate planner	1	\$8,604	323	55
Assistant planner	2	14,160	323	56
Junior research technician	1	5,832	323	57
Delineator	1	5,832	323	58
Intermediate stenographer-clerk	1	4,344	323	59
Totals	6	\$38,772		

In order to prevent unwarranted staff additions or the continuation of existing positions when the function for which they were approved no longer exists, we feel that these positions should be subjected to a careful administrative review at the end of 18 months, or phase II. Accomplishments under phase I and phase II, and the requirements of the thus far unspecified work under phase III should be established by that time.

Local Planning Section

Local planning consists of two programs. The first, that of securing urban planning assistance grants under Section 701 of the Housing Act of 1954, is expected to result in federal grants for local agencies

Department of Finance—Continued

totaling \$452,860 during the budget year, as indicated on budget page 1021, line 5.

On the basis of a review of workload data submitted to this office on this program, we recommend approval of the following positions:

Position	Number	Amount	Budget	
			Page	Line
Assistant planner -----	1	\$7,080	323	56
Intermediate stenographer-clerk -----	2	8,688	323	59
Totals -----	3	\$15,768		

The other program, area redevelopment, established under Public Law 87-27 and initiated with the 1962-63 Budget, has not progressed to a point where it may be subjected to review, but we will continue to review the program as to need.

Reimbursement of \$10,000 are shown for administration of federal grants presumably from these funds, and will offset the cost of accounting for but not securing the grants.

Current Planning Section

Two positions formerly providing staff support exclusively for metropolitan area study and the capitol building and planning commission are now devoted to current planning in general which consists of coordinating public works projects, and actions required to accomplish legislative studies.

Property Acquisition Division

This division is responsible for the real property acquisition, management and disposal activities of the Department of Finance and also provides support for the Public Works Board. This budget proposes an operation which will be completely reimbursable from funds available through various capital outlay appropriations or from revenues. Support in 1961-62 totaled \$30,861 from the General Fund.

The three operating sections of the division are appraisal, negotiation, which is also concerned with interim rental and disposition of improvements, and site selection, which also undertakes the sale of surplus state property.

Nine positions established administratively during the current year are shown as proposed new for negotiating and appraisal work.

Nearly all negotiation work for this division was formerly handled under contract by the Division of Highways through their 11 district offices. The added staff in this division will undertake such work for the Northern California area out of the Sacramento office.

Two appraisals are required by this division for both acquisitions and sales. Formerly these were provided by independent fee appraisers under contract. The added staff will undertake one of these appraisals in certain cases.

Department of Finance—Continued

We recommend approval of the following positions:

Position	Number	Amount	Budget	
			Page	Line
Associate land agent	4	\$35,856	324	46
Assistant land agent	3	24,882	324	47
Intermediate stenographer	2	7,930	324	48
Totals	9	\$68,668		

We feel that tangible savings will result under staff appraisal work, and that the advantage of staff negotiation is the recovery of overhead cost, resulting in the completely reimbursable budget.

Purchasing Division

The Purchasing Division is charged with the purchase of supplies and certain nonpersonnel services for specified state agencies as designated in the Government Code beginning with Section 13390. In addition, numerous services are managed by the Purchasing Division including certain service revolving fund activities.

The functional organization and related staffing of the Purchasing Division and its service revolving fund activities, exclusive of temporary help and overtime for 1962-63 is shown in the following table:

	Service		Total
	General Fund	Revolving Fund	
Functions directly related to purchasing			
Central purchasing office	25	--	25
Area purchasing officers ¹	76	--	76
Specifications and testing unit	4	--	4
Functions indirectly related to purchasing			
Traffic management	6	--	6
Central stores	--	32	32
Surplus property reutilization	4	--	4
Functions not closely related to purchasing			
Automotive management	16	117.5	133.5
Central services	2	--	2
Central reproduction	--	16.5	16.5
Interdepartmental mail	7	--	7
Office machine repair service	--	16	16
Total positions	140	181.0	321.0

¹ Sacramento, 29; San Francisco, 24; Los Angeles, 23.

Five additional positions are requested to meet increased workload.

We recommend approval of the following positions for purchasing activities:

Position	Number	Amount	Budget	
			Page	Line
Buyer I	2	\$12,864	325	40
Intermediate clerk	3	12,420	325	41
Total	5	\$25,284		

Until such time as the functions of central purchasing are revised, continued staff additions will be required to meet increased volumes of purchases generated by normal increases in state agencies.

Department of Finance—Continued

The traffic management section, acting in an advisory capacity, assists agencies in movement of state freight, the purpose being to effect efficiencies and economies through such action.

Central Stores, mentioned previously, is discussed in greater detail under the Service Revolving Fund, item 291.

The function of the Surplus Property Reutilization Section has been mentioned previously. Under reimbursements, budget page 325, line 73, \$5,000 is shown for this activity. As personnel costs are charged to the General Fund, but profits accrue to the Service Revolving Fund, this amount is intended to partially offset General Fund costs.

The revolving fund activities of the Automotive Management Section and central reproduction and office machine repair service units of central services are discussed under the Service Revolving Fund, item 291.

The General Fund portion of automotive management includes garage attendants for the State Capitol. Parking fees collected from employees in this location are returned to the General Fund as reimbursements, shown on budget page 325, line 71.

The cost of the parking facilities analyst in the Automotive Management Section and Business Service Office for Central Services, is also recovered through reimbursements.

Interdepartmental mail is a General Fund activity, the cost of which is recovered through pro rata charges.

Office of Administrative Procedure

Chapter 2048, Statutes of 1961, in effect September 15, 1961, abolished the Division of Administrative Procedure in the Department of Professional and Vocational Standards and created the Office of Administrative Procedure in the Department of Finance. It provided for the transfer to the new office of the existing staff of the Division of Administrative Procedure as well as all full-time hearing officers in state agencies who were conducting hearings under the Administrative Procedure Act, together with related personnel. It also provided that the new agency be headed by a presiding officer appointed by the Governor subject to confirmation of the Senate, and that the presiding officer must have the same qualifications as hearing officers, namely, have been admitted to practice law in California for at least five years preceding his appointment and have any additional qualifications established by the State Personnel Board for the particular class of positions involved. The portion of the Office of Administrative Procedure activity described as administration is wholly reimbursable from services to other agencies.

Three additional positions established during the current year in administration are proposed new for the budget year.

The position of administrative assistant was established to relieve the presiding officer of routine administrative tasks and to establish procedures and methods to improve service to the State and the public agencies using the office.

Department of Finance—Continued

We recommend approval of one administrative assistant (budget page 326, line 34), \$7,080.

We recognize a need for co-ordination of the activities of this division in three locations which serves a minimum of 51 different agencies.

We recommend approval of one senior legal stenographer, \$5,028; and one intermediate stenographer, \$4,344 (budget page 326, lines 35 and 36).

The staffing of the division indicates that the identifiable hearing officer and hearing reporter positions were transferred to the division as required by the legislation, but that clerical positions which were not as readily identified may have been retained by the three agencies from which transfers were made. The positions requested are required to provide sufficient clerical support.

The codification unit, compiles and publishes the California Administrative Code consisting of agency rules and regulations. It is financed by an appropriation from the General Fund, with the portion of its activities which relate to special fund agencies being included in the pro rata charges made to all special fund agencies for administrative costs under Sections 11270-11275 of the Government Code. Two additional positions are requested for this unit to study the subject of administrative law and procedures assigned to the office by Government Code Section 11370.5.

We recommend approval of one associate counsel, \$10,968; and one intermediate stenographer, \$4,444 (budget page 326, lines 75 and 76).

As this study has been recommended by the Judicial Counsel and would obviously require additional staff, we recommend approval.

State Building Standards Commission

Chapter 59, Statutes of 1962 First Extraordinary Session transferred the State Building Standards Commission to the Department of Finance. In addition the size of the commission was increased to 11 members and its composition and duties were revised to some extent. The budget was in no way affected by the transfer.

The major missions which had been assigned to the commission by the Legislature were to search out and eliminate conflict, duplication, and overlap in the State's codes, statutes, or agency rules and regulations which dealt with building construction on a state level, and to publish a single document which would list all state requirements from whatever source concerning construction and building.

The 1962 legislation in effect gave the commission means whereby conflict, duplication and overlap could be eliminated, through the processes provided in the Administrative Procedures Act. It also provided that the commission should initiate a State Building Standards Code, rather than merely assembling all regulations in one document.

We feel that this recent legislation has empowered the commission to function in a manner which will accomplish that which was assigned, but has not significantly enlarged the role of the commission.

This, the 1963-64 Budget, proposes the continuation of all existing positions on a permanent basis including the two previously limited.

Department of Finance—Continued

The assistant counsel position is shown under the legal section of the executive office on budget page 312, line 64. Earlier in this analysis, under Executive Office, we recommended that this position be discontinued, our reasons being that this position will no longer be required when the code has been completed which is expected by the end of the budget year, and there is insufficient work to keep an attorney fully occupied and that such work could better be performed on a reimbursable basis. To that end we recommend an increase in funds for professional services in the amount of \$4,700, budget page 327, after line 63, the amount provided in the 1962-63 Budget.

We recommend that one associate mechanical engineer (budget page 327, line 46) be limited to June 30, 1964.

We anticipate that the major work of the commission will be completed by June 30, 1964, and in that event the position will no longer be required.

DEPARTMENT OF FINANCE

ITEM 133 of the Budget Bill

Budget page 311

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

Amount requested	\$270,748
Estimated to be expended in 1962-63 fiscal year	264,102
Increase (2.5 percent)	\$6,646
TOTAL RECOMMENDED REDUCTION	\$8,604

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Fairs and Exposition Division:			
Increase reimbursements to item 132	\$8,604	320	9

ANALYSIS

Of the amount requested, \$98,000 is for audits of county and district fairs by Audits Division and \$172,748 is for support of the Fair and Exposition Division, Department of Finance, discussed under item 132.

In that discussion, we have recommended an increase in reimbursements, which would require a corresponding reduction in this item.

**Department of Finance
SCHOOL BUILDING AID**

ITEM 134 of the Budget Bill

Budget page 311

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

Amount requested -----	\$887,828
Estimated to be expended in 1962-63 fiscal year -----	889,187
Decrease (0.2 percent) -----	\$1,359
TOTAL RECOMMENDED REDUCTION -----	None

GENERAL SUMMARY

This appropriation provides partial support of the Local Allocations Division which is shown as a part of the Department of Finance on budget page 320, and supports activities related to the School Building Aid Program.

We recommend approval as budgeted.

CAPITOL BUILDING AND PLANNING COMMISSION

ITEM 135 of the Budget Bill

Budget page 329

**FOR SUPPORT OF CAPITOL BUILDING AND PLANNING
COMMISSION FROM THE GENERAL FUND**

Amount requested -----	\$2,500
Estimated to be expended in 1962-63 fiscal year -----	2,500
Increase -----	None
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS

The Capitol Building and Planning Commission was created by Chapter 1952, Statutes of 1959, to consist of 13 members to be appointed by the Governor. Membership in the commission includes nominees of both the City and County of Sacramento. The major purpose of the commission was to cause the establishment of a master plan for the development of the Capitol area and to make such subsequent revisions as it deemed necessary. The master plan was presented to the Legislature in 1961 and adopted by it at that time. Any subsequent revisions would also be required to be presented to the Legislature for consideration and adoption.

Following the adoption of the plan by the Legislature, that body decided that it was no longer necessary to support the commission at the original level which was necessary to produce the master plan. Therefore, at the 1961 session the direct support of the commission was reduced to \$2,500 and again sustained at that level by the 1962 Legislature, and provision was made for additional services, as they might be required, from the Department of Finance.

The proposal for the 1963-64 budget year is for the same level of \$2,500. *We recommend approval.*

**Department of Finance
CALIFORNIA STATE FAIR AND EXPOSITION**

ITEM 136 of the Budget Bill

Budget page 330

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

Amount requested	\$2,476,377
Estimated to be expended in 1962-63 fiscal year	2,442,094
 Increase (1.4 percent)	 \$34,283
TOTAL RECOMMENDED REDUCTION	\$42,033

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
1. Administrative assistant	\$9,948	331	16
Operating expense—direct fair activities	15,585	331	60
Operating expense—buildings and grounds	16,500	332	38

GENERAL SUMMARY

The California State Fair and Exposition is authorized under the provisions of Article 1, Sections 70 through 77, of the Agricultural Code. Funds for operation of the fair are provided as set forth in Sections 19622 and 19624 of the Business and Professions Code, which makes allocations from the Fair and Exposition Fund. Presently the statutes provide support for the California State Fair in the amounts of \$250,000 and an additional \$15,000 for the junior show.

In 1961 an additional program titled "The Spring Fair" was initiated on the state fairground under the joint auspices of the State Fair and the 52d District Agricultural Association. The Spring Fair is presently scheduled to be held for a period of nine days, May 11 to 19, inclusive. However, the State Fair directors have made application to the Horse Racing Board for quarter horse racing dates which, if granted, will, we were informed, be held in conjunction with the Spring Fair.

ANALYSIS

The following table has been prepared to show the relationship of expenditures to revenues. In the past 10 years revenues have never risen above 78.1 of expenditures.

Comparison of Total Expenditures and Revenues

<i>Fiscal year</i>	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	<i>Revenues as percent of expenditures</i>
1953-54	\$1,895,223	\$1,352,177	\$543,106	71.3
1954-55	1,964,428	1,281,100	683,328	65.2
1955-56	1,876,802	1,264,887	611,915	67.4
1956-57	2,104,397	1,470,357	634,040	70.0
1957-58	2,156,394	1,432,477	723,917	66.4
1958-59	2,126,993	1,449,405	677,588	68.1
1959-60	2,109,833	1,544,923	564,910	73.2
1960-61	2,359,959	1,717,963	641,996	72.8
1961-62	2,319,102	1,689,425	629,677	72.8
1962-63 *	2,442,094	1,908,386	533,708	78.1
1963-64 *	2,476,377	1,932,600	543,777	78.0

* Estimated as shown in 1963-64 budget.

California State Fairs and Exposition—Continued

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

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid attendance</i>	<i>Per capita cost of deficit</i>
1953-54 -----	\$543,106	473,099	\$1.15
1954-55 -----	683,328	505,567	1.36
1955-56 -----	611,915	373,363	1.64
1956-57 -----	634,040	463,779	1.37
1957-58 -----	723,917	458,300	1.58
1958-59 -----	677,588	457,200	1.48
1959-60 -----	564,910	518,647	1.09
1960-61 -----	641,996	522,107	1.23
1961-62 -----	629,677	416,968	1.51
1962-63 * -----	533,708	438,328	1.22
1963-64 * -----	543,777	445,000	1.22
Totals -----	\$6,787,962	5,072,358	\$1.34

* Estimated as shown in 1963-64 budget. Paid attendance for 1961 and subsequent years predicated on free admissions for children under 16 years of age.

The deficit for the 11-year period, as set forth in the above table, will total \$6,787,962. The average per capita loss on a paid attendance of 5,072,358 for this same period is \$1.34. It is noted on the basis of the agency's estimate that the per capita loss is expected to be \$1.22 in 1963-64, which is identical with the per capita loss for the prior year.

Personal Services

The revised budget format for 1963-64 now includes amounts allocated for health, welfare and retirement benefits with salaries and wages and this agency has scheduled \$1,161,816 for personal services in the budget year. This is an increase of \$27,199 or 2.4 percent over the amount estimated to be expended in 1962-63.

The following new positions are requested by the agency:

1 <i>Publicity representative (budget page 331, line 12)</i> -----	\$9,948
1 <i>Assistant Chief, Bureau of Exhibits—6 months (budget page 331, line 14)</i> -----	4,098
1 <i>Supervisor of concessions (budget page 331, line 15)</i> -----	8,196
1 * <i>Administrative assistant (budget page 331, line 16)</i> -----	9,948
2.2 <i>Temporary help (budget pages 331-332, lines 17-70)</i> -----	12,000

* Recommended for deletion.

The agency has provided information to justify the foregoing position requests which in part were performing their functions on a part-time basis with the cost for their services included in temporary help. We are in accord with the agency's proposal to include these positions in their ongoing program with one exception:

We recommend disapproval of the request to reinstate the position of administrative assistant, reducing salaries and wages in the amount of \$9,948.

This position was abolished at the request of the agency, effective December 31, 1962.

California State Fairs and Exposition—Continued

The agency in conjunction with the Department of Finance completed an evaluation of the fiscal policies and related accounting procedures of the agency.

They requested abolishment of the aforementioned position in lieu of establishing a position of comptroller to supervise the overall fiscal operations of the fair. However, we were just informed that the position of comptroller authorized in 1962 has not been filled and now the agency is requesting the Legislature to re-establish the position of administrative assistant in addition to continuing the position of comptroller.

We find no basis, nor has the agency provided our office with any justification to recommend approving their request for reinstating the administrative assistant position.

Operating Expense

Total operating expenses are scheduled at \$1,341,009 for 1963-64. This is an increase of \$3,857 or 0.3 percent over the \$1,337,152 estimated to be expended in 1962-63.

The items of increase are related to the State Fair and not to the Spring Fair which has budgeted the identical amount for operating expenses that they estimate will be expended in the current year.

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

Fiscal year	Budget request	Revised budget	Actual expense	Increase or decrease	Percent
1955-56	\$1,171,405	\$1,347,344	\$1,307,853	\$136,448	11.6
1956-57	1,311,785	1,291,146	1,331,935	20,150	1.5
1957-58	1,321,464	1,480,982	1,423,978	102,514	7.7
1958-59	1,288,957	1,370,612	1,263,353	—25,604	—1.9
1959-60	1,225,112	1,202,930	1,148,848	—76,264	—6.2
1960-61	1,322,600	1,403,577	1,351,156	28,556	2.2
1961-62	1,433,387	1,311,246	1,270,999	—152,388	—10.6

The principal items of increase by function are as follows:

Increases of Over \$1,000 in Items of Operating Expense

	Increase	
	Amount	Percent
Printing	\$3,185	13.4%
Health and sanitation	4,500	27.8
Publicity	2,500	25.0
Receptions—various	5,400	43.2

Total in items having over \$1,000 increase \$15,585

The agency has not submitted any specific information to justify their request for increases applying to the above-listed items. Furthermore, there is no information provided to indicate that the proposed increases would improve either the attendance or revenues of the fair.

We recommend a reduction of \$15,585 in operating expenses from the agency's budget. (Budget page 331, line 60.)

California State Fair and Exposition—Continued

Building and Grounds Operating Expenses

The agency is requesting \$46,500 for special repairs and maintenance in 1963-64 consisting of the following items:

Reroof race horse barns-----	\$9,500
Reroof buildings No. 3 and No. 4-----	7,000
Repair weathered buildings-----	2,000
Repair concession stands-----	5,000
Repair electric wiring-----	13,000
Repair corroded plumbing-----	5,000
	\$41,500

In 1961-62 the actual expenditures for the aforementioned special repairs and maintenance items were \$21,808. The agency estimates they will expend \$25,000 in completing repairs on the same buildings in 1962-63. We received no specific information that would justify a \$16,500 or 66 percent increase to perform continuing repairs on the same structures in 1963-64. It appears more realistic to again provide the agency with \$25,000 for this purpose.

We, therefore, recommend a reduction of \$16,500 in the items of special repairs and maintenance (budget page 332, line 38), reducing operating expense, buildings and grounds from \$118,387 to \$101,887.

Equipment

Equipment expenses are scheduled at \$6,552 for 1963-64. This is an increase of \$3,227 over the preceding year, however, a review of the agency's justifications indicate that they are confining their requests to essential items.

We recommend approval of the item as budgeted.

Department of Finance

AUGMENTATION OF THE STATE FAIR FUND

ITEM 137 of the Budget Bill

Budget page 334

FOR AUGMENTATION OF THE STATE FAIR FUND FROM THE GENERAL FUND

Amount requested-----	\$278,777
Estimated to be expended in 1962-63 fiscal year-----	451,157
Decrease (38.4 percent)-----	\$173,380
TOTAL RECOMMENDED REDUCTION-----	\$42,033

ANALYSIS

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

In line with our analysis of the State Fair, we recommend that \$42,033 be deducted from the \$278,777 requested to be transferred from the General Fund.

**Department of Finance
CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY**

ITEM 138 of the Budget Bill

Budget page 334

**FOR SUPPORT OF CALIFORNIA MUSEUM OF SCIENCE AND
INDUSTRY FROM THE CALIFORNIA MUSEUM OF
SCIENCE AND INDUSTRY FUND**

Amount requested	\$587,373
Estimated to be expended in 1962-63 fiscal year	611,434
Decrease (3.9 percent)	\$24,061

TOTAL RECOMMENDED REDUCTION

None

GENERAL SUMMARY

The California Museum of Science and Industry located in Exposition Park in the City of Los Angeles, formerly the Sixth District Agricultural Association, was formed under the provisions of Chapter 69, Statutes of 1880.

The 1962 Legislature approved changing the name to the California Museum of Science and Industry to more properly identify this facility with its ongoing function, namely, providing permanent and changing educational exhibits to demonstrate the industrial and scientific progress of the State of California.

The agency also is responsible for the supervision and operation of the parking lots on approximately 26 acres of land surrounding Exposition Park.

ANALYSIS

Total expenditures for 1963-64 are scheduled at \$587,373, a reduction of \$24,061, or 3.9 percent under the amount of \$611,434 estimated to be expended in 1962-63.

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

	<i>1959-60</i>	<i>1960-61</i>	<i>1961-62</i>	<i>1962-63 *</i>	<i>1963-64 *</i>
Total expenditures ---	\$370,625	\$501,589	\$541,231	\$611,434	\$587,373
Total revenues -----	576,556	723,598	573,866	601,500	572,750

Excess of revenues over expenditures -	\$205,931	\$222,009	\$32,635	-\$9,934	-\$14,623
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* Estimated as shown in 1963-64 Budget.

The above table reflects an estimated deficit in the current and budget year, that can be attributed in part to loss of additional parking revenues due to the Los Angeles Baseball Club moving to their new baseball stadium. In this regard we recommend that the agency give serious consideration to establishing a policy of collecting a nominal adult admission charge to increase the revenue for the operation and support of this facility.

The 1963-64 Budget format provides for the inclusion of employees' health, welfare and retirement benefits to be included with salaries and wages and referred to as personal services in the budget document.

The item of personal services for this facility is scheduled at \$414,044 in 1963-64, an increase of \$11,446 or 2.8 percent over the amount estimated to be expended in 1962-63.

California Museum of Science and Industry—Continued

The increase in cost for personal services can be attributed to the two new positions requested by the agency.

- 1 Administrative assistant (budget page 335, line 39)----- \$7,080
- 1 Janitor foreman I (budget page 335, line 73)----- 4,344

The information submitted by the agency, supplemented with the findings and recommendations contained in a report just completed by the Organization and Cost Control Division of the Department of Finance, justifies the need for the two positions requested by the agency.

We recommend approval of the positions requested.

The operating and equipment expenses submitted by the agency for 1963-64 reflect a reduction of \$23,493 under the current year, and appear to be generally in line as budgeted.

Department of Finance

AUGMENTATION OF THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY FUND
 ITEM 139 of the Budget Bill Budget page 337

FOR AUGMENTATION OF THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY FUND FROM THE GENERAL FUND

Amount requested -----	\$219,287
Estimated to be expended in 1962-63 fiscal year -----	219,287
<hr/>	
Increase -----	None
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS

In accordance with our review of the fiscal position of the California Museum of Science and Industry in the foregoing item, *we recommend approval of the transfer item in the amount requested.*

Department of Finance
STATE LANDS DIVISION

ITEM 140 of the Budget Bill Budget page 339

FOR SUPPORT OF STATE LANDS DIVISION FROM THE GENERAL FUND

Amount requested -----	\$1,166,248
Estimated to be expended in 1962-63 fiscal year -----	1,085,508
<hr/>	
Increase (7.4 percent) -----	\$80,740
TOTAL RECOMMENDED REDUCTION -----	\$9,972

Summary of Recommended Reduction

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Oil gauger -----	5,832	340	29
Intermediate typist-clerk -----	4,140	340	31
Plus related equipment			

State Lands Division—Continued

GENERAL SUMMARY

The State Lands Division, a part of the Department of Finance, provides staff support for the State Lands Commission which is composed of Controller, Lieutenant Governor, and the Director of Finance. The executive secretary of the commission is also the chief administrative officer of the division. The commission is primarily a policymaking body, charged with administering the sale and lease of public lands owned by the State, including provisions for the extraction of minerals, oil and gas from such leases. Division 6 of the Public Resources Code generally contains the laws administered by the commission. In addition, Chapter 29, Statutes of 1956, First Extraordinary Session, relating to tide and submerged lands conveyed in trust to the City of Long Beach also assigns duties of some magnitude to the commission.

Financing

Section 6816 of the Public Resources Code currently provides generally that all moneys and remittances received by the State from oil, gas, and mineral leases shall be credited to the General Fund up to an amount of \$15,500,000 plus amounts necessary to provide for payment of refunds, and support of the State Lands Division. The balance of such revenue is paid into the California Water Fund.

Chapter 29, Statutes of 1956, First Extraordinary Session, provides that the State shall receive 50 percent of oil revenue and 100 percent of dry gas revenue derived from those tide and submerged lands conveyed to the City of Long Beach in trust. These moneys go to the California Water Fund pursuant to Section 12 of this act, as amended by Chapter 140, Statutes of 1959.

The revenue statement on page 341 of the budget, and discussion of program and performance, page 339 beginning on line 65, indicate that a revision in the disposition of revenue is being proposed for legislative consideration. The overall state budget is predicated upon favorable action on this measure which we understand would provide for the payment of refunds, support of the State Lands Division and up to \$9,000,000 of the remainder to the California Water Fund, with the balance going to the General Fund.

Long Beach Trust

The Long Beach tidelands are those tide and submerged lands conveyed to the City of Long Beach upon certain trusts and conditions by Chapter 676, Statutes of 1911; Chapter 102, Statutes of 1925; and Chapter 158, Statutes of 1935. The discovery and subsequent development of oil underlying these properties by the city resulted in substantial surpluses in funds, 50 percent of which were released to the city for municipal purposes by Chapter 915, Statutes of 1951, free "from public trusts for navigation, commerce and fisheries and from such uses, trusts, conditions and restrictions as were imposed by said acts of 1911, 1925, and 1935."

On April 5, 1955, in the case of *Mallon v. City of Long Beach*, 44 Cal. (2d) 199, the Supreme Court of California held that the act of 1951 effected a partial revocation of the trust created by the earlier

State Lands Division—Continued

acts and resulted in the reversion to the State of California of the sums thus released from the trust.

As a result of this decision, legislation was enacted in 1956 to establish a basis for apportionment and use of past and future tidelands revenues, including approximately \$111 million in impounded revenues. In addition to the \$120 million settlement terms contained in Chapter 29, Statutes of 1956, First Extraordinary Session, provisions for the State to receive in the future 100 percent of all dry gas revenues and 50 percent of oil revenues were established. Further provisions of this statute relate to subsidence and to review by the State Lands Commission.

It has now been determined that the existing Wilmington Oil Field extends into the offshore area under tidelands granted to the City of Long Beach and represents one of the largest known oil reserves on the West Coast.

The development of this new field will take place under a proposed contract between the City of Long Beach and the successful bidder calling for \$50 million in advance royalties, one-half of which would presumably go to the State and, if consummated under current statutory provisions, ultimately to the California Water Fund. The royalty on production is expected to be in excess of 90 percent of the total value of the oil after deducting all costs of development and production. There is no provision that such production must be efficient or economical and the method of production will be controlled by the city. As the State Lands Commission is generally restricted to review of such activities, prior contract approval is the only method currently available to it for controlling these factors.

Expenditure by the city of revenues placed in trust from this source have in the past been restricted to well-defined areas, but with the anticipated increase in revenue, additional projects which may provide marginal use and benefit to the State of California and thus may not clearly fall within the trust purposes are currently under consideration.

Also, the harbor, considered as a separate entity and receiving revenues from tidelands in trust, has recently initiated an expanded development program. The propriety of these expenditures are not, however, subject to review because they are generally considered as trust expenditures.

We recommend that the Legislature examine critically into the Long Beach situation, for the purpose of re-establishing a well-defined program of acceptable trust expenditures, and determining if the statutory basis for revenue disposition between the State and the City of Long Beach at the current and prospective increased levels is appropriate in relation to statewide versus local interests and benefits.

In reviewing the Long Beach situation, we have found expenditures by the city from trust funds which appear to be questionable under a strict interpretation of the trust provisions. Specifically, the State Lands Commission approved a "convention and exhibit hall" which presumably would have benefited the entire State through the promotion of commerce or navigation as is required. Subsequently, the city

State Lands Division—Continued

council renamed the project as the "Long Beach Arena" and installed, with general municipal funds, certain recreational features which had been deleted from the original plans and specifications in order to obtain approval.

As a result, a fact attested to by the subsequent use of the hall, permissible incidental recreational functions now constitute the primary uses of the facility, while functions in furtherance of the commerce and navigation for the benefit of the entire State have become secondary.

Furthermore, we find that with the anticipated increase in trust revenue, the harbor district has revised its long-range development program to expand its facilities. As an example, the earth-fill Pier J has recently been more than doubled in size to provide additional site for the proposed world fair.

The terms of the trust require that expenditures be made only for purposes which benefit the entire State.

In this connection the 1956 act declared that such legislation was necessary because of the partial revocation of the trust, the need to avoid prolonged litigation between the City of Long Beach and the State, the need to free for "urgently needed public purposes" the funds impounded pending determination of said litigation and for other related reasons. The act further states:

"The trust purposes set forth in said acts of 1911, 1925 and 1935 were prescribed prior to the discovery of hydrocarbon deposits in the granted lands and were therefore conceived primarily as land-use purposes. These purposes require restatement in view of the subsequent yield of substantial monetary revenues therefrom."

The 1956 legislation provided a basis for disposition of the impounded funds and for establishing the rights and needs of the city and the State in the light of the altered financial situation. The Legislature made a finding that the oil revenue not required to be paid to the State "is needed and can be economically utilized" by the City of Long Beach for certain purposes with statewide as distinguished from local interests and benefits. We think the Legislature should test the current validity of this 1956 finding.

We would contend that in the light of the prospective substantial change in financial returns from oil operations and the related public interest to be served by future expenditures therefrom under the provisions of the 1956 act, a review of these factors by the Legislature is appropriate today, as it was in 1956. We question whether there are sufficient projects remaining under a strict interpretation of eligibility under the trusts to warrant continued disposition of revenues between the city and State in the manner now specified, particularly in view of the anticipated increase in revenues.

Sequential Leasing

In 1958 the State Lands Commission initiated and has subsequently accelerated what it terms a "sequential" leasing program under which leases on oil-bearing tideland properties are offered at the rate of approximately five per year on a continuous basis rather than only when

State Lands Division—Continued

existing reserves are threatened by drainage from adjoining wells, as formerly.

This has had a marked effect on certain aspects of the commission's workload, as well as revenue.

In addition, this program, when taken in conjunction with the acceptance of cash bonuses plus a relatively low royalty rate in lieu of the higher royalty rate which would result without a cash bonus raises significant policy questions as to the type of program which will provide the greatest financial advantage to the State from the long-range viewpoint.

We believe the matter should be the subject of further study and so recommend.

Colorado River Boundary Commission

Elsewhere in our analysis we have recommended deletion of the amount proposed for support of the Colorado River Boundary Commission, Item 266.

If this recommendation is approved Item 140 for support of the State Lands Division should be increased by \$51,258. Our reasons for this recommendation are that the executive officer of the State Lands Commission is also chairman of the Colorado River Boundary Commission, and the staff of the State Lands Commission performs all administrative and a considerable amount of the professional and technical work for the commission and therefore support can better be provided through this budget. We have made our recommendation at this time in view of the progress of the commission and the minimal future program anticipated.

Pending Litigation

In *United States vs. Anchor Oil, et al.*, the United States is suing the City of Long Beach, the State, and numerous oil producers for claimed irreparable damages of \$70 million to the Long Beach Naval Shipyard. The State Lands Division is assisting the Attorney General in defending the suit which came to trial on October 2, 1962. Outcome of the litigation could have definite fiscal implications to the State.

ANALYSIS

This request represents an increase of \$80,740 over the current year, and includes provisions for 11 new positions, one of which is the continuation of reimbursable consulting engineering services for the Colorado River Boundary Commission.

Executive

The executive officer, assistant executive officer and one secretary comprise the executive office of the State Lands Division. An administrative assistant I (\$7,080) is requested to assist in co-ordinating the numerous activities requiring executive staff attention.

We recommend approval of one administrative assistant I, \$7,080, budget page 340, line 20.

In addition to the seven operating sections identified on page 262 of the salary supplement the executive staff directs the activities of consulting engineers and research technicians. In addition to these

State Lands Division—Continued

divisional activities, the executive officer is also required to participate on legislative and executive committees in solving specific problems.

Administrative Services

The administrative service office is charged with the administrative support, financial management, budget preparation, personnel services, office management, central stenographic, file, mail service, procurement, and property control functions of the division. In addition it has been assigned the responsibility for liaison with Remington Rand Corporation, the contractor who is developing information for an index on federal lands in California, which is discussed under Land Sales and Records.

An additional typist-clerk is requested for this unit due to an increased requirement for typing and filing.

We recommend approval of one intermediate typist-clerk, \$4,140, budget page 340, line 22.

This section furnishes personnel and attendance reporting services for approximately 100 employees in other divisions of the Department of Finance which have staff in Los Angeles, including the Purchasing Division and the automotive management section. The expansion in these divisions has a corresponding effect upon the State Lands Division staffing.

Although we recommend approval because of these increases, we feel consideration should be given to transferring this function out of the division, as personnel actions could possibly be better handled by one of the divisions for which the State Lands Division currently acts. The State Lands Division has functions and duties unlike the service activities for which it currently renders personnel services. We feel that it may be appropriate for these divisions which are generally performing service type activities to initiate at this time their own personnel and attendance reporting services.

Audits Section

The audits section undertakes a program of reviewing (1) royalties from oil and gas and mineral leases, exclusive of actual computation, (2) internal fiscal operations, and (3) operations under Chapter 29, Statutes of 1956 First Extraordinary Session relating to Long Beach.

An additional auditor is requested to augment the four-man staff currently assigned to Long Beach.

In view of our discussion regarding the Long Beach operations we feel that it is in the State's best interest to assure a proper accounting of funds derived from and expended by Long Beach and its oil operations.

We recommend approval of one general auditor II, \$7,080, budget page 340, line 24.

State Lands Division—Continued

Mineral Resources

The mineral resources section is further subdivided into three units, discussed below.

Long Beach

For Long Beach, the staff of this section is engaged in administration of the distribution of revenues from granted tide and submerged lands to the City of Long Beach under the provisions of Chapter 29, Statutes of 1956, First Extraordinary Session. An additional position is requested.

We recommend approval of one assistant mineral resources engineer, budget page 340, lines 26 and 27 (\$7,008).

As previously mentioned, the State Lands Division must review expenditures for subsidence, for trust purposes and for new explorations. The existing staff has become overwhelmed by the magnitude of this activity. Furthermore, the State's interest as a partner in the new exploration justifies additional help.

Exploration Administration

Geologic and engineering research and exploration of mineral resources on state public lands is undertaken by this unit. The issuance and administration of leases of oil, gas and mineral extraction takes place from the Los Angeles office.

Three additional positions are requested. Several factors have prompted this request. They are: (1) increased activity on new oil and gas leases under the sequential leasing program, (2) the development of technical defenses in the multimillion-dollar legal actions facing the State, (3) the development of solutions to the problems raised by Section 6830.1 et seq. of the Public Resources Code which encourages secondary recovery of oil, and (4) special assignments.

We recommend approval of the three assistant mineral resources engineers, \$21,024, budget page 340, lines 26 and 27.

It appears that the fiscal impact of this section's responsibilities justifies the additional expenditure requested.

Production Control

Staff assigned to this unit in Huntington Beach, Santa Barbara and in Sacramento for operations in the Rio Vista area, control and account for oil and gas production from state tide and submerged lands in order to insure that the proper royalty is received by the State.

An additional petroleum production inspector and an oil gauger are requested for the Santa Barbara office. In the 1962-63 Budget, the Legislature disapproved the division's request for an additional petroleum production inspector for this office, recommending, pursuant to our suggestion, that the position be provided through transfer of an existing position from Rio Vista. The requested oil gauger was allowed. The requirement for these positions is predicated upon the increased activity resulting from the sequential leasing program. As the number of wells increases, there is a corresponding increase in the staff required to assure accurate accounting of production and, correspondingly, royalties.

State Lands Division—Continued

We recommend approval of one petroleum production inspector I, \$6,744, budget page 340, line 28.

Upon further review, the division finds that both Rio Vista and Santa Barbara require staffing, and proposes to maintain adequate supervision of the Rio Vista inspector through the Sacramento Land Sales and Records Office.

We recommend disapproval of one oil gauger, \$5,832, budget page 340, line 29.

An additional oil gauger was provided in the 1962-63 year and should relieve the existing staff of its overtime which was the basis for this request.

Land Sales and Records

This office is located entirely in Sacramento and exists as a nearly autonomous unit of the State Lands Division, the exception being that the State Lands Commission exercises supervision over its activities.

On May 24, 1960, the commission withdrew all school lands from sale for an indefinite period. Thus the processing of applications for the purchase of school and federal lands was curtailed until such time as a program could be formulated as to future disposition of such lands. It is anticipated that such sales will be resumed towards the end of the current year.

This office also maintains the official records relating to all state-owned lands. An additional position of intermediate typist-clerk was authorized by the Legislature to June 30, 1963, to assist in the conversion of cardex records to a keysort system. This position is requested on a permanent basis to complete this work and maintain these records.

We recommend disapproval of one intermediate typist-clerk \$4,525, budget page 340, line 31.

The Department of Finance Survey 960.3 which proposed this conversion states that no added personnel would be required due to the change in system as file maintenance for the new system approximates that for the old and any increase would be "negligible." Difficulties in conversion were encountered which provided justification for this position for the conversion period but we have not been shown that the conversion is not complete or that future file maintenance will require an additional position on a permanent basis.

Index of Federal Lands

Section 127 of the Government Code, enacted by Chapter 875, Statutes of 1951, requires that an index of lands under United States jurisdiction, including the degree of jurisdiction in each case, be prepared and maintained by the State Lands Commission. This information is being developed by Remington Rand Corporation under the terms of a contract let on May 23, 1960, and subsequently amended.

The total expenditure to date, between May 23, 1960, and June 30, 1962, is \$71,000, with \$25,000 available during the current year, and \$27,000 additional requested for 1963-64. Records of the lands division indicate that it is anticipated that information being developed by the

State Treasurer—Continued

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Existing Positions:			
Reduce temporary help-----	\$3,576	347	43
New Positions:			
Eliminate 1 senior clerk-----	4,788		
Add 1 junior clerk-----	<u>—3,576</u>		
Net reduction-----	\$1,212	347	47

GENERAL SUMMARY

Since its establishment in 1849, the office of State Treasurer has been constitutional and elective. Principal responsibilities of this office include the receipt, deposit and disbursement of state monies and the safeguarding of securities and valuable properties placed in trust as collateral. All state bonds are advertised and placed out for bid by the Treasurer.

The Treasurer is a member of the Pooled Money Investment Board, created in 1955. The Director of Finance and the Controller are the other members of the board.

The Pooled Money Investment Board is responsible for determining amounts to be invested or deposited, and the general nature of the investment or deposit, under three programs. These are the Pooled Money Investment Account, the Surplus Money Investment Fund and the Condemnation Deposits Fund. The first provides for investment or deposit of all temporarily idle cash in the State Treasury on a pooled basis without regard to fund, all increment accruing to the General Fund. The second makes it possible for special funds to invest or deposit amounts not needed for immediate use and receive the increment earned, while the third is one where the State or its political subdivisions can earn interest on deposits required to be posted in condemnation proceedings. The chief, but not the only participant in the last named is the State Division of Highways.

During 1961-62 the average daily amounts invested or deposited under the three programs totaled \$907 million, of which \$676 million was invested in securities, \$191 million was maintained in interest-bearing time bank deposits and \$40 million was deposited in active non-interest-bearing bank accounts as compensating balances.

Once the Pooled Money Investment Board has made its determinations it is the Treasurer's responsibility to invest or deposit. As to investment he selects the securities and conducts the negotiations for purchase or sale.

During 1961-62 the number of transactions included 577 purchases and 784 sales and redemptions and the dollar volume in each case amounted to approximately \$3.2 billion.

As to bank deposits the Treasurer selects or approves selection of the banks and determines the balance to be maintained in each individual bank, while for term deposits he negotiates for the rate of interest.

The total amount to be kept in active non-interest-bearing bank deposits as compensating balances is calculated by estimating the cost to

State Treasurer—Continued

the banks of services performed and the size of the balance which will permit earnings to the banks to cover such costs, and the calculations are patterned generally after those used by banks for large depositors in private industry.

Costs are estimated each year by applying a schedule of charges to eight separate workload items, as recorded during the past year, the most significant of which is number of checks deposited, and adding an estimate for projected growth. Costs so estimated amounted to \$290,852 for the calendar year 1962.

The size of the balance is that which will produce net loanable funds for the bank which at an earning rate of 3 percent will cover such costs. For 1962 this amount was \$9,695,067.

Using this as a base the amount of the compensating balance is developed as shown in Table 1.

TABLE 1. Calculation of Compensating Bank Balance, 1962

A. Net loanable funds required		\$9,695,067
B. Add required reserves (22% of item C)		2,734,506
C. Net Collected balance		\$12,429,573
D. Add "float":		
Based on 1961 deposits	\$26,858,000	
8.5 percent for increase in 1962	2,282,930	\$29,140,930
E. Compensating balance required for calendar year 1962		\$41,570,503
F. Add adjustment for January and February 1962		714,100
G. Add adjustment to round to nearest \$500,000		215,397
H. Balance approved effective March 1, 1962, retroactive to 1/1/62		\$42,500,000

The term "float" as here used refers to the amount in transit because of the time lag between the date of deposit of a check and the date on which the check is honored by the bank on which drawn. The "float" calculation based on 1961 deposits shown under D in Table 1 represents total bank deposits on which any time lag is involved of \$3,882,886,000, divided by the number of banking days in the year, 253, to give average daily deposits of \$15,347,375. This in turn is multiplied by 1.75 the estimated average number of days of time lag to give \$26,858,000.

Banks probably earn on an average of between 5 and 6 percent on their net loanable funds and the difference between this rate and the 3 percent rate used in the foregoing calculations represents the profit to the bank resulting from these deposits.

The calculations shown in Table 1 relate to demand deposits in total, and this amount was distributed among 10 individual banks as shown in Table 2 during the calendar year 1962. The basis for this distribution is a calculation for each individual bank similar to that described in the foregoing for the total for all banks.

The actual balances in the individual banks fluctuate daily, but the average daily balances during each month in each bank closely approximate the amounts shown in Table 2. The Treasurer maintains

State Treasurer—Continued

these relationships by management of the warrant redemption program and by interbank transfers, as required.

Table 2
Distribution of Compensating Balances as of July 1, 1962

Bank of America	\$38,929,000
Wells Fargo Bank	1,930,000
Crocker-Anglo National Bank	675,000
United California Bank	470,000
Security First National Bank	195,000
Central Valley National Bank	125,000
First National Trust & Savings Bank of San Diego.....	101,000
First Western Bank & Trust Company.....	45,000
The Bank of California	15,000
The Merchants National Bank of Sacramento	15,000
Total	\$42,500,000

Recommended Studies

It is estimated that about 85 percent of the dollar volume of state deposits are made in Sacramento. As to these the State gets credit from the bank on the date of deposit. The remainder, most of which consists of collections by the Department of Motor Vehicles, is deposited in a branch of one of the banks listed in Table 2, in another city and transferred to Sacramento on an interbranch or in two instances on a correspondent bank basis. It is estimated that state deposits are made in at least 1,200 banking outlets throughout the State.

The particular office of the particular bank being used as a depository appears to be at the discretion of the state agency making the deposit although subject to approval by the State Treasurer. Since there exist no formal guidelines or criteria to be followed in such cases there appears to be no assurance that the selection of the particular depository is in the best interests of the State in all instances.

We recommend that a study be made to determine whether use of banking facilities outside Sacramento can be improved with a view to speeding up collection of state money and that a set of criteria be developed for the guidance of state agencies in selecting depositories.

It appears to us that there is a possibility that an alternative method of compensating banks for their services, namely direct payment rather than compensating balances might prove advantageous to the State and *we recommend that a study be made of the relative advantages and disadvantages of each method.*

If such a study should reveal that under a direct payment method a reduction in the level of demand deposits needed for the daily warrant redemption program were possible and that the interest earnings on the resulting increase in money available for investment would exceed direct payment to the banks for cost of services rendered it would appear to be to the advantage of the State to adopt such a program.

ANALYSIS

The Treasurer's office requests a personnel increase of one senior clerk for 1963-64. The duties of this position are to be equally divided between the bond and coupon servicing section and the deposits section.

State Treasurer—Continued

We see no reason for filling this position at the level requested.

The following table presents the existing staffing arrangement in the bond and coupon servicing section:

Position	No.	Salary range	1963-64 budget expenditure
Treasury bond officer -----	1	\$562-683	\$8,196
Senior clerk -----	1	399-486	5,028
Intermediate clerk -----	3	345-419	14,598
Intermediate stenographer -----	1	362-440	5,280
Temporary help -----	-	-	9,540
Total -----			\$42,642

We believe the addition of another position at the level of senior clerk would be unnecessary. A junior clerk position, salary range \$298-362, should be substituted for the senior clerk position, thereby increasing personnel at the base and not at the top of the existing staff.

We recommend a reduction of \$1,212, budget page 347, line 47, representing the salary differential between senior clerk and junior clerk.

In our Analysis of the 1962-63 Budget Bill we recommended approval of increases of \$17,100 for temporary help on the premise that periods of peak workload can better be handled with temporary staffing than with the addition of a permanent position.

Since the Treasurer's office has elected to meet its personnel needs, in this case, by the addition of a permanent position we feel there should be a proportionate deletion in temporary help.

We recommend a reduction of \$3,576, budget page 347, line 43, representing temporary help to be displaced by the requested clerical position.

HEALTH AND WELFARE AGENCY ADMINISTRATOR

ITEM 143 of the Budget Bill

Budget page 349

FOR SUPPORT OF THE HEALTH AND WELFARE AGENCY ADMINISTRATOR FROM THE GENERAL FUND

Amount requested -----	\$63,983
Estimated to be expended in 1962-63 fiscal year -----	44,340
Increase (44.3 percent) -----	\$19,643

TOTAL RECOMMENDED REDUCTION ----- \$3,000

Summary of Recommended Reductions

	Amount	Page	Line
Operating Expenses			
Communications -----	\$1,000	349	47
Traveling—out-of-state -----	2,000	349	49

GENERAL SUMMARY

The Health and Welfare Agency Administrator was established in 1961 (Chapter 2037) to supervise the operations of the Departments of Social Welfare, Public Health and Mental Hygiene. In 1961-62 and the current fiscal year, expenses for the Health and Welfare Agency Administrator have been prorated among the three departments for which he is responsible. For 1963-64, however, an independent appropriation is being requested.

General Summary

Mental Hygiene

**Health and Welfare—Continued
ANALYSIS**

Operating Expenses

Communications (budget page 349, line 47)----- \$2,000

Communications includes postage, telephone and telegraph services.

We recommend the reduction of communications for a savings of \$1,000.

The Health and Welfare Agency Administrator will probably require an abnormally high amount for communications, but \$2,000 for two persons appears to be quite excessive particularly in view of the expansion of lease line services being provided by the Department of Finance.

Traveling—out-of-state (budget page 349, line 49)----- \$3,600

This amount should finance from 12 to 15 out-of-state trips.

We recommend the reduction of traveling—out-of-state to \$1,600 for a savings of \$2,000.

Provisions for from four to five out-of-state trips for a year should be more than adequate for the Health and Welfare Agency Administrator. It is assumed that the assistant to the administrator normally would not travel out-of-state unless he was to do so in place of the Health and Welfare Agency Administrator.

DEPARTMENT OF MENTAL HYGIENE

Budget page 350

**FOR SUPPORT OF THE DEPARTMENT OF MENTAL HYGIENE
FROM THE GENERAL FUND**

Amount requested -----	\$159,319,629
Estimated to be expended in 1962-63 fiscal year -----	153,890,169
Increase (3.5 percent) -----	\$5,429,460
TOTAL RECOMMENDED REDUCTION -----	\$2,040,905

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>		<i>Analysis</i>
		<i>Page</i>	<i>Line</i>	<i>page</i>
General salary and wage reduction-----	\$1,000,000	--*	--	409
Recommended Reductions—Existing Programs				
Reduce food appropriation-----	250,000	--*	--	410
Outpatient clinics—reduce support by one-half	454,441	373	22	417
30 Psychiatric resident-----	(270,000)†	--*	--	418
10 Psychiatric nurse-----	(57,000)†	--*	--	419
25 Clerical position-----	105,000	--*	--	420
Recommended Reductions—Proposed Workload				
Increases				
III. Hospital Services				
30 Positions and related expenses----	(328,542)†	356	31	427
10 Intermediate typist-clerk-----	42,420	356	39	430

* The specific point of these reductions to be determined by the Department of Mental Hygiene with the approval of the Department of Finance.

† These amounts are not included in the total recommended reduction of \$2,040,905 and may be indirectly related to the recommended general salary and wage reduction of \$1 million.