

Agriculture and Services Agency
DEPARTMENT OF FOOD AND AGRICULTURE

Item 58 from the General Fund

Items 59 and 60 from special
funds

Budget p. 109

Requested 1977-78	\$36,893,873
Estimated 1976-77	35,959,320
Actual 1975-76	32,448,132
Requested increase \$934,553 (2.6 percent)	
Total recommended reduction	\$90,000

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
58	Department of Food and Agriculture (Support)	General	\$20,584,429
59	Department of Food and Agriculture (Support)	Department of Agriculture	15,861,655
60	Department of Food and Agriculture (Divisions of Fairs and Expositions)	Fair and Exposition	447,789
			\$36,893,873

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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2. Brand Inspectors. Recommend use of brand inspectors for brucellosis vaccination verification, as directed in the previous legislative session. 103
3. Paraprofessional Veterinary Positions. Recommend correction of authorized positions in Bureau of Animal Health. 104
4. *Five Livestock Inspectors. Reduce Item 58 by \$90,000.* 105
Recommend deletion subject to clarification of duplicate funding.
5. Statewide Pesticide Use Plan and Environmental Impact Report. Recommend review of progress on study by Agriculture and Services Agency during budget hearings. 105
6. Market News Service. Recommend a questionnaire be developed and sent to recipients of market news reports. 107

GENERAL PROGRAM STATEMENT

The Department of Food and Agriculture functions under the Food and Agricultural Code, to (1) promote and protect the agricultural industry of the state, (2) protect the public health, safety and welfare, and (3) assure producers, handlers, and consumers true weights and measures of commodities and services.

The department's activities are broad in scope, and vary from short-term crop forecasts and financial supervision of local fairs, to enforcement

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

of quality, quantity, and safety standards of certain agricultural and consumer goods.

ANALYSIS AND RECOMMENDATIONS

The Department of Food and Agriculture is financed mainly by the General Fund and the Department of Agriculture Fund. The General Fund supports those activities which benefit the general public, while the Department of Agriculture Fund supports activities that serve identifiable interests. Because of changing program conditions, the determination of benefit for some programs has become increasingly difficult.

Total budgeted support expenditures by the department are \$43,614,492, an increase of \$1,618,930 over the current year. The amount appropriated for departmental support by Items 58, 59 and 60 in the Budget Bill is \$36,893,873, an increase of \$934,553 or 2.6 percent over the current year.

The General Fund support appropriation (Item 58) increases \$918,487 from \$19,665,942 to \$20,584,429. The Department of Agriculture Fund support appropriation (Item 59) increases \$1,487,935 from \$14,373,720 to \$15,861,655 after adjustment of the current year figures to a basis equivalent to the budget year. Federal funds and reimbursements remain nearly level at \$440,671 and \$1,934,646 respectively. The Fair and Exposition Fund, which is derived from horseracing revenues, provides \$447,789 (Item 60) for support of the department's Division of Fairs and Expositions.

The department also plans to collect and expend approximately \$12.4 million in industry fees for inspection services it performs at industry request. These programs are included in the Governor's Budget under Supplemental Information on page 123. In addition, the department will handle approximately \$33 million under 36 marketing orders for programs established at industry request to aid in production, control and advertising of agricultural products. These marketing order expenditures are not scheduled in the Governor's Budget but are handled as special trust fund accounts in the Department of Agriculture Fund.

The department's budget last year contained a major change when it shifted the red meat inspection program from a joint state and federal effort to a federal responsibility. That change does not affect the budget for next year.

Significant Program Changes

The major program changes (\$100,000 and greater) in the 1977-78 budget request are as follows:

<i>Program Description</i>	<i>Personnel- years</i>	<i>Dollars/Source</i>
1. Biological control of Pink Bollworm (to double sterile moth production)	—	\$372,000 (Agriculture Fund)
2. Continuation of Gypsy Moth Eradication Program	14.5	\$315,971 (General Fund)
3. Phase-down of Comstock Mealy Bug Eradication Program	-13.4	\$-259,209 (General Fund)
4. Savings in Dutch Elm Disease Program	-6	\$-122,468 (General Fund)

5. Extension of Milk and Dairy Foods Control Program	3	\$128,035 (Agriculture Fund)
6. Development of program to certify pesticide applicators (3-year grant)	12.2	\$235,000 (Federal funds)
7. Integrated Pest Control Project	2	\$100,000 (General Fund)
8. Expansion of Grain Inspection Program to meet new federal requirements	33.5	\$822,676 (Agriculture Fund)

ANIMAL HEALTH

The purpose of the Animal Health program is to detect, control or eradicate livestock and poultry diseases. The total cost of the program for the budget year is estimated to be \$3,141,071 of which approximately 92 percent or \$2,886,174 is provided by the General Fund. The remainder of the program is financed through the Department of Agriculture Fund.

Two years ago the Legislature directed a review of the department's work on brucellosis because there was a need for new approaches. The department submitted its report on the brucellosis program to the Legislature in December 1975. The report stated that the current brucellosis program may have shifted costs too far into the public sector. Accordingly, the department made a number of recommendations for more direct industry participation in funding brucellosis eradication in cattle. We concurred with several of them and recommended their implementation to the Legislature. Two of the recommendations adopted by the Legislature last year, however, require additional legislative attention.

Cattle Indemnity Funds

We recommend inclusion in the Budget Bill of control language similar to that which last year limited the expenditure of cattle indemnity funds (Item 58) to no more than \$50 per slaughtered animal for purposes of brucellosis indemnity payments rather than the maximum of \$300 authorized under the Food and Agriculture Code.

One of the purposes in recommending this indemnity reduction last year was to increase the incentive for industry cooperation in the program. Another purpose was to decrease the proportion of General Fund support for the brucellosis program. Control language on the indemnity reduction was added last year by the Legislature. It is not in the 1977 Budget Bill and should be reinserted.

Use of Brand Inspectors

We recommend that the department be directed to use its brand inspectors to assist in enforcing provisions of law requiring evidence of brucellosis vaccination as well as title when shipping animals as directed in the previous legislative session.

Brand inspection by departmental staff for determination of ownership is required for virtually all cattle movement, either intrastate or interstate, to assure that strayed or stolen cattle are not shipped illegally. Consequently, almost all cattle could be checked at one time or another for evidence of vaccination by a brand inspector. Vaccination is a major

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

means of controlling brucellosis. However, the brand inspectors do not normally check for evidence of vaccination during their brand inspections. This minor added duty of checking for evidence of vaccination whenever feasible could greatly assist the department in its effort to prevent the importation or shipment of unvaccinated animals, which constitutes a significant means of transmitting the disease. The brand inspection program is industry funded.

The above recommendation was accepted last year by the department and the Legislature but has not yet been implemented. Therefore, it is being restated here.

Paraprofessional Veterinary Positions

We recommend correction of the authorized positions in the Governor's Budget for the Bureau of Animal Health to reflect actual employment and that this correction be included in the Department of Finance Budget Change Book.

During the last two years, we have recommended that the Bureau of Animal Health shift many of the routine tasks now performed by veterinarians to paraprofessional or technical positions. Last year, on our recommendation, the State Personnel Board (SPB) reviewed the bureau's classification of veterinary personnel. The SPB found (1) overclassification of veterinarians and (2) that 10 to 15 personnel-years of work performed by veterinarians in the animal health program is routine and capable of being accomplished by paraprofessionals and/or by clerks. Last year there were 47 veterinary positions and 15 paraprofessional positions plus 15 personnel-years of temporary help. We recommended that the 47 to 15 ratio be approximately reversed and that the department develop a program to achieve that approximate ratio. The goal of changing the staffing would be to increase the performance and output of the bureau by allowing more positions to be filled usefully within the present funding. Improved animal health performance is important because of the outbreak or recurrence of several diseases.

Information provided by the Department of Food and Agriculture on positions currently filled is shown in Table 1 and compared to authorized positions in the Governor's Budget.

Table 1
Currently Authorized and Filled Veterinary Positions

Classification	1976-77 and 1977-78 Authorized Positions	Positions Actually Filled	Difference
Veterinary medical officers	47	41	-6
Livestock inspectors	16	20	+4
Temporary help (livestock inspectors)	5	5	0

The table also shows that there has been some shift in workload from veterinary to paraprofessional positions which does not show in the

budget. According to information from the department the 5 temporary help positions and the increase of 4 livestock inspectors (a total of 9 positions) are currently funded from savings due to holding 6 veterinary medical officer positions unfilled. This is a net gain of 3 employees. Additional gains of this type are possible if the Personnel Board's recommendations are further implemented by the department. We understand that the department has recently completed an internal management analysis of position classifications within the Bureau of Animal Health and that the bureau is formulating a plan to downgrade vacant veterinary positions to livestock inspector positions. Because 3 of the vacant veterinary positions are at the Veterinary IV range (monthly salary range \$1,916-\$2,315), the savings from these positions can easily fund the 5 additional temporary livestock inspector positions shown above in Table 1 which cost \$58,860. These classification changes and others which may be expected for next fiscal year should be reflected in revisions and corrections to the Governor's Budget in order to display the full program capability and to provide an accurate personnel base to evaluate program needs.

Possible Duplicate Funding

We recommend a reduction of \$90,000 in Item 58 for 5 new livestock inspector I positions subject to clarification of duplicate funding.

The department has identified \$90,000 as General Fund savings from reducing brucellosis indemnity payments to \$50. It proposes to use this money to add more livestock inspectors. Because present staffing apparently deviates from authorized positions, it is not clear whether these 5 new positions duplicate 5 positions already filled. We believe that the use of the indemnity savings would result in a double funding of the 5 positions. Pending clarification of the matter, we recommend deletion of the \$90,000.

Statewide Pesticide Use Plan and Environmental Impact Report (Section 28 Letter)

We recommend review of the progress on the study by the Agriculture and Services Agency relative to the preparation of a Statewide Pesticide Use Plan/Environmental Impact Report (EIR) during budget hearings on the Department of Food and Agriculture.

The Department of Food and Agriculture is responsible, under existing state law and under delegation of authority by the federal Environmental Protection Agency (EPA), for registering all pesticides prior to sale for use in California as well as their control during use. The department's Pesticide Control program is budgeted at \$3,672,811 in 1977-78, of which \$1,102,343 is General Fund money. The program employs a staff of 128. Under this program, approximately 12,000 products are evaluated and registered each year, approximately 370 experimental permits are issued, and approximately 1,000 pesticide-related illnesses are investigated. Other program activities include (1) developing regulations for the use of pesticides, (2) examining and licensing approximately 1,900 pest control operators and about 4,800 pest control advisors, (3) inspecting, sampling, testing and monitoring pesticide products and pesticide residue levels in farm commodities, (4) maintaining coordination with the U.S. Food and Drug Administration, EPA, and county agricultural commissioners, and (5) as-

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

sisting county agricultural commissioners in the regulation of pesticide use.

The Agriculture and Services Agency has received \$718,336 of Title II funds under the Public Works Employment Act of 1976, to study and prepare a Statewide Pesticide Use Plan and an accompanying programmatic EIR. The project was undertaken as a result of an Attorney General's opinion that permits for restricted pesticide applications issued by county agricultural commissioners should be preceded by an EIR. The expenditure approval of the \$718,336 was the subject of a notification letter from the Director of Finance to the Joint Legislative Budget Committee pursuant to Section 28 of the Budget Act of 1976. The Joint Legislative Budget Committee asked the Director of Finance not to approve the requested Title II funds until certain initial features of the study could be clarified. The committee then withdrew its objection and the funding was approved by the Director of Finance in part because the study was already underway using an allocation from the Emergency Fund.

At the time of this writing the initial problems have been resolved. However, certain long-term features of the study, including its relation to the department's pesticides registration program and other departmental activities appear to require more development and clarification. In particular it is uncertain how the proposed study will relate to the increased budget expenditure of the Department of Food and Agriculture for integrated pest management (2 new positions and an additional \$100,000 in General Fund are proposed) and for biological control (2 additional positions and a General Fund augmentation of \$62,000 are proposed). Presumably, these increases relate to some of the alternatives on which the Statewide Pesticide Use Plan and the EIR will be concentrating.

Also, it is not clear whether the department and the county agricultural commissioners have the authority to implement the results of the Agency's study. Finally, it may not be possible to complete a pesticide use plan and EIR within a year or the study effort may not prove to be conceptually sound. We recommend that the progress of the project be reviewed at the time of departmental budget hearings.

Comstock Mealy Bug

The department's budget indicates a decrease of \$259,209 and 13.4 positions in the Comstock Mealy Bug eradication program, compared to prior year expenditure expectations. These changes reflect a redirection of the program. Over a five-year period the department proposes to phase-out the eradication effort which relies heavily upon chemical treatments. According to the department's work plans, funding would be approximately \$516,000 for the first two years of the phase-out; approximately \$390,000 for the next two years; and about \$265,000 for the final phase-out year.

According to the department, the five-year phase-out is necessary in order to expand facilities for mass production of Comstock Mealy Bug parasites (in cooperation with the University of California), and to allow the parasites to become established before chemical and other treatments

are discontinued. We concur with this redirection of the program.

Market News Service Study

We recommend that the Legislature direct the Department of Food and Agriculture to work with the Department of Finance in developing a questionnaire to be sent to recipients of market news reports, and that return of the completed questionnaire be made a condition of the continued receipt of the reports.

It has frequently been questioned whether the commodity crop information sent out by the Market News Service program is of sufficient benefit to recipients to justify the General Fund cost of almost \$1.5 million.

The Department of Finance recently released a Staff Reference Report entitled "Review of the California Market News Service." The Department of Finance was unable to evaluate the effectiveness of the Market News Service and to determine whether a fee should be charged because it had been unable to obtain direct input from the individuals who receive the information and presumably benefit from the service. This inability was due to the costs of surveys and time constraints.

We believe the problems can be resolved if the Department of Food and Agriculture staff works with the Department of Finance staff to develop and mail to recipients of the market news reports the type of questionnaire the Department of Finance program evaluation team had in mind. Continued receipt of the reports should be contingent upon the return of the completed questionnaires. Failure to complete and return the questionnaire would be an automatic indication that the recipient receives no real value from the market news data. With the information from the questionnaires, the Department of Finance can complete its conclusions.

Agriculture and Services Agency

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS

Item 61 from the General Fund	Budget p. 122
Requested 1977-78	\$174,900
Estimated 1976-77	174,900
Actual 1975-76	174,900
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS—Continued

whichever is less. Fifty-three counties are participating in this program.

Agriculture and Services Agency
ENGINEERING SUPERVISION OF FAIR CONSTRUCTION

Item 62 from the Fair and Exposition Fund

Budget p. 121

Requested 1977-78	\$171,124
Estimated 1976-77	140,040
Actual 1975-76	131,611
Requested increase \$31,084 (22.2 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates the sum of \$171,124 from the \$2.25 million continuing statutory appropriation payable from the Fair and Exposition Fund for county and district agriculture fairs or citrus fruit fairs. The money is used for engineering services performed by the Division of Fairs and Expositions of the Department of Food and Agriculture. The services cover construction supervision on local fair projects financed under Business and Professions Code, Section 19630, for (1) permanent improvements, (2) purchase of equipment for fair purposes, and (3) acquisition or purchase of real property, including appraisal and incidental costs.

Agriculture and Services Agency
MUSEUM OF SCIENCE AND INDUSTRY

Item 63 from the General Fund

Budget p. 134

Requested 1977-78	\$2,011,745
Estimated 1976-77	2,016,589
Actual 1975-76	1,765,870
Requested decrease \$4,844 (0.2 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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| 1. Parking Lot Receipts. Recommend parking lot receipts be budgeted as General Fund revenues rather than offsetting reimbursements to the museum's operating budget. | 110 |
| 2. Budget Detail. Withhold recommendation on proposed equipment purchases in the amount of \$67,586 pending receipt of supporting justification. | 111 |

3. Budget Format. Recommend budget format be revised to 111
(1) show basic program categories and (2) include information on foundation funding.
4. Security. Recommend investigation of and report on cost-effectiveness of electronic sensor devices for increased security. 112
5. Conference Room Reimbursements. Recommend investigation of and report on establishing conference room rental fees. 112
6. Five-year plan. Recommend annual update and report on five-year program proposals. 112

GENERAL PROGRAM STATEMENT

The museum is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors, appointed by the Governor. The museum's exhibits feature scientific accomplishments and its education program is designed to stimulate students' interests in science and the arts. A major portion of this program is financed by the Museum Foundation Fund which is supported from private contributions. Several facilities of the museum are available to public and private groups for educational, recreational and civic functions. The museum also owns and operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park which is owned and maintained by the state, through the museum. In addition to providing security for its own facilities, the museum is also responsible for security in Exposition Park.

ANALYSIS AND RECOMMENDATIONS

Table 1 sets forth program expenditures, funding sources, positions and proposed changes.

Table 1
Budget Summary

	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
<i>Programs</i>					
Education	\$1,711,888	\$1,766,786	\$1,829,159	\$62,373	3.5%
Administration	540,266	674,156	687,036	12,880	1.9
Minor capital outlay	109,715	96,100	—	(96,100)	(100.0)
Totals	\$2,361,869	\$2,537,042	\$2,516,195	(\$20,847)	(0.8%)
<i>Funding Sources</i>					
General Fund.....	\$1,765,870	\$2,016,589	\$2,011,745	(\$4,844)	(0.2%)
Reimbursements	595,999	520,453	504,450	(16,003)	(3.1)
Totals	\$2,361,869	\$2,537,042	\$2,516,195	(\$20,847)	(0.8%)
<i>Positions.....</i>	133.2	129.7	129.7	—	—

Table 1 shows that both the education and administration programs receive minor increases whereas the reduction in total funding level is a result of a statewide decision to remove minor capital outlay program expenditures from operating budgets for 1977-78. Minor capital outlay for

MUSEUM OF SCIENCE AND INDUSTRY—Continued

this agency has been budgeted at \$127,875 which is included in the total capital outlay budget. For historical comparison purposes, if these budgeted minor capital outlay funds were shown in the 1977-78 schedule in Table 1 as they are in the 1975-76 and 1976-77 schedules, there would be a total General Fund increase of \$107,028 (4.2 percent) for this agency.

Although Table 1 shows there is no net change in positions, it should be noted that two new positions were administratively established during the current year and are proposed for continuation on a permanent basis. They are a chief assistant museum director and a clerk typist. Both positions are warranted on a workload basis. A number of other position reclassifications are proposed also at a net cost of approximately \$12,000. These changes also are warranted based on recommendations from a personnel audit of museum staff conducted by the State Personnel Board.

Parking Lot Receipts

We recommend that parking lot receipts be budgeted as General Fund revenues rather than offsetting reimbursements to the museum's operating budget. (General Fund operating budget increase of \$504,450 with an offsetting General Fund Revenue increase of \$504,450.)

Under a joint powers agreement the coliseum, sports arena and swimming stadium are owned and operated by the state, city and county of Los Angeles through a commission. Operating costs of these facilities are funded from their own revenues. The commission pays the state a specified annual rental fee for the lease of the land in Exposition Park upon which the coliseum, sports arena and swimming stadium are located. This fee is \$70,000 annually and goes directly to the General Fund. It is reported in the museum's budget as a General Fund *revenue*.

However, receipts from the parking lot fees of these facilities are now treated as offsetting General Fund *reimbursements* to the museum's operating expenses. As a result, recent fluctuations in these receipts have resulted in substantial differences between the authorized museum budget and available funds. For example, the museum reports that parking lot revenues are currently about \$100,000 less than budgeted which has caused curtailment of programs which were authorized and funded through last year's budget process. Because the level of reimbursements cannot be accurately estimated, a budget built upon such a changeable base is weakened as a planning, management and accountability tool.

Our no-cost technical recommendation would (1) increase the General Fund budget appropriation by \$504,450, (2) eliminate \$504,450 now shown as agency reimbursements and (3) increase General Fund revenue projections by \$504,450. The agency would be accountable for expenditures as budgeted whereas fluctuations in parking lot revenues would be reflected as gains or losses to General Fund revenues and would not impact the agency or its authorized programs. This recommendation assumes the museum directors will continue to maximize parking lot revenues. We intend to monitor carefully parking fee policies in future years if this recommendation is approved.

Unsupported Equipment Request

We withhold recommendation of \$67,586 budgeted for equipment pending receipt of supporting justification.

Section 6120 of the State Accounting Manual requires each agency to prepare specified worksheets and summary schedules for justifying major categories of operating expense and equipment. Although this information is not printed in the Governor's Budget, certain worksheets or schedules must be prepared and made available for review.

When requested, a list of equipment which is being proposed for purchase during 1977-78 was not available. However, the agency will develop this required supporting documentation and we will have a final recommendation on the equipment request of \$67,586 for the budget hearings.

Budget Format Should Be Improved

We recommend that the museum budget format be revised to (1) show basic program categories and (2) include summary information on foundation revenues and related program expenditures.

The museum conducts a number of distinct programs. A partial list would include a summer science workshop, traveling displays, permanent displays, teaching institutes, film programs, gift center, parking lots, public conference room facilities, and security. However, the Governor's Budget combines all these activities and expenditures under one program—*education*.

Because the museum has recently installed a relatively sophisticated accounting machine, it now possesses capability for aggregating budget and expenditure data in a more detailed and useful manner. Our recommendation would have the museum staff and Department of Finance staff cooperatively develop a more useful program budget format.

The second part of our recommendation would require the annual Governor's Budget presentation to report the Museum Foundation Fund. Table 2 shows a financial statement summary for the period September 30, 1975 through September 30, 1976 for this fund.

Table 2
Museum Foundation Fund
(9/30/75 through 9/30/76)

<i>Expenditures</i>	<i>1975</i>	<i>1976</i>
Administrative and general expense	\$77,362	\$86,604
Exhibit expense	60,540	76,646
Educational expense	27,792	59,576
Summer science workshop	65,350	79,852
Promotional expense	3,844	3,450
Gift center expense	34,525	37,482
Awards program	34,342	34,848
Exploring Saturday science workshop	10,113	23,288
Total	\$313,868	\$401,746
<i>Revenues</i>	\$350,258	\$405,455
<i>Fund Balance</i>	\$179,860	\$183,569

Table 2 shows that the foundation is a substantial contributor to some of the major General Fund program activities of the museum and totally

MUSEUM OF SCIENCE AND INDUSTRY—Continued

supports some other statewide programs. As such, we believe these foundation expenditures should be identified.

We also believe one incentive for direct public contributions to the museum is an understanding that such funds will be used to supplement and not supplant other funding sources and to initiate and maintain programs other than those supported by state funds. Only through an open, comprehensive display of such expenditures and related policies can the Legislature assure itself and the public that the total museum program and its funding sources are appropriate and properly authorized.

Increased Security

We recommend that the museum governing board investigate the cost-effectiveness of using electronic sensor devices for increased building and grounds security and report its findings and recommendations to the Joint Legislative Budget Committee by June 30, 1978.

By aggregating vandalism costs and expenditures for security under an improved budgeting and accounting procedure (as previously recommended), the museum will be able to evaluate the cost-effectiveness of using modern electronic sensing devices to improve security in the buildings and on the grounds. We believe improved effectiveness, cost savings or both could result.

Conference Room Reimbursements

We recommend that the museum governing board investigate the possibility of establishing conference room rental fees to reimburse related utility, maintenance, administration and service costs and report its findings to the Joint Legislative Budget Committee by December 1, 1977.

Most state agencies charge service fees for the temporary use of facilities under their control. The museum facilities are constantly in use for conventions and meetings of both private and public agencies. We recognize that some organizations and activities should be exempt from fees. However, we believe that some activities (e.g., public agency meetings) and services (e.g., coffee, clean-up) should require reasonable reimbursement based on current statewide policies. Our recommendation would call for the identification of related expenditure information and the development of fee policies designed to recover partially or fully conference room costs where appropriate.

Future Cost Implications

We recommend that the governing board of the museum update its five-year program proposals annually and provide the Department of Finance and the Joint Legislative Budget Committee with copies by November 1.

By supplemental budget language the museum board was directed by the Legislature to provide the fiscal committees with a five-year program plan by January 1, 1976. The plan included discussion of the first phase of construction on a new Hall of Finance in 1977-78. This proposed new building would contain approximately 9,000 square feet of permanent exhibit space plus 6,000 square feet of temporary exhibit space. Construc-

tion funds of about \$2 million plus an additional \$2 million in exhibits were to be provided by private sources. The museum requested personnel and operating funds in the amount of \$29,231 in 1977-78 increasing to \$323,855 in 1979-80 when the building would be completed. Because this project is not contained in the budget, we assume the parent agency and the Governor have rejected the proposal.

However, this may not stop the acceptance of the building by the museum and subsequent, related operating costs. A similar situation already exists. Kinsey Auditorium was donated (over \$450,000) and opened for use on October 11, 1974. The five-year plan states the operating expenses of this facility have not been recognized in previous budgets and that approximately \$29,000 a year has been diverted from other operating expense appropriations.

We believe the Legislature should be apprised of any potential major gift to the state that would involve future operating expenses. Further, the reasons for accepting or refusing such gifts, should be subject to Legislative review.

Our recommendation is an attempt to formalize a process by which major gifts with operating expense implications can be clearly identified and evaluated on an annual basis by both the executive and legislative branches.

Agriculture and Services Agency DEPARTMENT OF CONSUMER AFFAIRS

Items 64-104 from various funds

Budget p. 137

Requested 1977-78	\$35,391,597
Estimated 1976-77	33,534,273
Actual 1975-76	26,164,404
Requested increase \$1,857,324 (5.5 percent)	
Total recommended reduction	Pending

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
64	Board of Behavioral Science Examiners	Behavioral Science Examiners	\$278,614
65	Board of Dental Examiners	State Dentistry	1,155,170
66	State Board of Guide Dogs for the Blind	General	14,509
67	Board of Medical Quality Assurance	Contingent Fund of Board of Medical Quality Assurance	5,853,173

DEPARTMENT OF CONSUMER AFFAIRS—Continued

68	Acupuncture Advisory Committee	Acupuncturist	72,761
69	Hearing Aid Dispensers	Hearing Aid Dispensers	113,201
70	Physical Therapy	Physical Therapy	161,624
71	Physicians' Assistants	Physicians' Assistants	58,000
72	Speech Pathologists and Audiologists	Speech Pathology and Audiology Examining Committee	134,504
73	Board of Examiners of Nursing Home Administrators	Board of Examiners of Nursing Home Administrators	216,633
74	Board of Optometry	State Optometry	323,087
75	Board of Pharmacy	Pharmacy Board Contingent	1,034,097
76	Board of Registered Nursing	Board of Registered Nursing	1,881,204
77	Board of Examiners in Veterinary Medicine	Veterinary Examiners Contingent	255,568
78	Animal Health Technician Examining Committee	Animal Health Technician Examining Committee	38,888
79	Board of Vocational Nurse and	Vocational Nurse and	1,060,357
80	Psychiatric Technician Examiners	Psychiatric Technician Examiners	210,313
81	Board of Accountancy	Accountancy	1,017,939
82	Cemetery Board	Cemetery	176,297
83	Bureau of Collection and	Collection Agency	322,626
84	Investigative Services	Private Investigator and Adjusters	833,392
85	Tax Preparers' Program	Tax Preparers	251,638
86	Board of Architectural Examiners	Architectural Examiners	388,092
87	Contractors' State License Board	Contractors' License	6,946,631
88	Board of Registration for Geologists and Geophysicists	Geology and Geophysics	116,525
89	Board of Landscape Architects	Landscape Architects	71,119
90	Board of Registration for Professional Engineers	Professional Engineers	1,337,587
91	Structural Pest Control Board	Structural Pest Control	1,304,093
92	State Athletic Commission	General	432,677
93	Bureau of Automotive Repair	Automotive Repair	2,875,850
94	Board of Barber Examiners	Barber Examiners	625,395
95	Board of Cosmetology	Cosmetology Contingent	1,672,745
96	Bureau of Employment Agencies	Employment Agencies	584,020
97	Bureau of Fabric Care	Fabric Care	585,037
98	Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	308,531
99	Bureau of Home Furnishings	Bureau of Home Furnishings	869,055
100	Nurses' Registry	Nurses' Registry	24,808
101	Bureau of Repair Services	Repair Services	709,443
102	Certified Shorthand Reporters' Board	Certified Shorthand Reporters	85,889
103	Division of Consumer Services	General	990,515
104	Division of Administration	Consumer Affairs ^a	(7,056,134)
			\$35,391,597

^a Revolving Fund established to pay administrative costs. Revenue derived from pro rata charges to boards and bureaus.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 1. Department of Consumer Affairs. Withhold recommendation of budget pending review of additional data prior to budget hearings. | 117 |
| 2. Required Examination. Recommend legislation be adopted requiring commercial tax preparers to pass qualifying examinations and be licensed. | 121 |
| 3. Bureau of Automotive Repair. Recommend deletion of 124 positions for the Vehicle Emission Inspection Program. (The funds for this program (\$3,734,396) are contained in the budget for the Air Resources Board, Item 187.) | 122 |
| 4. Professional Engineers. Recommend study which reassesses the need for the existing licensing categories. | 122 |

GENERAL PROGRAM STATEMENT

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

Subject to such authority as is conferred upon the director by specific statute, each of the present 30 boards or bureaus within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each agency seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates or a registration procedure. It also includes the establishment of curricula, school accreditation and required experience periods. Enforcement activities include inspections, investigations, and administrative hearings (before an officer of the Office of Administrative Hearings) or court proceedings.

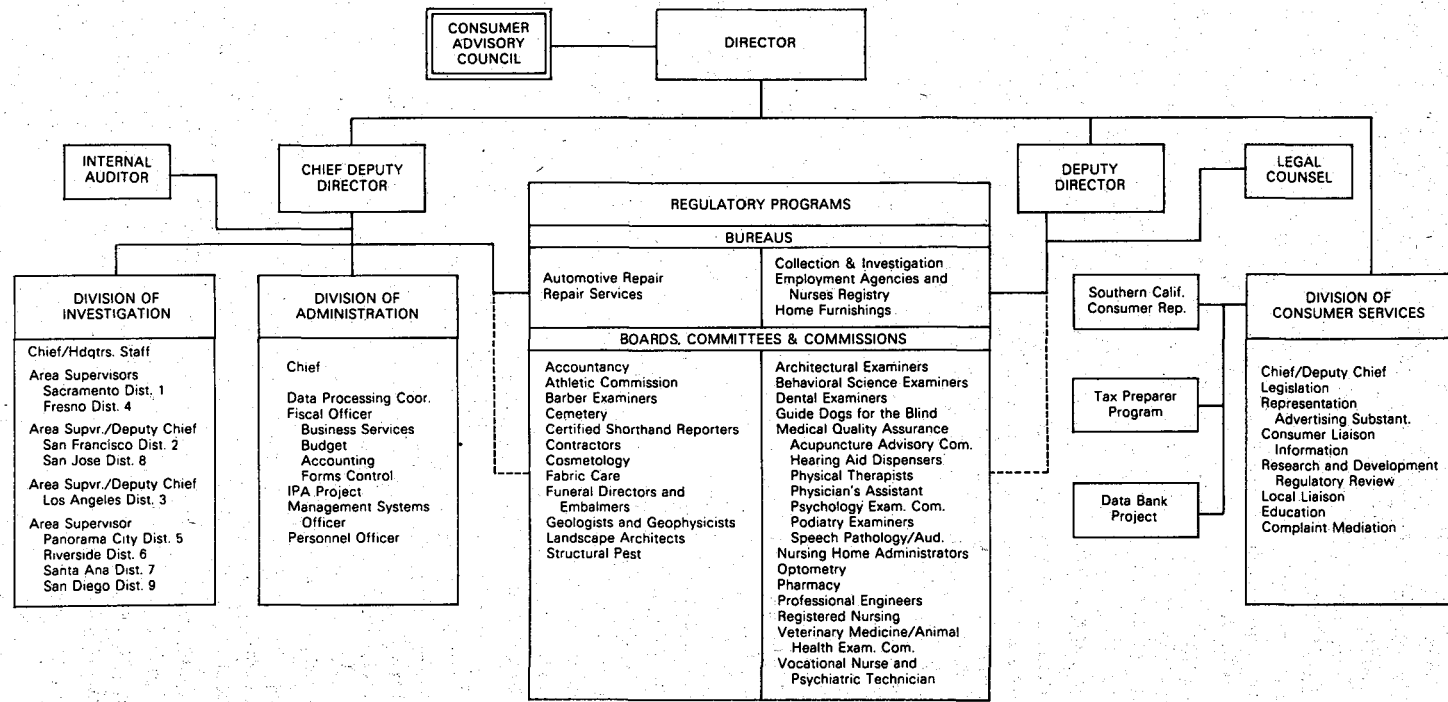
The Division of Consumer Services was established by Chapter 1399, Statutes of 1970. The division is responsible for the department's statewide consumer protection activities which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation.

The department's Division of Investigation provides investigative and inspection services for most constituent agencies. However, a few boards and bureaus have their own inspectors and investigators. Boards and bureaus are charged \$17.25 per hour for inspections and \$19.51 per hour for investigations by the division for the current year.

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

DEPARTMENT OF CONSUMER AFFAIRS—Continued

CHART 1
ORGANIZATION OF THE DEPARTMENT OF CONSUMER AFFAIRS



ANALYSIS AND RECOMMENDATION

We withhold recommendation on the budget of the Department of Consumer Affairs pending review of additional data prior to the budget hearings.

The net budget request for the department is \$35,391,597, which is \$1,857,324 or 5.5 percent above the current year. Undistributed administrative costs estimated at \$1,047,390 and a statutory appropriation of \$60,000 will produce a total expenditure program of \$36,498,987.

The department's administrative costs are estimated at \$8,046,649 in the budget year. Of this amount, \$6,008,744 will be distributed on a pro rata and fee-for-service basis to the boards and bureaus in the department. \$1,047,390 of administrative costs will be paid from the Consumer Affairs Fund which was established as a revolving fund pursuant to Section 203 and 405 of the Business and Professions Code to facilitate the paying of administrative expenses. The remaining \$990,515 of administrative costs is for support of the Division of Consumer Services and is funded from the General Fund (Item 103).

The department's budget request assumes that the Healing Arts Board will remain within the department. However, Chapter 122, Statutes of 1973, provides for the transfer of the Healing Arts Boards, (which include the following boards: Behavioral Science Examiners, Dental Examiners, Medical Quality Assurance, Examiners of Nursing Home Administrators, Optometry, Pharmacy, Registered Nursing, Examiners in Veterinary Medicine, and Vocational Nurse and Psychiatric Technician) to the Department of Health on July 1, 1977. To date, no legislation has been introduced to postpone the scheduled transfer. The Assembly Permanent Subcommittee on Health Personnel held hearings in November 1976 and has yet to issue a recommendation on the scheduled transfer.

A review of the data developed by the department indicates that the transfer will result in (1) increased pro rata charges for the boards and bureaus remaining within the department, (2) increased pro rata charges to the healing arts boards upon transferring to the Department of Health (because these rates are higher), (3) annual savings to the General Fund, and (4) a decrease in the number of staff required to maintain the Division of Administration within the Department of Consumer Affairs. We have requested additional information on this issue and will make recommendations regarding the appropriate budgetary amount in a Supplemental Analysis prior to the budget hearings.

We have also requested additional data on the level of funding and authorized positions for the department's Division of Investigation in view of the transfer of 56 positions from the Division to the Board of Medical Quality Assurance. An evaluation of the division's estimated workload and costs will be included in the Supplemental Analysis of the department.

Public Works Employment Act of 1976 (PWEA)

To stimulate economic recovery, the federal government has made funds available to state and local governments under Title II of the Public Works Employment Act of 1976. (See Item 257 for a discussion of Title II Funds which are being administered by the Employment Development

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Department.) The Department of Consumer Affairs will receive \$358,922 (the equivalent of 10 professional personnel-years and 2 clerical-years) to accelerate the activities of its Regulatory Review Unit in conducting a comprehensive review of the functions of the boards, bureaus, commissions, and committees within the department. The objectives of the project are to (1) complete an audit of complaint handling and educational systems, (2) analyze the responsiveness to the public and thoroughness of the investigative process, (3) review the regulations to determine if they are in the public interest, and (4) evaluate overall policies of the boards and bureaus related to consumer services and programs.

The department is currently completing the research design for the project. We withhold recommendation pending review of the scheduling, guidelines, and methodology. An evaluation of this program will be included in our Supplemental Analysis of the department.

Board of Medical Quality Assurance (Item 67)

Chapter 1 of the Second Extraordinary Session (Chapter 1xx), Statutes of 1975, renamed the Board of Medical Examiners the Board of Medical Quality Assurance (BMQA), increased the board from 11 to 19 members, and replaced the five district review committees of the Board of Medical Examiners with 14 medical quality review committees (MQRC).

The board is divided into three divisions. The Division of Medical Quality reviews the quality of medicine practiced by physicians and surgeons, hears cases referred by the fourteen medical quality review committees throughout the state, and carries out disciplinary actions against licensees as recommended by the committees. Each medical quality review committee will hear complaints from the public involving licensees, initiate investigations of licensees, continually review the quality of medicine, perform necessary remedial functions, and seek injunctions and restraining orders. As of January 10, 1977 the Governor had appointed 140 of the 190 medical quality review committee members. Thirteen of the 14 committees have quorums and the board anticipates that the MQRCs will be operational by mid-February 1977.

The Division of Licensing approves undergraduate and graduate medical education programs, develops and administers the physician and surgeon examination, approves clinical clerkships and special programs, issues licenses and reciprocity certificates, suspends, revokes, or limits licenses and certificates and administers continuing education programs for certificate holders.

The Division of Allied Health Professions supervises the activities of the examining committees (physician assistants, hearing aid dispensers, physical therapy, speech pathology and audiology) under the jurisdiction of the board, disciplines nonphysician certificate holders, acts as a liaison with other healing arts boards and certifies individuals in technical health occupations.

Chapter 1xx also established the Bureau of Medical Statistics under the board to compile statistical data. The board is currently in the process of completing a feasibility study to determine information needs. The board

expects the study to be completed in March and will use the findings in implementing this activity.

During this first year of operation we monitored the activities of the BMQA. The board has dealt with numerous problems and subject areas and has had varying levels of success in its effort to implement the provisions of Chapter 1xx. The BMQA staff has been reorganized on a functional basis and, effective February 1, 1977, 56 positions (investigators, supervisors, and support staff) will be transferred from the Division of Investigation within the Department of Consumer Affairs to the board's enforcement program. The primary reasons for these actions are to increase the efficiency and responsiveness of the board and to conduct board business, which ranges from malpractice investigations to approving medical school curriculums, in a timely and effective manner.

In the first 12-month period the board has undertaken a substantial revision of the regulations of both the BMQA and the allied health committees. This effort is aimed at improving the quality and access to health services and lowering the cost barriers associated with health care by using allied health personnel in expanded capacities.

The BMQA has made a concentrated effort to receive consumer input in health matters and to increase public awareness of its existence and scope. The increased number and involvement of public members on the board, the introduction of consumer meetings, action reports, public brochures, and speaking programs, and the expanding liaison with the Department of Health and legislative health committees are all efforts by the board to improve its effectiveness.

Although we believe that BMQA has made substantial progress, it is too early for a meaningful evaluation of the performance of the board in implementing the intent and provisions of Chapter 1xx. A number of major tasks are not completed such as developing the Bureau of Medical Statistics and recommending continuing education guidelines, and the issue of providing an adequate funding level must be resolved. We will continue to monitor the activities of the Board of Medical Quality Assurance. This board is one of the nine Healing Arts Boards in the Department of Consumer Affairs scheduled to be transferred to the Department of Health on July 1, 1977.

Office of Criminal Justice Planning Grant (OCJP)

In July 1976, the department was informed that it would be receiving a federal grant in the amount of \$225,000 from the Office of Criminal Justice Planning (OCJP) for the 1976-77 fiscal year. The funds are to be used to develop and implement a statewide automated consumer complaint system—Consumer Complaint and Criminal Justice Data Retrieval System. The objectives are to:

- (1) Eliminate fraudulent business practices and deceptive activities through analyzing methods of operation, geographic patterns and other trends and providing early warnings to citizens before crimes are committed.
- (2) Provide users with complaint information gathered statewide to assist state and local governments in disciplinary proceedings.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

- (3) Identify and support the need for new consumer legislation or strengthening of existing legislation.

The department is currently completing a feasibility study to identify and select a system best suited to the needs and requirements of California. We are advised that the department will be seeking follow-up funds from the OCJP.

Projected Fund Deficits

The Cemetery Board, Board of Registered Nursing, Board of Examiners of Nursing Home Administrators, Animal Health Technician Examining Committee, and the Bureau of Collection and Investigative Services (Collection Program) are projecting deficits in their support funds at the end of the budget year. We are advised that the fees for the Cemetery Board and the Board of Registered Nursing are not at the statutory maximum and will be increased at the next renewal. The Board of Examiners of Nursing Home Administrators has chosen not to request legislation for a fee increase. The board will make program cuts as necessary to eliminate the deficit. The Animal Health Committee has received a General Fund loan of \$16,621 to offset its deficit. The committee anticipates being able to repay the loan and operating at a surplus by June 30, 1979. The fees for the Bureau of Collection and Investigative Services (Collection Program) are currently at the statutory maximum. The bureau intends to have a fee bill introduced to revise its fee schedule.

Income Tax Preparation—A Big Business

About half of the eight million California personal income taxpayers use commercial tax preparers to complete their income tax forms. At an average charge of about \$30, this translates into a \$120 million annual business in California.

Unlike many other groups which provide services to consumers, commercial tax preparers are not licensed, nor do they have to pass an examination demonstrating their qualifications to render this service. The State's Tax Preparers' Program (Chapter 870, Statutes of 1972) only requires that commercial tax preparing firms or individual proprietors must register with the Department of Consumer Affairs and post a bond. Persons working for such firms are not required to register.

Accuracy of Tax Preparation Services

Last year the Department of Consumer Affairs contracted with a private consulting firm to determine the accuracy of tax preparation services. This July 1976 study found that "... the accuracy of service provided by commercial tax preparers is remarkably bad." It also stated that consumers have less than a fifty-fifty chance of receiving complete and accurate income tax preparation which reflects their minimum liability under applicable tax regulations.

The study findings were based on three model tax returns which were prepared by a certified public accountant and the Franchise Tax Board. The consulting firm then used the information from these models as a basis for requesting a random sample of 477 commercial tax preparers to complete the tax returns.

The major findings of this study were: (1) only three out of the 477 returns had the same refund or liability amounts as the models, (2) discrepancies ranged from \$50 to \$500 or more in 86.6 percent of the cases, (3) charitable contributions were inflated in 20 percent of these test returns, and (4) differences between federal and state regulations accounted for many inaccurate preparations.

Required Examinations for Commercial Tax Preparers

We recommend that legislation be enacted which would require commercial income tax preparers to pass a qualifying examination demonstrating their ability to render services to the public, and that they be licensed by the Department of Consumer Affairs.

The existing Tax Preparers Program does not protect the consumer against unqualified practitioners. It is apparent that many persons who patronize these practitioners do not receive the quality of service they should expect, and the state faces the prospect of lost revenues and decreased viability of this major tax source (i.e., \$4.3 billion in 1977-78).

Tax Preparers' Program (Item 85)

Section 128 of the Business and Profession's Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have as unencumbered funds an amount which equals or exceeds the agency's operating budget for the next two fiscal years. At the present time the Tax Preparers' Fund has an anticipated surplus for July 1, 1977 equal to 420 percent of current year expenditures. (See Table 1).

Table 1
Fund Condition
Tax Preparers' Fund

	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Proposed</i> <i>1977-78</i>
Accumulated surplus, July 1	\$531,379	\$815,983	\$1,008,273
Prior year adjustments	8,850	—	—
Accumulated surplus, adjusted	\$540,229	\$815,983	\$1,008,273
Revenues:			
Licenses, fees, penalties and fines	\$430,430	\$371,875	\$374,250
Income from surplus money investments	50,148	60,580	70,000
Totals, revenues	\$480,578	\$432,455	\$444,250
Totals, resources	\$1,020,807	\$1,248,438	\$1,452,523
Expenditures	204,824	240,165	251,638
Accumulated surplus, June 30	\$815,983	\$1,008,273	\$1,200,885

The surplus in this fund could be used to finance the examinations and licensing which we have recommended. If such legislation is not adopted, then existing registration fees should be reduced in order that this program will comply with Section 128 of the B. and P. Code.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**Bureau of Automotive Repair**

We recommend the deletion of 124 positions for the Vehicle Emission Inspection program. (The funds for this program (\$3,734,396) are contained in the budget for the Air Resources Board, Item 187.)

Chapter 1154, Statutes of 1973, established the Mandatory Vehicle Emissions Inspection program in the South Coast Air Basin under the auspices of the Air Resources Board. The program was to be implemented in phases, beginning with a pilot program in the City of Riverside. The funds are made available through a loan from the Motor Vehicle Account. The Air Resources Board contracts with the Bureau of Automotive Repair for the personnel required to implement the program. The budget year estimate for the interagency contract is \$3,734,396. In our analysis of the Air Resources Board (Item 187) we recommend the termination of the vehicle inspection program. Therefore, we recommend the deletion of 124 positions assigned to the program in the budget year.

Board of Registration for Professional Engineers

We recommend that a study be conducted which reassesses the need for the existing licensing categories authorized by the board. A report should be submitted to the Joint Legislative Budget Committee, the fiscal committees and the appropriate policy committees of the Legislature by December 1, 1977.

There is a growing interest on the part of the public over the need to regulate professions and industries. Regulation, specifically licensing, is usually represented as protecting the consumer and being in the best interest of the public health, safety, and welfare. In many instances licensing is used as a method to restrict entry into a field and can noticeably increase the cost of service to the consumer.

In an effort to curb the proliferation of licensing categories and assure that licensing is in fact necessary and in the best interest of the consumer, and the general public, we recommend that the Department of Consumer Affairs working in cooperation with the Board of Registration for Professional Engineers, reassess the need for the numerous engineer licensing categories which include: Civil, Electrical, Mechanical, Chemical, Petroleum, Structural, Land, Metallurgical, Industrial, Traffic, Fire Protection, Corrosion, Control Systems, Manufacturing, Safety, Quality, Nuclear, and Agriculture. An evaluation should also be made for the Ceramic and Aerospace categories currently being requested of the board. This study would be included in the responsibilities of the Regulatory Review Unit in the Division of Consumer Services.

Agriculture and Services Agency
OFFICE OF THE STATE FIRE MARSHAL

Item 105 from the General
Fund

Budget p. 201

Requested 1977-78	\$2,696,302
Estimated 1976-77.....	2,515,339
Actual 1975-66	2,247,251
Requested increase \$180,963 (7.2 percent)	
Total recommended reduction.....	145,762

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Fire Protection Standards. Recommend the Legislature withhold final approval of the Fire Marshal's 1977-78 request until report requested last year to consolidate all responsibility for fire protection standards and regulations under his authority is completed. 124
2. *Travel Expense. Reduce by \$3,000.* Recommend reduction to correct overbudgeting for out-of-state travel. 125
3. *Personnel Services. Reduce by \$8,880.* Recommend budgeting new positions at entry level. 125
4. *Enforcement. Reduce by \$38,629.* Recommend deletion of new position for a public fire information and education officer. 125
5. *Enforcement. Reduce by \$83,838.* Recommend deletion of three positions for inspection of state facilities. 126
6. *Administration. Reduce by \$11,415.* Recommend deletion of an additional clerical position for mail and messenger service. 126

GENERAL PROGRAM STATEMENT

The basic objective of the State Fire Marshal's Office is the prevention of the loss of life and property by fire. This is accomplished through fostering, developing and promoting ways to protect the public from fire and panic. To achieve this objective the State Fire Marshal prepares and adopts minimum statewide standards, aids in enforcement of laws and regulations, and disseminates information relative to public fire safety.

In general, the State Fire Marshal's activities are directed at the various building occupancies to which the general public has access. However, they also result in the promotion of fire and panic safety in nonpublic building occupancies through influence of applicable building codes.

Enforcement of the standards and regulations is the responsibility of local fire authorities except in state-owned buildings, cargo tanks used to transport flammable liquids and where no local authority exists. In these excepted cases the State Fire Marshal assumes enforcement responsibility.

To carry out the Fire Marshal's responsibilities the office is separated into three program elements: (1) enforcement, (2) analysis and develop-

OFFICE OF THE STATE FIRE MARSHAL—Continued

ment and (3) administration.

These elements are described below.

Enforcement

This element consists of eight components concerning building occupancies, portable fire extinguisher servicing, fireworks and transportation of flammable liquids. Enforcement is conducted on a two-phase basis, (1) review of construction plans and (2) on-site inspections.

Analysis and Development

This element contains four components: (1) approval and listing services, (2) consumer protection, (3) public information, and (4) training and fire statistics.

Administration

This element provides planning, coordination and application of statistical, physical and technical information. For accounting purposes the cost of this element is prorated to the enforcement and analysis development elements.

ANALYSIS AND RECOMMENDATIONS

The budget request is for \$2,696,302, an increase of \$180,963 (7.2 percent) over estimated expenditures in the current year. Table 1 summarizes the budgeted expenditures by program.

Table 1
Summary of Program Requirements

	1976-77	1977-78	Percent change
Program I—Public Fire Safety			
a. Enforcement	\$2,769,601	\$2,937,564	6.1%
b. Analysis and development	699,498	705,695	0.9
Program II—Administration			
a. Administration (distributed to Program I)	(338,261)	(352,070)	4.1
Totals, Programs	\$3,469,099	\$3,643,259	5.0%
Reimbursements	874,426	946,957	8.3
Federal funds	79,334	—	—
Net totals (Budget Request)	\$2,515,339	\$2,696,302	7.2%
Personnel	119	124	4.2%

Fire Protection Standards and Regulations

We recommend the Legislature withhold approval of the 1977-78 budget request until the plan to consolidate all responsibility for fire standards and regulations under the State Fire Marshal's authority has been submitted and reviewed.

Last year the Legislature approved our recommendation to have the Fire Marshal prepare a plan for consolidating under his authority all responsibility for fire standards and regulations. This report was to have been submitted to the Joint Legislative Budget Committee by November 1, 1976. As of this writing we have not received the report.

The purpose of the report is to (1) identify departments which develop standards and regulations relating to fire and (2) develop a plan for consolidation.

We believe that by consolidating activities related to the Fire Marshal's function there will be many benefits. Because the Fire Marshal currently collects all fire data that office can determine the hazardous areas for which regulations or standards should be developed or applied more efficiently than other agencies. In addition, consolidation is beneficial in the coordination and development of standards and regulations while at the same time reducing department duplication of services. Also, the public would have one focal point for all state fire standards and regulations.

Because such a plan could result in significant program and budget changes, we believe final approval of the Fire Marshal's budget should be withheld until the Legislature has an opportunity to evaluate the plan. This will allow the Legislature to implement in the budget those consolidations which can be accomplished without statutory change.

Travel Expenses Overbudgeted

We recommend that the budget be reduced by \$3,000 to correct overbudgeting for out-of-state travel.

The budget proposes \$4,500 for out-of-state travel which is substantially more than the \$1,254 actually expended for this purpose in 1975-76. Because the State Fire Marshal is unable to explain the need for the increase, we believe it should be adjusted to reflect actual experience. If the \$1,254 actual expenditure is adjusted for price increase and workload, an amount of \$1,500 is adequate.

Funding of Personnel Services

We recommend a reduction of \$8,880 by budgeting new positions at the entry level.

Two of the proposed new positions (deputy state fire marshal III and the fire prevention engineer) are budgeted at the highest salary level rather than the entry level.

Unless there is a special need otherwise, the State Administrative Manual requires new positions to be budgeted at the entry level. Because positions are usually filled by new employees at the first step or by promoting employees from lower classes which creates salary savings, budgeting above the entry step for a new position results in overbudgeting.

New Positions

We recommend deletion of \$38,629 for the establishment of a public fire information and education officer.

The budget proposes to establish a public fire information and education officer.

The activities proposed for this position include the dissemination of public service announcements, the publication of written information, the development of slide and motion picture presentations, the initiation of a speakers bureau, participation in community-level programs, etc.

Currently, the Fire Marshal's office publishes and distributes information in several forms. The quarterly publication "S.F.M." is directed to-

OFFICE OF THE STATE FIRE MARSHAL—Continued

ward the fire service. In addition, we understand the Fire Marshal publishes other information and literature for public distribution. We are unable to determine why this effort is insufficient and must be augmented by an additional position. We believe the Fire Marshal should identify the current deficiencies and explain how the requested position will correct them.

The Fire Marshal's current effort, plus efforts by the local, state and federal entities related to the fire services, all contribute to public fire safety awareness. With so many entities involved and without a clear program for coordinating this effort, we are unable to recommend this added position.

Inspections of State Buildings

We recommend deletion of \$83,838 for three additional positions to augment the inspection of state facilities.

The budget proposes the addition of three deputy fire marshal positions to assist in the inspection of state-owned facilities. Currently the Fire Marshal inspects state facilities on an unscheduled basis. The Fire Marshal has not delineated the workload or program necessitating an augmentation to the current inspection staff or explained why the current staff cannot inspect facilities on an adequate and regular basis. The Fire Marshal should provide an updated plan considering (1) frequency of inspections, (2) types of inspections, (3) facilities to be inspected and (4) alternate schedules for Numbers 1 and 2 considering budget constraints and staff time.

Clerk II

We recommend deletion of \$11,415 for the proposed new clerk typist II position.

The budget proposes a new position to assist with general clerical duties. It is our understanding that the primary need for this position is for mail and messenger services. In 1975-76 a clerical position was added on the basis that mail and messenger duties would represent about 50 percent of the workload. We have been unable to identify any substantial increase in this workload since 1975-76. For this reason we believe that the currently authorized position, in conjunction with the existing mail and messenger service provided by the Department of General Services, should be adequate to meet these needs.

Agriculture and Services Agency
FRANCHISE TAX BOARD

Items 106 and 107 from the
 General Fund

Budget p. 204

Requested 1977-78	\$57,427,186
Estimated 1976-77	55,940,653
Actual 1975-76	50,044,600
Requested increase \$1,486,533 (2.7 percent)	
Total recommended reduction	\$108,574

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
106	Franchise Tax Board General Operations	General	\$57,379,186
107	Legislative Mandate Costs	General	48,000
			<u>\$57,427,186</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
 page*

1. *Employer Income Tax Withholding Contract. Reduce Item 106 by \$108,574.* Recommend reduction to reconcile amounts contracted with amounts budgeted. 128
2. *Tax Audit Selectivity.* Recommend board report on progress in improvement of income tax audit selection and evaluation procedures. 131
3. *Computer Upgrade.* Recommend board report on feasibility of converting nondepartmental users of its computer to Teale Data Center. 136

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is comprised of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. The board has vested its administrative responsibilities in an executive officer. The major program expenditures of the Franchise Tax Board are displayed in Table 1.

The major activities performed within the board's five largest programs are as follows.

(1) *The Personal Income Tax Program.* Major activities include processing over eight million returns filed annually, contracting with the Employment Development Department and the Department of Benefit Payments to collect taxes withheld by employers, auditing returns, administering collections and refunds, and providing services which help taxpayers comply with the tax laws.

(2) *Bank and Corporation Tax Program.* Major activities are similar to the Personal Income Tax program. The program administers an income (franchise) tax on corporations deriving income from business activity in California.

FRANCHISE TAX BOARD—Continued

Table 1
Franchise Tax Board
Expenditures by Program Area
1976-77 and 1977-78
(dollars in thousands)

Program	1976-77	1977-78	Percent Change	
	Current Year Estimate	Budget Year Request	Personnel- Years	Dollars
I. Personal Income Tax.....	\$38,097	\$40,866	2.7%	7.3%
II. Bank and Corporation Tax	13,054	13,766	2.8	5.5
III. Political Reform Audit	2,470	2,506	—	1.5
IV. Senior Citizens' Property Tax Assistance..	2,506	2,808	14.8	12.1
V. Contract Work	812	863	0.2	6.3
VI. Legislative Mandates.....	45	48	—	6.2
VII. Reimbursements.....	(1,043)	(3,430) ^a	—	(228.9)
Totals	\$55,941	\$57,427	3.3%	2.7%

^a Includes \$2,505,760 for the Political Reform Audit program, payable from Item 333, pursuant to Chapter 1075, Statutes of 1976.

(3) *Political Reform Audit Program.* Major activities include auditing political campaign committees, candidates, lobbyists, and incumbents, pursuant to the Political Reform Act of 1974.

(4) *Senior Citizens' Property Tax Assistance Program.* This program has been expanded by recent legislation (Chapter 1060, Statutes of 1976) to provide property tax relief through an income based property tax reimbursement formula to renters as well as to homeowners over age 62.

(5) *Contract Work.* The board provides Electronic Data Processing services for other state agencies through interagency contracts.

ANALYSIS AND RECOMMENDATIONS

I. PERSONAL INCOME TAX (PIT) PROGRAM

Tax Return Workload Up

The Franchise Tax Board estimates 8.85 million income tax returns will be filed in 1977-78, an increase of 250,000, or 3 percent over current year estimates. This projected increase is consistent with the Department of Finance forecast of employment gains of 3 percent in calendar 1977. The board is requesting a total of 1,667 personnel-years for the PIT program in 1977-78, an increase of 44, or 2.7 percent over the current year level. Of the 44 personnel-years, 21.7 are being added at no increase in funding because of an overbudgeting in the current year of temporary help funds relative to the number of positions.

Reconciling Withholding Tax Contract Amounts

We recommend a reduction of \$108,574 in the amount the board has budgeted for its employer personal income tax withholding contract with the Department of Benefit Payments. (Item 106).

The Franchise Tax Board is requesting \$8,324,365 in 1977-78 to fund the Personal Income Tax Withholding program. The withholding program is

administered by the Department of Benefit Payments and the Employment Development Department (EDD) through contracts with the Franchise Tax Board. In addition, the board is requesting one additional position in 1977-78 to oversee the withholding program. Table 2 compares the amounts budgeted by Benefit Payments and EDD for reimbursement from the board, and the amount requested by the board.

Table 2
Income Tax Withholding Program Expenditures in 1977-78

Total amount requested by the Franchise Tax Board.....	<u>\$8,324,365</u>
Contract reimbursements in Department of Benefit Payments budget	\$8,120,638
Contract reimbursements in Employment Development Department budget.....	67,653
Franchise Tax Board review position	<u>27,500</u>
Total amount authorized.....	<u>\$8,215,791</u>
Difference	\$108,574

The difference shown above appears to result from the use of different budget planning estimates by the Department of Benefit Payments and the Franchise Tax Board. According to the Department of Finance, the amounts contained in the Department of Benefit Payments and the Employment Development Department budgets are correct.

Personal Income Tax Audit Activity

The Franchise Tax Board is budgeting \$8,072,093 and 440.8 personnel-years in 1977-78 for its personal income tax auditing program. These amounts include a budget request for 17 personnel-years and \$236,704 to expand its auditing activity beyond 1976-77 levels. The board has requested this augmentation to increase audit coverage with the expectation of increasing state revenues.

The board's audit program includes four elements; (1) mathematical verification, (2) audits generated by federal audit reports of California taxpayers, (3) desk audits of personal income tax and fiduciary returns, and (4) field audits.

Mathematical verification is performed by computer for all returns filed (estimated at 8.85 million in 1977-78). Data from each return are entered through key data entry terminals and the results of all arithmetic operations on the return are verified by the computer.

Federal audit reports are sent to the board by the IRS on California taxpayers whose federal tax liabilities were adjusted as a result of an IRS audit. The board then checks to see whether the taxpayer's state tax liability also requires adjustment. About 18 percent of the board's personal income tax audits (estimated at 252,000 in 1977-78) will be generated by these federal audit reports.

Desk audits are conducted by both professional and clerical personnel at the board's operations center in Sacramento. These audits are usually conducted through telephone calls and correspondence with the taxpayer. Occasionally desk audits are referred to the field for further investigation. About 80 percent of the board's personal income tax audits (an estimated 1,050,000 in 1977-78) are desk audits.

Field audits are conducted by professional auditors at the board's 17

FRANCHISE TAX BOARD—Continued

California district offices. These audits generally require that the taxpayer meet with the auditor either at the district office or the taxpayer's premises to review the taxpayer's records. About 2 percent of the board's personal income tax audits (an estimated 27,000 in 1977-78) are field audits.

Table 3 displays the net revenue assessed, the costs, and the revenue/cost ratios of the board's personal income tax audit activity in 1975-76.

Table 3
Net Revenue Assessments and
Costs of Personal Income Tax Audits in 1975-76

	<i>(Dollars in Millions)</i>		<i>Net Revenue</i>
	<i>Assessments</i>	<i>Cost</i>	<i>Assessments Per Dollar Cost</i>
Mathematical verification.....	\$11.8	\$1.6	\$7.35
Federal audit reports.....	19.0	1.0	18.78
Desk audits.....	8.7	2.0	4.44
Field audits.....	9.5	2.1	4.40

In January 1975, the Auditor General released a report which recommended major increases in the board's auditing staff. As a result, the board requested and received in 1975-76 an additional 57.4 personnel-years including 20 permanent auditor positions, to expand auditing activities.

Audit Selectivity

We believe the design of an audit program should be directed toward two objectives: (1) maximizing net revenues (i.e., net audit assessment minus audit costs) and (2) maintaining an acceptable level of compliance. The board generally measures the effectiveness of audit programs in terms of "tax change" (i.e., the sum of assessments plus refunds) per dollar of cost, and is also concerned with the compliance rate.

The achievement of either the tax change objective or the net revenue objective requires a systematic basis for selecting tax returns for audit. In our review of the board's audit program, we attempted to evaluate the effectiveness of the audit selection program, and examined the allocation of resources to the various types of audit activities.

The ASTRA System

In 1973 the board developed a computerized audit selection system referred to as ASTRA—the Automated Selection of Tax Returns for Audit. This system was designed to assist audit management in selecting more productive audits. The system automatically sorts tax returns into categories according to predetermined characteristics. For example, one such category might consist of personal income tax returns filed for the 1975 tax year reporting itemized deductions over \$5,000, or wages, salary and dividend income of \$50,000 or more.

Tax returns for tax year 1974 were initially sorted by almost 30 different characteristics and placed in a computerized audit selection file. Audit managers use audit selection file inventory reports generated by the system to construct audit models. In 1976, over 70 ASTRA models were eventually developed for 1974 income year tax returns.

Desk audit and field audit management use the ASTRA system differently. Each of the 17 field offices accumulates auditable tax return inventories using various ASTRA models. In 1976, district office inventories consisted of almost 12,000 returns for the 1974 tax year selected from over 50 ASTRA models. The field auditors work primarily from their district office inventory.

Desk audit managers construct two audit model inventories, one for their professional audit staff, and one for their clerical audit staff. The returns in the professional audit inventory are considered more difficult to audit than those in the clerical audit inventory. In 1976, professional desk auditors examined over 142,000 tax returns for the 1973 and 1974 tax year selected from almost 100 ASTRA models. Clerical personnel examined over 780,000 tax returns selected from over 20 ASTRA models.

Evaluate Tax Audit Selectivity and Auditor Allocation

We recommend that the Franchise Tax Board report to the Joint Legislative Budget Committee by December 1, 1977 on the potential for improving the income tax audit program through (1) establishing a systematic audit model testing program, and (2) maximizing cost effectiveness by altering the mix of professional and clerical audit personnel.

In our analysis of income tax audit activity we were unable to examine the revenue/cost ratios of the ASTRA models used by the board because the board does not record the costs of auditing specific models. However, information on revenue per audit and frequency of tax change indicates the board may be able to increase net revenues without increasing audit program costs by improving its methods of selecting returns for audit and allocating audit personnel.

Field Audit Selectivity. In 1976, district office inventories consisted of almost 12,000 returns for the 1974 tax year selected from over 50 ASTRA models. Of these 12,000, about 60 percent (6,640) were actually closed by field auditors. However, the returns closed did not appear to be the most productive of those in inventory. To evaluate the results of the selection process we ranked the models in accordance with their "yields", i.e., the dollars of tax assessed per return closed.

The eight most productive field audit models we examined had yields ranging from \$53 to \$1,132. However, as of November 1, 1976, 39 percent of the 2,662 returns in these eight models had not been closed.

Table 4 below classifies by yield the audit models for 1974 tax returns.

Table 4
Field Audit Model Yields

	Tax Yields Per Return				Total
	\$0-\$2	\$2-\$10	\$10-\$50	\$50+	
Number of audit models	19	9	10	8	46
Number closed	1,828	1,440	1,711	1,619	6,598 *
Percent total closed	27.7%	21.8%	25.9%	24.5%	100%

* Excluding models with less than 20 returns closed.

Table 4 shows that approximately one-half of the returns closed were taken from models that yielded under \$10 per return.

Audit tax change rates (the percentage of tax returns closed requiring

FRANCHISE TAX BOARD—Continued

tax changes) also varied considerably among the ASTRA models we examined. Some models had rates as high as 40 percent. Others had rates of zero percent.

As Table 5 shows, of the 6,598 closed cases we examined, 58.6 percent were selected from ASTRA models which exhibited tax change rates of less than 5 percent.

Table 5
Field Audit Models

	<i>Percentage of Tax Returns Closed With Tax Changes</i>				
	<i>0%</i>	<i>.01-5%</i>	<i>5.01-10%</i>	<i>10.01% +</i>	<i>Total</i>
Number of audit models *	13	17	9	7	46
Number of tax changes.....	0	68	109	266	443
Number closed	660	3,208	1,384	1,346	6,598
Percent total closed	10.0%	48.6%	21.0%	20.4%	100%

* Not including 43 audits in seven models with less than 20 cases closed.

Desk Audit Selectivity. Table 6 displays tax change rates of models selected in 1976 for desk auditing 1974 tax returns. This table indicates over 95 percent of the returns closed were from models which had tax change rates of less than 10 percent.

Table 6
Desk Audit Models

	<i>Percentage of Tax Returns Closed With Tax Changes</i>				
	<i>0%</i>	<i>.01-5%</i>	<i>5.01-10%</i>	<i>10.01% +</i>	<i>Total</i>
Number of audit models *	5	16	7	10	38
Number of tax changes	0	2,627	32,579	12,086	47,292
Number closed	442	329,255	380,886	33,847	744,430
Percent total closed06%	44.2%	51.2%	4.55%	100%

* Not including 27 audits in 6 models with less than 20 cases closed.

Audit model selectivity improved over time as audit management grew more familiar with the audit models. Table 7 shows that a greater percentage of 1973 tax returns closed in 1976 were selected from high tax change rate models than of 1973 returns closed in 1975.

Table 7
A Comparison of Desk Audit Model Selectivity
in 1975 and 1976

	<i>Percentage of 1973 Tax Returns Closed With Tax Changes</i>				
	<i>0%</i>	<i>.01-5%</i>	<i>5.01-10%</i>	<i>10.01% +</i>	<i>Total</i>
Calendar Year 1975 (* representing 1,557,116 returns closed):					
Number of audit models.....	13	16	4	9	42
Percent total closed	0.1%	46.3%	50.0%	3.6%	100%*
Calendar Year 1976 (** representing 172,405 returns closed):					
Number of audit models.....	1	8	8	19	36
Percent total closed01%	4.3%	48.7%	46.9%	100%**

As Table 7 indicates, 3.6 percent of the returns closed in 1975 were

selected from models with tax change rates of 10 percent or better. In 1976, almost one-half (47%) of the returns closed were selected from high tax change rate models. However, Table 7 also indicates that while audit selectivity may have improved over time, 90 percent of the tax returns examined were closed in 1975, before audit selectivity had improved significantly. Improvements in selectivity might be hastened by improving audit model evaluation procedures.

Audit Model Evaluation Procedures. Neither the field nor desk audit programs test existing or new audit models using statistical sampling techniques. Both programs rely on past experience and the auditor's professional judgment to select audit models.

Managers of the desk audit program rely on informal feedback from the auditors and a monthly review of audit results to evaluate the audit models.

The field audit program managers rely on an annual summary of district office activity to evaluate their audit models. However, December 1976 was the first time such a summary was prepared. In 1975, the audit program bureau designated 12 ASTRA models as mandatory and set minimum volume requirements (numbers of returns) for them. However, these mandatory models were selected based on professional judgment, rather than statistical sampling procedures. This year program management is considering reducing the number of mandatory models, despite the availability of additional data for evaluation of audit models.

Field and desk audit evaluation activities are not formally integrated. Neither the field audit program nor the desk audit program take advantage of the others' experience. We realize field audit and desk audit procedures differ and desk audit models may not always be adequate for field audit purposes. However, there has been no systematic study to determine the extent to which the audit experiences are comparable.

We believe audit selectivity could be improved by coordinating field and desk audit evaluation procedures and by establishing an ongoing systematic audit model testing program. We believe such a program could improve audit effectiveness without increasing costs.

Allocation of Desk Audit Personnel. As mentioned earlier, desk audits are performed by professional auditors and clerical personnel. In fiscal year 1975-76, over 260,000 desk audits were performed by 37 professional auditors while over 980,000 desk audits were done using 39 clerical employee years. For all desk audits the average amount of revenue assessed per audit was greater for professional auditors than for clerical auditors. But because the clerical auditors were assigned easier audits, and have lower salaries, the cost per clerical audit was less than the cost of an average professional audit. For ASTRA audits, the average revenue per dollar of *direct* cost for clerical audits was \$27 versus \$8 for professional audits.

These revenue cost ratios indicate that the board may be able to lower audit costs while increasing audit revenue assessments by shifting more auditing resources from the more expensive professional desk audit activities to the clerical audit program.

Allocation of Professional Audit Personnel. All field auditors are profes-

FRANCHISE TAX BOARD—Continued

sionals. They are generally more experienced and are paid at higher levels than professional desk auditors. Field and desk auditors shared 20 ASTRA models of 1974 tax returns in 1976, but of those 20 only the four displayed in Table 8 below involved sufficient activity among both groups to permit statistically valid comparisons.

Table 8
A Comparison of
Field and Desk Audit Results in 1976

<i>ASTRA Model</i>	<i>Percentage of Returns Closed with Tax Changes</i>	
	<i>Field</i>	<i>Desk</i>
A	22.8%	39.3%
B	1.1	4.1
C	1.5	17.6
D	3.4	1.1

As Table 8 shows, on three of the four ASTRA audit models desk auditors had higher tax change rates than field auditors. We do not have enough data to similarly compare the audit yields (dollars revenue assessed per audit). However, if audit yields are higher for desk auditors than for field auditors, the Franchise Tax Board may be able to lower audit costs while improving audit yields by shifting more personal income tax auditing activity to the desk audit program. In addition, if desk audits turn out to be more effective than field audits, the taxpayer's compliance costs may be reduced. It is easier to comply with a desk auditor's request for information over the phone or in the mail than to comply with a field auditor's request for a meeting at the Franchise Tax Board's district office.

The data presented above indicate the potential for making the board's program more effective. The board should examine the feasibility of using statistical analysis for audit selection, and investigate further the allocation of clerical and professional personnel to audit activities.

II. BANK AND CORPORATION TAX PROGRAM

Corporation Audits Expanded

The Governor's Budget requests an increase of 12.6 positions and \$236,293 to expand corporation audit activities. The board estimates this audit augmentation will generate \$1,950,000 in tax changes (i.e., assessments plus refunds). Table 9 below compares the incremental revenues and costs of the components of this audit augmentation as estimated by the board.

In 1975-76, audit revenues accounted for approximately 90 percent of "tax change" from bank and corporation tax audit activity, and refunds or abatements accounted for 10 percent. Net revenues, i.e., assessments *minus* refunds or abatements, thus amounted to approximately 80 percent of "tax change". If this relationship is maintained in the budget year, net revenues per dollar of cost of \$13.50 for desk audits, \$6.50 for in-state field audits, and \$6.25 for out-of-state field audits would be achieved. Based on experience during the last two fiscal years, and adjusting for reduced productivity as audit coverage is expanded, these estimates appear reasonable.

Table 9
Tax Change—Cost Comparison of
Corporation Audit Augmentation
1977-78

	<i>Proposed Additional Cost</i>	<i>Estimated Additional Tax Change</i>	<i>Estimated Additional Tax Change Per Additional Dollar Cost</i>
Desk audits	\$17,760	\$300,000	\$16.9
In-state field audits	79,073	650,000	8.2
Out-of-state field audits	127,400	1,000,000	7.8
Protests and appeals	12,060	—	—
Total	\$236,293	\$1,950,000	—

III. POLITICAL REFORM AUDIT PROGRAM

The Political Reform Act of 1974 was adopted by the voters as a statewide ballot initiative in June 1974. The act requires the Franchise Tax Board to audit statements and reports of lobbyists, candidates, campaign committees and elected officials meeting criteria specified in the act.

Chapter 1075, Statutes of 1976, requires a separate budget item indicating the amounts appropriated to agencies to administer provisions of the act. In the 1977-78 Governor's Budget the Franchise Tax Board is reimbursed for Political Reform Audit program expenditures from funds appropriated in Item 333 and our analysis of this program appears in that item.

IV. SENIOR CITIZENS' PROPERTY TAX ASSISTANCE (SCPTA)

Increased Assistance to Senior Citizen Homeowners and Renters

Chapter 1060, Statutes of 1976, (AB 2972) increased the amount of property tax assistance available to homeowners over 62 and made more homeowners eligible for such assistance. In addition, Chapter 1060 extended property tax assistance to renters age 62 and over (see Item 369 for a more detailed account of the provisions of Chapter 1060).

The Franchise Tax Board estimates these changes will generate 200,000 renters' assistance claims and 23,000 additional homeowners' assistance claims annually. To process these claims and assist SCPTA applicants in the current year, the board is receiving Emergency Fund allocations of \$495,000. For 1977-78 the board has requested additional personnel and a budget increase of \$233,660 over the current year.

Based on a comparison of past actual costs per claim processed, the board's request for 1977-78 appears to be reasonable.

V. CONTRACT WORK

Computer Upgrade Requested

The board's budget request for 1977-78 includes \$550,000 to upgrade its present IBM 370/158 computer. These funds will be used to defray costs including installation of a new system, acceptance testing, conversion of program and procedures, and added equipment. A feasibility study pre-

FRANCHISE TAX BOARD—Continued

pared by the board states that because of a deficiency in current computing capacity, there will be a substantial adverse impact on board programs (such as tax collection) if a new computer is not available for the peak processing season beginning in January 1978.

The board proposes to secure through competitive bid a replacement for only the mainframe (central processing unit) portion of the current computer system. The board's reason for not replacing necessary peripheral computing equipment such as disk drives, printers and remote terminals is that it is currently leasing such equipment from a number of different vendors. The board desires to preserve this multivendor configuration which it believes meets the Legislature's intent as stated in Section 4 of the Budget Act of 1976, that EDP equipment acquisition reflect the state's best efforts to maximize competition.

By replacing only its central processing unit the board will restrict its equipment choice to one which is compatible with IBM software. However, because the equipment could be acquired from more than one vendor, we believe this to be a reasonable approach to meeting the department's long-term computing requirements. In fact, after a number of sole-source computer procurements, this will be the first truly competitive acquisition of a computer mainframe by the board in several years.

Additional Alternative for Computer Upgrade

We recommend that the Franchise Tax Board include as a part of its computer upgrade feasibility study, the alternative of converting all outside users of its computer to the Stephen P. Teale Consolidated Data Center and report to the Joint Legislative Budget Committee on this alternative by April 1, 1977.

The board's present IBM 370/158 computer was installed in time to meet its peak processing requirement beginning in January 1975. The procurement was not bid competitively. Since that time, and despite the existence of surplus computing capacity at the Teale Data Center for which the state has continued to pay, an increasing amount of the board's computing capacity has been devoted to serving the needs of other departments. Between 1973-74 and 1975-76, Franchise Tax Board contract work expenditures increased by 236 percent, while other Franchise Tax Board expenditures increased 135 percent. This increase has occurred with the encouragement of the Department of Finance EDP control unit (see page 125 of our 1976-77 Analysis).

The result has been an increasing use of Franchise Tax Board computing resources although surplus capacity exists at the Teale Data Center. Further, this growth in outside workload has contributed to the need to replace the board's IBM 370/158 much sooner than originally planned. We believe the board should consider among its alternatives the conversion of outside computer programs to the Teale Data Center. We have expressed this opinion in a letter to the state data processing office in the Department of Finance. As a matter of general policy, we believe the board should discourage increased use of its computing resources by other departments and focus on meeting its own needs. The Department of

Finance, using its EDP control authority, may continue to assign computer programs of other departments to the Franchise Tax Board computer. However, such a decision should be justified on a cost/benefit basis in light of continued unused capacity at the Teale Data Center.

Agriculture and Services Agency DEPARTMENT OF GENERAL SERVICES

Item 108 from the General Fund, Item 110 from the General Fund, Item 113 General Fund transfer to Service Revolving Fund, Item 114 from the Service Revolving Fund—other activities, Item 115 from the Service Revolving Fund—printing, Item 116 from the State School Building Aid Fund, Item 117 from the Deferred Compensation Plan Fund, Item 118 from the General Fund and Item 119 from the Deferred Compensation Plan Fund.

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Requested 1977-78	\$170,035,956
Estimated 1976-77	162,947,666
Actual 1975-76	117,107,269
Requested increase \$7,088,290 (4.4 percent)	
Total recommended increase	\$1,240,627

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
108	Department of General Services. For direct support of department operations.	General	\$5,109,835
110	Communications Division. For support of Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General	87,857
113	Department of General Services. Provides authority whereby funds appropriated from the General Fund or other funds for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances General Services car pool and reproduction services.	General Fund transfer to Service Revolving Fund	N/A
114	Department of General Services. For support in form of revenues from agencies receiving products or services other than printing.	Service Revolving Fund, other activities	\$131,836,305
115	Office of State Printing. For support in form of revenues from agencies receiving printing services.	Service Revolving Fund, printing	31,465,929
116	Office of Local Assistance. For support of State School Building Aid Program.	State School Building Aid Fund	811,769

DEPARTMENT OF GENERAL SERVICES—Continued

117	Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees as authorized by Chapter 1370, Statutes of 1972.	Deferred Compensation Plan Fund	117,443
118	Communications Division. For reimbursing local agencies in implementing Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General	606,818
119	Insurance Office. For repaying amount borrowed from Service Revolving Fund for expenditures incurred under deferred compensation program in 1975-76 fiscal year.	Deferred Compensation Plan Fund	(7,723)
Subtotal of department's items included in this Analysis.			\$170,035,956
109	Office of State Architect. For acquiring art for state buildings as required by Chapter 513, Statutes of 1976. (Item analyzed on page 154.)	General	700,000
111	Office of State Architect. For direct support of specified plan checking services. (Item analyzed on page 154.)	Architecture Public Building Fund	2,297,410
112	Office of State Architect. For support of operations. (Item analyzed on page 154.)	Architecture Fund	9,568,394
Note ^a	State Police. For purchase of bulletproof vests for state police.	Revolving Fund	25,000
Note ^b	Communications Division. Prior year balance available for support of Emergency Telephone Number Program. (\$73,758 for direct support of division operations and \$433,442 for reimbursing local agencies.)	General	507,200
Note ^c	Department of General Services. For maintaining and improving properties (1) acquired under the Property Acquisition Law and (2) declared surplus prior to disposition by state.	General	1,498,000
Note ^d	Department of General Services. For maintaining, protecting and administering state parking facilities.	General	770,319
Note ^e	Office of State Architect. For verifying that plans of structures purchased by state funds are accessible for use by physically handicapped.	General	155,000
	Office of Minority Business Enterprises. For support of operations.	Federal funds	100,000
Total expenditures budgeted.			\$185,657,279

^a Chapter 951, Statutes of 1976^b Chapter 443, Statutes of 1976^c Gov't. Code (Sec. 15850-65) (continuing appropriation)^d Gov't. Code (Sec. 14678) (continuing appropriation)^e Gov't. Code (Sec. 4454) (continuing appropriation)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. <i>Personal Services. Reduce Item 114 by \$11,373.</i> Recommend reduction to correct overbudgeting of new positions.	143
2. <i>General Fund Repayment.</i> Recommend department repay the \$2,429,089 for equipment purchased in prior years with General Fund monies.	144
3. <i>Space Planning.</i> Recommend department report by November 1, 1977 to the Joint Legislative Budget Committee on actions to improve the equitability of space management charges.	145
4. <i>Surplus Property.</i> Recommend parcels on surplus property list be included in surplus property bill.	145
5. <i>Office Machine Rates.</i> Recommend department report to the Joint Legislative Budget Committee by November 1, 1977 explaining why its office machine repair charges are not competitive.	148
6. <i>Minicomputer. Reduce Item 115 by \$300,000.</i> Recommend deletion of (a) \$250,000 for purchasing minicomputer and (b) \$50,000 for related programming costs.	148
7. <i>Computer Processing. Reduce Item 115 by \$200,000.</i> Recommend reduction to correct overbudgeting for computer processing services.	149
8. <i>Web Press.</i> Recommend the \$710,200 reserved by Office of State Printing for purchasing a press from its Budget Act of 1976 appropriation not be expended.	149
9. <i>Web Press. Reduce Item 115 by \$248,000.</i> Recommend (a) deletion of \$260,000 for press not justified and (b) addition of \$12,000 for repairing an existing press.	150
10. <i>Office Copiers. Add Item 108.1 for \$2 million.</i> Recommend separate item be added to provide a \$2 million General Fund loan to department for copier purchase program.	151
11. <i>Budgeting Services.</i> Recommend department report to Joint Legislative Budget Committee by November 1, 1977 indicating (a) agencies for which it provides budgeting services (b) extent of the service and (c) related charges.	153

DEPARTMENT OF GENERAL SERVICES—Continued**GENERAL PROGRAM STATEMENT**

The Department of General Services exists to improve the overall efficiency of state government operations by (1) performing certain management and support functions as assigned by the Governor and specified by statute, (2) providing central services to operating departments more economically than they can provide individually for themselves, and (3) establishing, maintaining and enforcing statewide standards and developing and implementing improved statewide policies and procedures.

Key Characteristics of the Department

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1977-78. The Department is funded by direct support appropriations and revolving fund appropriations. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving fund appropriations permit the department to expend specified amounts from revenues it earns from providing services and products to customer agencies. Table 1 shows that 93.1 percent of department costs is supported from revenues earned while only 6.9 percent of the costs is funded by direct support.

Table 2 indicates the wide diversity of functions in which the department is engaged and presents for each function the total expenditures by source of funds for the 1977-78 fiscal year. Although the functions appear in the budget as program elements, it is more realistic to view them as individual programs because of their magnitude and degree of specialization.

Table 3 shows the allocation of staff among department functions over the three-year period ending June 30, 1978. The table indicates that 4,164.2 positions are requested (a net reduction of 0.4 positions) for the budget year. The most significant staff changes are as follows:

1. A decrease of 12.9 positions in the Office of Local Assistance resulting from a workload reduction in the state school building aid program.
2. An increase of 11 positions proposed in the office services division for projected workload increases in office machine repair, reproduction services and mass mailings.
3. An increase of 7 positions in the space management division requested for projected increases in space planning workload.
4. An increase of 6.5 positions in the communications division, attributable mainly to a workload increase in radio repair services.
5. Termination of 5.2 positions added to the security and protection program in the current year only to complete implementation of a government officials' protection program.
6. A reduction of 5 positions in the management services division due primarily to a workload reduction in data processing services for customer agencies.

Table 4, which presents total expenditures by program element during the three-year period ending June 30, 1978, indicates an increase of \$8,594,752 (4.9 percent) for the 1977-78 fiscal year. Program elements showing the greatest increases are state printing (\$1.9 million) and procurement (\$1.5 million).

Table 1
Department of General Services
Total Expenditures by Source of Funds
1975-76 through 1977-78

<i>Source of Funds</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>	<i>Percent of total</i>
Direct Support:				
General Fund	\$6,774,971	\$9,204,064	\$9,460,029	-
State School Building Aid Fund	1,091,438	1,125,403	811,769	-
Architecture Public Building Fund	2,077,702	2,238,411	2,297,410	-
Deferred Compensation Plan Fund	48,267	88,068	117,443	-
Federal Funds	211,092	100,000	100,000	-
Totals	\$10,203,470	\$12,755,946	\$12,786,651	6.9%
Revolving Funds:				
Service Revolving Fund, printing	\$23,141,180	\$29,589,593	\$31,465,929	-
Service Revolving Fund, other activities	107,403,796	125,266,909	131,836,305	-
Architecture Revolving Fund	7,091,954	9,310,703	9,568,394	-
Totals	\$137,636,930	\$164,167,205	\$172,870,628	93.1%
Reimbursements	\$276,818	\$139,376	-	-
Total Expenditures	\$148,117,218	\$177,062,527	\$185,657,279	100.0%

Table 2
Department of General Services
Total Expenditures by Source of Funds and Programs
1977-78

<i>Program</i>	<i>Direct support appropriations</i>	<i>Revolving fund appropriations</i>	<i>Total expenditures</i>	<i>Percent of total</i>
I. Property management services	\$7,462,784	\$56,720,659	\$64,183,443	34.5%
A. Architectural consulting and construction	3,064,914	11,266,015	14,330,929	-
B. Buildings and grounds	-	24,905,358	24,905,358	-
C. Long-range facilities planning ..	-	313,728	313,728	-
D. Real estate services	31,987	2,187,735	2,219,722	-
E. Space management	-	2,208,893	2,208,893	-
F. Building standards commission ..	63,615	-	63,615	-
G. Building rental account	2,588,318	15,838,930	18,427,248	-
H. Minor capital outlay	-	-	-	-
I. Property acquisition act	1,498,000	-	1,498,000	-
J. Physically handicapped plan checking	155,000	-	155,000	-
K. State historical advisory board ..	60,950	-	60,950	-
II. Statewide support services	4,149,857	113,546,902	117,696,759	63.4%
A. Administrative hearings	-	2,096,122	2,096,122	-
B. Communications	161,615	21,661,595	21,823,210	-
C. Fleet administration	112,340	11,137,203	11,249,543	-
D. Insurance services	117,443	3,049,176	3,166,619	-
E. Legal services	-	605,447	605,447	-
F. Local assistance	832,193	-	832,193	-
G. Management services office	8,940	7,454,547	7,463,487	-
H. Office services	-	7,104,498	7,104,498	-

DEPARTMENT OF GENERAL SERVICES—Continued

I. Procurement	-	23,107,340	23,107,340	-
J. Records management	-	887,136	887,136	-
K. Security and protection	1,765,456	4,977,909	6,743,365	-
L. State printing	-	31,465,929	31,465,929	-
M. Small business procurements and contracts	381,551	-	381,551	-
N. Motor vehicle parking facilities	770,319	-	770,319	-
III. Administration	133,750	2,603,067	2,736,817	1.5%
IV. Emergency telephone number— local assistance	1,040,260	—	1,040,260	.6%
Totals	\$12,786,651	\$172,870,628	\$185,657,279	-
Percent of total	6.9%	93.1%	100.0%	100.0%

Table 3
Department of General Services
Staff by Programs
1975-76 through 1977-78

<i>Operating Unit</i>	<i>Filled positions 1975-76</i>	<i>Authorized positions 1976-77</i>	<i>Requested positions 1977-78</i>	<i>Percent of total</i>
I. Property management services	1,653.0	1,709.0	1,708.8	41.0%
A. Architectural consulting and construction	308.4	346.7	343.7	
B. Buildings and grounds	1,195.2	1,213.4	1,211.9	
C. Long-range facilities planning	11.0	10.4	10.7	
D. Real estate services	69.0	71.5	68.5	
E. Space management	69.4	67.0	74.0	
II. Statewide support services	2,305.9	2,352.0	2,351.8	56.5%
A. Administrative hearings	90.2	64.4	64.9	
B. Communications	298.6	316.8	323.3	
C. Fleet administration	158.6	159.3	159.3	
D. Insurance services	11.2	12.1	13.1	
E. Legal services	19.1	18.7	20.6	
F. Local assistance	49.1	45.5	32.6	
G. Management services office	287.5	285.6	280.6	
H. Office services	211.6	221.3	232.3	
I. Procurement	186.2	188.1	188.1	
J. Records management	27.6	30.5	30.5	
K. Security and protection	299.7	313.4	308.2	
L. State printing	656.2	684.3	684.3	
M. Small business procurements and contracts	10.3	12.0	14.0	
III. Administration	88.5	103.6	103.6	2.5%
Totals	4,047.4	4,164.6	4,164.2	
Percent of increase	2.0%	2.9%	—	100.0%

Table 4
Department of General Services
Total Expenditures by Program
1975-76 through 1977-78

<i>Program</i>	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Estimated 1977-78</i>
I. Property management services.....	\$54,410,966	\$61,335,729	\$64,183,443
A. Architectural consulting and construction	10,396,210	13,302,726	14,330,929
B. Buildings and grounds	20,289,057	24,069,386	24,905,358
C. Long-range facilities planning	300,485	325,065	313,728
D. Real estate services.....	2,235,552	2,375,116	2,219,722
E. Space management	1,909,469	1,966,398	2,208,893
F. Building standards commission	46,410	60,014	63,615
G. Building rental account	17,386,294	17,399,022	18,427,248
H. Minor capital outlay	248,640	152,145	—
I. Property acquisition act	1,406,376	1,456,000	1,498,000
J. Physically handicapped plan checking	169,830	145,000	155,000
K. State historical advisory board.....	22,643	84,857	60,950
II. Statewide support services	91,568,319	112,501,596	117,696,759
A. Administrative hearings	2,527,594	2,020,759	2,096,122
B. Communications	15,714,912	19,880,810	21,823,210
C. Fleet administration	10,088,313	10,972,844	11,249,543
D. Insurance services.....	2,694,798	2,881,026	3,166,619
E. Legal services	540,550	570,461	605,447
F. Local assistance	1,100,099	1,145,243	832,193
G. Management services office	6,073,324	7,401,477	7,463,487
H. Office services	5,965,102	7,897,496	7,104,498
I. Procurement	16,414,698	21,572,004	23,107,340
J. Records management	594,821	870,832	887,136
K. Security and protection	5,896,855	6,649,445	6,743,365
L. State printing	23,141,180	29,589,593	31,465,929
M. Small business procurements and contracts	183,555	324,235	381,551
N. Motor vehicle parking facilities.....	632,518	725,371	770,319
III. Administration	2,137,933	2,657,071	2,736,817
IV. Emergency telephone number—local assistance	—	568,131	1,040,260
Totals.....	\$148,117,218	\$177,062,527	\$185,657,279
Percent of increase	9.6%	19.5%	4.9%

ANALYSIS AND RECOMMENDATIONS

New Positions Overbudgeted

We recommend that Personal Services be reduced by \$11,373 by budgeting (1) new positions at the entry level and (2) existing positions within the maximum level (reduce Item 114, Service Revolving Fund).

Our review of proposed new positions indicates that (1) eight positions (six telecommunications assistants, an accounting technician and a senior account clerk) were budgeted above the entry level and (2) two communication coordinator positions established in the current year were budgeted above the maximum salary levels for fiscal year 1977-78. Because new positions normally are filled by new employees at the entry level or by promoting employees in lower classes, which creates salary savings, budgeting above the entry level for new positions results in over-budgeting. Our recommendation would remove these excess funds.

DEPARTMENT OF GENERAL SERVICES—Continued**General Fund Should be Paid for Equipment**

We recommend that the Department of General Services repay the General Fund \$2,429,089 for equipment purchased in prior years with General Fund monies.

General Services operates primarily on a business basis, providing services and products to customer agencies at a price. Almost all of its operating expenses are financed from revenues paid into the Service Revolving Fund (SRF) by agencies it serves.

When the SRF was created, initial working capital for General Services to meet its operating expenses was appropriated from the General Fund. Numerous augmentations were made to the SRF to provide adequate cash for working capital. By January 1976, a total of \$7,353,842 was so appropriated from the General Fund.

During 1972-73, General Services initiated a plan for acquiring necessary working capital by adding a surcharge to its rates. After an operating division acquires a sufficient level of working capital, it drops its surcharges. General Services reports that most of its divisions will have acquired the amount of working capital needed by June 1977.

In accordance with our recommendations in the 1976 Analysis, the Legislature directed General Services to use the surcharge approach for repaying the \$7,353,842 appropriated previously from the General Fund. The department has since repaid \$1,218,009 of this amount and plans to submit by April 1977 a schedule for repaying the \$6,135,833 balance.

In addition to direct General Fund support for working capital, General Services has received since 1955 equipment donated by various state agencies supported by General Fund appropriations. The appraised value of the equipment at time of transfer totals \$2,429,089. Because General Services has been using the surcharge approach to satisfy its working capital requirements and to repay the \$7,353,842 appropriated previously from the General Fund to support its working capital needs, we believe it appropriate that this method be used as well for repaying the General Fund for the value of the donated equipment it received which was purchased with General Fund monies.

Because about one-half of the revenues General Services receives from its customers are from sources other than the General Fund, the net effect of the recommendation would be to provide an estimated \$1.2 million increase to the General Fund.

I. PROPERTY MANAGEMENT SERVICES

The property management services program consists of 11 separate program elements which relate to state ownership, use or regulation of real property. The elements and their related expenditures over the three year period ending June 30, 1978 are listed in Table 4 on page 143. The architecture consulting and construction, physically handicapped plan checking and the state historical advisory board elements are included in our analysis of Items 109, 111 and 112, which make separate appropriations from the General Fund, Architecture Public Building Fund and Architecture Revolving Fund respectively.

Double Charging for Space Planning

We recommend that the Department of General Services report to the Joint Legislative Budget Committee by November 1, 1977, relative to the space management division, on actions taken to: (1) simplify its rates, (2) improve the equitability of its charges, and (3) improve the clarity and organization of information regarding its services and rates as published in the Price Book.

A recent audit of a limited number of space management division (SMD) projects revealed several instances in which agencies were charged twice for the same planning service. In the course of our review, we found the division's rate structure and charging procedures overly complex, which could be a cause of such charging errors.

Agency Would Lose Funds by Releasing Office Space

SMD charges in some instances are not in line with services rendered. Recently, a small state entity attempted to conserve funds by reducing its office space. For this service the SMD charged \$323.25 for four hours of planning time and nine hours of lease negotiating time. Because of this fee, the customer would have lost, rather than saved, money from reducing its space. It is our understanding that the issue was ultimately brought to the attention of the director and the charge reduced to \$87.63.

Price Book Rates Are Unclear

General Services publishes a *Price Book* listing the price of various products and services which it provides. The stated purpose of the document is to assist agencies in budgeting for the services and products they require from General Services. We concur with this objective and believe it should be pursued.

The information relative to the SMD services and charges appearing on pages 16-19 of the July 1976, edition of the *Price Book* is unclear and poorly organized. As a result it is of little practical value for budget planning purposes.

Surplus Property

We recommend that the 22 parcels on the "potential" surplus state property list submitted by General Services be included in the annual state surplus property bill, unless the controlling agencies can justify why they should be retained for state use.

In accordance with our recommendation in the 1976 Analysis, the Legislature directed the Department of General Services to submit annually to the Joint Legislative Budget Committee and the Department of Finance a list of "potential" surplus state parcels which should be considered by the Legislature for inclusion in the annual state surplus property bill.

In compliance with the requirement, in January 1977, General Services submitted a list identifying 22 parcels as potentially surplus. General Services estimates the total market value of the property at \$9,642,000 and total disposal costs at \$858,000, representing a net revenue potential of \$8,784,000 to the General Fund.

The properties are listed in Table 5. Unless the controlling agencies can justify retention, we believe the parcels should be sold.

DEPARTMENT OF GENERAL SERVICES—Continued

<i>Controlling Agency</i>	<i>Property Description</i>	<i>Location</i>	<i>Present or Planned Use</i>	<i>Dollar Estimate of Value</i>	<i>Disposal Cost</i>
Trustees of California State University and Colleges	380 acres of range land subject to a reversionary option by grantor.	Southwest boundary of City of Concord, bordering Ygnacio Valley Road, in Contra Costa County.	Proposed State University, Contra Costa site. Under grazing lease last several years.	\$2,500,000	\$80,000
	34± acres, unused San Diego State College Adobe Falls Property.	North side of Interstate 8 within San Diego City limits.	Freeway separated this property from main campus area several years ago.	600,000	30,000
Department of the California Youth Authority	500 acres of farm land at Preston School of Industry.	On the south side of State Highway 124 in City of Ione, Amador County.	Under agricultural lease for last several years.	500,000	50,000
	500 acres of farm land at Northern California Youth Center.	This property surrounds the Youth Center, located just East of Stockton in San Joaquin County.	Serving as buffer zone. Under agricultural lease for several years.	600,000	50,000
	80 acres at Paso Robles School, serving as a buffer area.	Surrounding area to the institution. Located East of City of Paso Robles in County of San Luis Obispo.	This is a buffer area. Division of Forestry has recently constructed a camp and maintenance area on a portion of this property. Remainder under agricultural lease.	60,000	10,000
Department of Corrections	500 acres farm land at California Institution for Men—Chino.	Southern boundary to City of Chino, in Riverside County.	Used as part of Dept. of Corrections farming program (dairy operation).	300,000	50,000
	300 acres, vacant land at Folsom State Prison.	Northern boundary to City of Folsom, Sacramento County.	Portion of buffer area to institution.	250,000	50,000
	200 acres, hillside land at California Medical Facility, Vacaville.	Approx. 1 mile south of City of Vacaville in Solano County.	476± acres of land has been under a grazing lease for the last several years.	\$100,000	\$20,000
	322 acres of farm land at Otay Mesa.	Just north of Mexican Border, approx. 7 miles east of State Frwy. 5, San Diego County.	Proposed site for correctional institution that was acquired in 1967, and has been under an agricultural lease ever since.	1,000,000	50,000
Division of Forestry	320 acres of undeveloped land, Pine Hill Lookout.	West of Community of Rescue, El Dorado County.	Only a few acres of this property utilized for Pine Hill Lookout Station.	128,000	15,000

	260 acres undeveloped property proposed Bautista Conservation Camp.	On west edge of San Bernardino National Forest 10± miles southwest of Hemet in Riverside County.	Proposed site for conservation camp. Was acquired several years ago.	150,000	10,000
	144 acres of undeveloped property—proposed Bratten Valley Conservation Camp.	On southwest edge of Cleveland National Forest in San Diego County.	Proposed site for Bratten Valley Conservation Camp.	130,000	10,000
	45 acres Shingletown Forest Fire Station.	35± miles east of Redding on State Hwy. 44, Shasta County.	10± acres utilized for fire station use with remainder used as a forest experimental display.	30,000	10,000
	0.40 acres Yucaipa Forest Fire Station.	Fronting on "A" Avenue in the community of Yucaipa, San Bernardino County.	This station to be vacated upon completion of new facility.	35,000	10,000
	0.17 acres Valley Springs Forest Fire Station.	On Sequoia Avenue in Community of Valley Springs, Calaveras County.	This station to be vacated upon completion of new facility.	14,000	3,000
	4 acres, Los Banos Forest Fire Station.	3 miles west of community of Los Banos on State Hwy. 152, Merced County.	This station to be vacated upon completion of new facility.	40,000	10,000
Military Department	1.6 acres, Old Mission Street Armory.	On Mission Street in City of San Francisco.	56± year old armory is nonfunctional for military purpose and is costly to maintain.	500,000	50,000
	0.826 acres, Hope Street Armory.	3340 South Hope Street, City of Los Angeles, Los Angeles County.	This four-story building is not adequate for Military purposes and too costly to maintain.	500,000	50,000
	2.85 acres at San Diego Armory.	7401 Mesa College Drive, City of San Diego.	Undeveloped portion of the Armory property.	30,000	10,000
Department of Health	200 acres agricultural land at Atascadero State Hospital.	1.5± miles south of City of Atascadero. Off of State Frwy. 101, San Luis Obispo County.	Buffer zone and utility area that have been under agricultural lease for several years.	175,000	30,000
	50 acres, Metropolitan State Hospital	Fronting on Imperial Hwy. in City of Norwalk, Los Angeles County.	Many of the older buildings and surrounding area, plus a residence area, are costly to maintain and provide little functional value to the hospital program.	1,400,000	200,000
	170± acres, Camarillo State Hospital.	Farm land fronting on Lewis Road approx. 3.5 miles west of Camarillo City, Ventura County.	Farm land that has been under lease for several years. This property is adjacent to existing surplus land.	600,000	60,000
				<hr/> \$9,642,000	<hr/> \$858,000

DEPARTMENT OF GENERAL SERVICES—Continued**II. STATEWIDE SUPPORT SERVICES**

The statewide support services program consists of 14 separate program elements. The elements and their related expenditures over the three-year period ending June 30, 1978, are listed in Table 4 on page 143.

Office Machine Rates Appear Excessive

We recommend that General Services submit a report to the Joint Legislative Budget Committee by November 1, 1977 explaining why its charges for office machine repair services are not competitive with those of private firms.

State Administrative Manual (SAM) procedures require that all state office machines, with certain exceptions (e.g., those in remote locations) be maintained by General Services.

A number of local firms have informed us that they maintain and repair office machines at significantly lower rates than those charged by the Office Services Division (OSD).

The federal government contracts with local firms to provide office machine and repair services to its agencies. We have reviewed these contract prices and found them generally to be about 30 percent below OSD rates.

Equipment Sharing Program Saves Nearly \$700,000 in 1975-76

The central state mobile equipment sharing program, which operates under the review of the Director of General Services, is managed by a council of middle management equipment specialists who take time from their regular jobs to participate in the program's activities. Under this program, a coordinated effort is made to enable agencies requiring mobile equipment for a temporary period to rent it from another state agency rather than from a nonstate source.

According to the council's annual report, the program resulted in net state savings of \$697,651, in 1975-76. This represents a 90 percent increase over the \$367,530 saved in 1974-75.

The council reported program savings of \$169,929 for the first quarter of 1976-77.

Minicomputer Should be Purchased by Legislative Counsel, Rather than by OSP

We recommend a reduction of \$300,000 by deleting (1) \$250,000 requested for purchase of a minicomputer by the OSP, and (2) \$50,000 for related computer programming costs (reduce Item 115, Service Revolving Fund, printing).

The Office of State Printing has budgeted \$250,000 for purchase of a new minicomputer to improve its capability for processing the workload associated with the printing of bills and most other legislative and agency printing workload. This proposed system would be linked to the new minicomputer system installed in the Legislative Counsel's Office. Currently it is necessary to transmit the bills prepared on the Counsel's system via the Teale Data Center which results in added costs. OSP also uses Teale to prepare agency printing for entry into its electronic photocompo-

sition system and the proposed minicomputer can also absorb this workload, thereby further reducing OSP costs.

The installation of a minicomputer at the printing plant is a logical and necessary extension of an overall plan to improve the entire process by which bills and the legislative publications are printed and made available to the Legislature and the public. We believe, however, that it is necessary that development and management of this system be the responsibility of one office and in evaluating the alternatives, it seems clear that the Legislative Counsel should have the responsibility for acquisition of this minicomputer in order to provide an integrated facility. This would include writing the computer programs required for communication with the printing plant. We have discussed this proposal with the Legislative Counsel and there is agreement on this approach. Also, computer programs already completed by the Counsel can be used on the OSP minicomputer to further improve the agency printing process, with minor modification to these existing programs. It is anticipated that the additional processor can be installed at the printing plant and programming completed before the Legislature returns in January 1978.

We therefore recommend that the equipment budget for the OSP be reduced by \$250,000 because the proposed minicomputer should be acquired by the Legislative Counsel. Much of the required programming will be done by the staff of the Legislative Counsel Bureau and we also estimate that funds available for programming can be reduced by \$50,000.

To carry out the intent of this recommendation, we are suggesting that the budget of the Legislative Counsel Bureau (Item 12) be augmented by the amount required to acquire the minicomputer and make other equipment and programming modifications.

Double Budgeting of Computer Processing for OSP

We recommend deletion of \$200,000 to correct double budgeting for computer processing services (reduce Item 115, Service Revolving Fund, printing).

The OSP has budgeted \$610,500 to continue receiving computer processing services from the Teale Data Center (TDC) during the 1977-78 fiscal year. The new minicomputer, which we discuss above, is expected to be operational no later than January 1, 1978. The minicomputer, by absorbing a substantial portion of the OSP workload processed presently at the TDC, is expected to reduce OSP computer processing costs by at least \$200,000 during the budget year.

Circumvention of Legislative Review

We recommend that the \$710,200 reserved by the Office of State Printing (OSP) to purchase a four-unit web press from funds appropriated under Item 164 of the Budget Act of 1976 not be expended.

We recently determined that the OSP arranged to purchase a four-unit perfecting web press for installation toward the end of the 1976-77 fiscal year from funds appropriated by the Budget Act of 1976. The press would increase the OSP capacity for producing textbooks.

We cannot recommend approval of this purchase for several reasons.

First, the purchase was not subject to proper legislative review. The

DEPARTMENT OF GENERAL SERVICES—Continued

press was not included in the equipment which General Services requested to purchase in its 1976-77 budget. In short, the OSP intends to buy the press with funds the Legislature appropriated for other equipment.

Second, purchasing the press in this manner conflicts directly with the following provision of Control Section 19 of the Budget Act of 1976:

"No machinery or equipment shall be purchased by or for the Office of State Printing except as provided for in this act and for emergency replacements which shall be reported to the Joint Legislative Budget Committee quarterly."

The above provision was added initially by the Legislature to the 1959 Budget Act for the express purpose of stopping OSPs practice of acquiring equipment without legislative approval.

Third, the Legislature denied essentially the same request by OSP in the 1972-73 budget hearings, based on our recommendation. In 1972-73 OSP intended to increase its textbook production capacity at a time when demand was declining significantly.

Finally, acquisition of such a press continues to be unfeasible economically. An OSP memorandum dated October 5, 1976, indicates that its decision to buy the press is based on the assumption that its textbook workload will increase. This seems unlikely. In the 1975-76 fiscal year the OSP produced only 3.6 million textbooks. This is less than 25 percent of the volume it produced in the 1972-73 fiscal year when the Legislature denied such a press due to insufficient workload.

Pursuant to major changes in 1972 in the textbook law, school districts are permitted to select their free textbooks from a much greater number of alternate titles. Consequently, they are ordering more titles and fewer books per title. Because it is not economical for the OSP to produce small volumes of textbooks, the number it produced declined substantially after the 1972-73 fiscal year as shown in Table 6.

According to program specialists in the Department of Education, the number of textbooks which is economically feasible for the OSP to print is more likely to decrease than increase under the provisions of existing law.

We have expressed concern to General Services staff about circumvention of legislative review in this matter. It is our understanding that the purchase agreement has not yet been consummated and that General Services does not intend to proceed further in this regard until the issue is considered by the Legislature.

Because we cannot recommend approval of the press, we suggest that the funds reserved for this purpose not be expended.

New Web Press Not Justified

We recommend deletion of \$260,000 for a two-unit web press for the Office of State Printing and (2) addition of \$12,000 for repairing an existing press (reduce Item 115, Service Revolving Fund—Printing by \$248,000).

Table 6
Number of Textbooks Produced Annually by OSP
1967-68 through 1975-76

<i>Fiscal Year</i>	<i>Number of Textbooks</i>
1967-68	16,149,705
1968-69	20,665,863
1969-70	22,637,470
1970-71	23,456,138
1971-72	17,321,252
1972-73	14,582,900
1973-74	2,948,000
1974-75	3,387,007
1975-76	3,577,500

The OSP is requesting \$260,000 to purchase a new one-unit web press to replace an existing sheet-fed press. The existing press is used primarily for legislative printing and has ample processing capacity for that purpose.

OSP's reasons for acquiring the new press are that (1) the existing press is expected to require mechanical repair and (2) a new press would provide additional capacity for processing work for state agencies.

Based on information provided by General Services, the existing press could be restored to prime condition for approximately \$12,000 and the volume of printing for state agencies is not sufficient to economically justify the new press.

We therefore recommend that the new press be deleted but that \$12,000 be provided for restoring the existing press to prime operating condition.

Office Copier Purchase Program

We recommend that a separate item be added to the Budget Bill to provide a \$2 million General Fund loan to General Services for purchasing office copiers. (Add Item 108.1.)

In the 1976 Analysis we pointed out that the state leases almost all of the office copiers it uses (over 2,000), despite the fact that in practically every instance it would be to the state's best advantage to own them.

In accordance with our recommendation in the 1976 Analysis, the Legislature added Item 159.1 to the 1976 Budget Bill providing a \$3 million General Fund loan to the Department of General Services for purchasing office copiers and leasing them to state agencies when purchase is cost justified. Under the item's control language (which we developed jointly with the Department of Finance), the amounts, terms and conditions of the loan are to be prescribed by the Department of Finance. The Governor, in his veto message reduced funding of the item from \$3 million to \$1 million. Although the program is being implemented in a somewhat different manner than we suggested (e.g., individual line agencies, rather than General Services are to acquire title to copiers purchased), it appears to be fundamentally sound and should produce substantial state savings. The loan (principal plus six percent interest) is to be repaid entirely by June 30, 1986.

In addition to the \$1 million loan, a number of departments have submitted to General Services requests to buy copiers with their own funds.

DEPARTMENT OF GENERAL SERVICES—Continued**How the Program Works**

Purchases by State Agencies. Under the program, state agencies use available funds to purchase copiers as required. Such purchases, however, are (a) subject to General Services approval procedures, which are intended to ensure that only the most economical models are acquired in relation to stated work requirements, and (b) made through General Services' procurement office in accordance with master purchase contracts awarded on a competitive bid basis.

Lease-Purchase through General Services. General Services, using funds from the \$1 million General Fund loan, is purchasing some copiers for agencies having no funds available for this purpose. Priority is given to buying copiers for which purchase offers the greatest economic advantage. Copiers so purchased are then lease-purchased from General Services over a three-year period by the user agency. It is our understanding that such payments (which include six percent interest on the unpaid balance) are typically lower than the amount the agency normally pays for leasing a comparable copier. Upon the final payment to General Services, title of the copier is transferred to the using agency. General Services is to use its revenue from the lease-purchase payments to buy additional copiers.

Leasing Copiers. If neither General Services nor the department has purchase funds available, the department may lease a copier, subject to General Services approval. General Services procedures require that only the most economical copier model be acquired in relation to specified work requirements. (In addition to savings under the purchase program, General Services reports projected savings of \$554,000 during the 1976-77 fiscal year as a result of requiring departments to lease more economical copiers.)

Purchase Program Should be Accelerated

The average useful life of a copier is eight to 10 years, while the average "break-even point" (time when cumulative lease cost equals purchase cost) is less than four years. Consequently, it is almost always to the state's advantage to buy rather than lease.

Information developed recently by General Services indicates that before the copier purchase program was initiated:

1. The state was leasing 2,040 copiers at a cost of \$3.7 million annually.
2. All such copiers could be purchased for \$9.8 million.
3. The break even point ranged from 13.42 months to 107 months (8.9 years).
4. 1,180 copiers having a break even point of 43 months or less were being leased at an annual cost of \$3,369,288 and all could be bought for \$7,643,532.

General Services is in the process of surveying agencies to determine the amount of funds available in the 1977-78 fiscal year for purchasing copiers. According to General Services staff, preliminary indications are that approximately \$3.5 million (including the \$1 million General Fund loan to General Services) will be available for purchasing copiers during the 1976-77 and 1977-78 fiscal years combined. On that basis, less than

one-half of the 1,180 copiers having break even points of 43 months or less will be purchased by June 30, 1978. Purchasing all such copiers would require an additional expenditure of approximately \$4.1 million.

Had the original \$3 million General Fund loan, as approved by the Legislature in the Budget Act of 1976, not been reduced by \$2 million, many more machines could have been bought by June 1978. We therefore recommend a General Fund loan of \$2 million in order for the program to achieve additional savings by operating at the level intended originally by the Legislature.

III. ADMINISTRATION

The administration program contains executive management, fiscal and personnel functions which support the department's line programs. The department also provides on a reimbursement basis accounting, budgeting and personnel services to a number of smaller state entities.

High Prices for Inadequate Service

We recommend that General Services submit to the Joint Legislative Budget Committee by November 1, 1977, a report listing the agencies for whom it provides budgeting and accounting services and specifying for each (a) the extent of the service (e.g., schedules prepared), (b) the amount charged and (c) how the charge was calculated.

It has come to our attention that small agencies contracting with General Services for budgeting and accounting service appear to be receiving minimal assistance at an excessive cost. For example, many such agencies have not been advised by General Services of the necessity of preparing basic budget schedules as required by the State Administrative Manual (SAM).

One such agency, composed of three individuals and having an annual operating budget of \$123,426, is charged approximately \$1,000 per month for budgeting and accounting services. At that price, the agency could almost afford to hire an additional staff member for this purpose.

EMERGENCY TELEPHONE NUMBER—LOCAL ASSISTANCE

Under this program, General Services reimburses local public agencies for their costs in implementing emergency number telephone systems.

Chapter 1005, Statutes of 1972, (AB 515) required local public agencies to establish within specified guidelines emergency telephone systems to enable an individual to contact emergency services, including medical service, and police and fire protection by dialing "911." The act required that the communications division of General Services promulgate statewide standards for such systems.

Chapter 443, Statutes of 1976, (AB 416) did the following:

1. Established a tax on intrastate telephone calls beginning November 1977 to fund emergency telephone systems mandated by Chapter 1005.
2. Created a State Emergency Telephone Number Account in the General Fund to receive the tax proceeds.
3. Created within General Services an Advisory Committee on the State Emergency Telephone Number.

DEPARTMENT OF GENERAL SERVICES—Continued

4. Required that local governments be reimbursed for costs of installing and operating emergency telephone systems.

5. Appropriated \$1,222,000 from the General Fund for reimbursable expenses incurred by local governments and General Services until the tax proceeds become available.

The \$1,222,000 was allocated as follows:

(a) \$220,427 for General Services costs.

(b) \$1,001,573 for reimbursing local agencies.

There is \$1,040,260 budgeted for reimbursements to local agencies for 1977-78 which consists of (1) \$433,442 (of the \$1,001,573) appropriated for this purpose under Chapter 443 which is expected to be available for use in 1977-78 plus (2) \$606,818 requested under Item 118 (General Fund) of the Budget Bill.

**Department of General Services
OFFICE OF STATE ARCHITECT**

Item 109 from the General
Fund, Item 111 from the Ar-
chitecture Public Building
Fund and Item 112 from the
Architecture Revolving Fund

Budget p. 214

Requested 1977-78	\$12,565,804
Estimated 1976-77	12,063,440
Actual 1975-76	9,619,711
Requested increase \$502,364 (4.2 percent)	
Total recommended reduction	\$387,414

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
109	Office of State Architect	General	\$700,000
111	Office of State Architect	Architecture Public Building	2,297,410
112	Office of State Architect	Architecture Revolving	9,568,394
			<u>\$12,565,804</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 1. Acquisition of Works of Art. Withhold recommendation pending receipt of procedures for acquiring works of art and proposal for expenditure of appropriation. | 155 |
| 2. Workload Volume. Recommend modification of budget language to reflect OSA workload volume of \$36,200,000. | 156 |
| 3. <i>Increased Staffing.</i> Reduce Item 112 by \$387,414. Recommend deletion of 18 positions established administratively in the current year. | 156 |
| 4. Architecture Revolving Fund. Recommend Department | 157 |

- of General Services establish procedures to comply with existing law and implement the 1974 Department of Finance audit report.
5. Architecture Revolving Fund. Recommend supplemental language requiring Department of General Services to submit annual report to the Joint Legislative Budget Committee indicating status of Architecture Revolving Fund and detailing status of three-year-old funds. 157
 6. Structural Code Conformance. Recommend the OSA provide a report detailing use of private consultants to check schoolhouse and hospital structural code compliance. 159

GENERAL PROGRAM STATEMENT

The Office of the State Architect (OSA) provides two basic services. First, OSA provides a full spectrum of architectural and engineering services similar to large private architectural firms and operates a construction inspection service for all state projects as required by law.

Second, OSA functions as a policing agency to assure compliance with the (1) physically handicapped building accessibility law, (2) Field Act for school buildings (earthquake safety) and (3) hospital seismic safety code.

In addition, Chapter 513, Statutes of 1976, (AB 1053) requires the State Architect to determine and implement procedures for the purchase or lease by contract of existing works of art for display in state buildings.

OSA is reimbursed for all of its out-of-pocket and overhead expenses in connection with each job. The architectural and engineering service activities are financed from the Architectural Revolving Fund (Item 112). Funds appropriated by the Legislature for specific projects are deposited. Assessments are then made against each project account for services provided. Consequently, the actual volume of work for the office and the amount of funds available to cover expenditures, are dependent upon the level of capital outlay appropriations provided by the Legislature.

ANALYSIS AND RECOMMENDATIONS

Acquisition of Works of Art for State Buildings

We withhold recommendation of Item 109 pending receipt of the State Architect's (1) procedures for acquiring works of art and (2) proposal for expenditure of the proposed \$700,000.

Item 109 provides \$700,000 for allocation by the Department of Finance to the OSA for acquisition of works of art for state buildings. This proposal is the initial funding to implement Chapter 513, Statutes of 1976, (AB 1053).

Chapter 513 requires the financing for works of art, subject to an annual appropriation in the Budget Act. With the assistance of the Arts Council and approval of the Department of Finance the State Architect is to determine and implement procedures for the acquisition of art.

The State Architect has completed an inventory of state buildings and is in the process of scheduling workshops with the Arts Council and art constituents. These workshops should result in (1) the establishment of

OFFICE OF STATE ARCHITECT—Continued

procedures for acquisition of art and (2) a proposal for expenditure of the \$700,000 under Item 109. This information should be available by mid-February 1977.

Architectural and Engineering Services

The budget for OSA Architectural Revolving Fund activities identifies six major categories of services. These categories and the anticipated construction value for each is identified in Table 1.

Table 1
Architectural and Engineering Services
Categories and Estimated Construction Value

	1975-76	1976-77	Percent change 1977-78 from current year	
I. Basic architectural and consulting	\$29,156,077	\$37,036,160	\$40,369,414	+9.0%
II. Nonbasic architectural and consulting	64,936,965	70,131,922	76,443,795	+9.0
III. Contract architect program	38,822,400	85,639,361	46,362,060	-45.8
IV. Basic construction	73,288,656	82,000,000	95,000,000	+15.9
V. Nonbasic construction	56,114,486	45,000,000	31,500,000	-30.0
VI. Special services (hours)	(10,499)	(10,812)	(10,647)	-1.5

* Estimated value of construction.

The staffing level proposed for 1977-78 is 18 positions approved in the Budget Act of 1976. These positions were added administratively during the current year.

Workload Volume Should Reflect Legislative Intent

We recommend modification of budget language under Item 112 to reflect a basic architectural and engineering services workload volume of \$36,200,000 rather than \$40,370,000.

Because the Office of State Architect does not have the flexibility to adjust to fluctuations in workload as readily as a private firm, the Legislature established a "valley" workload floor by incorporating specific language in the Budget Act of 1972. OSA was directed to gradually reduce its staff "in house" capabilities to a workload volume of \$25 million by June 30, 1973. This ceiling has been raised annually by subsequent budget acts to compensate for inflated construction costs. However, the workload volume indicated in the Budget Bill is 11.5 percent above inflationary construction cost increases. To accurately reflect legislative intent the amount in the Budget Bill should be reduced to \$36,300,000 as the appropriate staffing "floor".

Inappropriate Staffing Increases

We recommend deletion of 18 positions added administratively in the current year (reduce Item 112 by \$387,414).

The OSA budget for 1977-78 includes 12 new technical/clerical positions for the architecture and engineering services program and six technical positions to provide program planning throughout the state. These positions were administratively added during the current year but should not be continued in the budget year.

Architecture and Engineering Services Program-Workload Standards. In our 1976-77 analysis we indicated that the major drawback of the "valley" workload concept established in 1972 was the lack of workload standards to determine proper staffing levels. Thus, we recommended that the OSA develop workload standards, including surveys of private architectural firms, and report to the Joint Legislative Budget Committee by November 1, 1976. The Legislature accepted this recommendation and included a request for the report in the Supplementary Report of the Committee on Conference. This report was not received until January 17, 1977, too late for review in this Analysis. However, we continue to be concerned that the cost for OSA services is excessive and reflects too large a staff and/or a top heavy administration. There are no indications that the number of OSA staff is too small to accommodate the workload volume established in 1973. The 12 additional positions which will increase OSA "in-house" capability beyond the desired level should be deleted.

Program Planning-Workload Standards. The Budget Act of 1976 contained \$212,904 from the General Fund for a programming unit within the Office of the State Architect. Budget Act language indicated that support for this unit was for the 1976-77 fiscal year only. To insure proper (or continued) funding of this unit and other OSA expenses not related to specific capital projects, the Legislature requested OSA to provide a workload report (discussed above) to the Joint Legislative Budget Committee by November 1, 1976. As indicated in the preceding paragraph, the report was not received until January 17, 1977, too late for review in this Analysis.

The Budget Bill does not contain a General Fund item for support of the programming unit, but the OSA budget does include six new positions for this purpose funded from the Architecture Revolving Fund. These positions as proposed would necessarily be funded from capital projects unrelated to the function of the unit. We believe this is inappropriate because it would result in charging one department or agency for services provided to another and that planning functions are more appropriately General Fund expenses. However, because the workload report was only recently received we cannot recommend a proper level of funding for this activity. In any case, for the reasons stated above we believe the proposed funding for the new positions should be deleted.

Improper and Inadequate Procedures Regarding the Architecture Revolving Fund

We recommend that the Department of General Services (1) establish procedures to comply with existing law regarding the Architecture Revolving Fund (ARF) and (2) implement the 1974 Department of Finance audit report.

Further, we recommend that control language be included in the supplemental report requiring the Department of General Services to submit a report to the Joint Legislative Budget Committee by November 1 of each year indicating the status of the ARF and detailing the status of three-year old funds.

The Architectural Revolving Fund (ARF) is continuously appropriated without regard to fiscal year. Funds are deposited in the ARF upon State

OFFICE OF STATE ARCHITECT—Continued

Public Works Board approval to allocate legislative appropriations for capital outlay projects. The Government Code, Section 14959, requires that any unencumbered balance in the ARF shall be withdrawn and credited to the appropriation from which it was transferred within three months after completion of the project, or three years from the time such funds are originally transferred to ARF, whichever is earlier. The return of unencumbered balances is not required if the Department of Finance extends their availability.

The Department of General Services has not been returning unencumbered balances as required under the Government Code. For example, in April 1968 the State Public Works Board allocated \$996,000 for a major project at California State University, Los Angeles. Construction bids for the project were never solicited and the funds were not encumbered. However, nearly nine years later the funds remain in the ARF.

When the status of the CSU-Los Angeles projects was brought to our attention we asked the OSA to provide specific information pertaining to the ARF (i.e., current total amount, total for each source of funds, list of all projects for which funds are available, date funds were transferred, etc.). At the date of this writing the information had not been provided. However, discussions with the staff of the OSA and the Department of General Services reveals that there is considerable confusion regarding the accounting procedures of the ARF. Therefore the current status of projects cannot readily be determined.

In March 1974, the Audits Division of the Department of Finance completed an audit of the Architecture Revolving Fund. The recommendations of this report were:

1. *Obtain sufficient funds to cover all negative balance work orders and valid encumbrances.*
2. *Require that sufficient funds be transferred into the ARF prior to the commencing of any work and/or the awarding of any contracts.*
3. *Review all work orders having a three year old balance to determine the degree of completion of the project and the funds needed for the project.*
4. *Report the results of the review to the Department of Finance for concurrence on the status of the projects and a ruling on the reasonableness of the itemized encumbrances.*
5. *Return all the unencumbered funds which were transferred into the ARF more than three years ago.*
6. *Institute a continuing program to have the OSA review all projects immediately prior to the expiration of three years after each transfer.*

In March 1975, the Office of the State Architect submitted a memorandum outlining its progress in implementing the Audits Division's recommendations. It indicated that (1) all work orders had been reviewed and action initiated to obtain sufficient funds to cover negative balances and (2) three year old funds which had not been encumbered had been returned or were in the process of being returned. However, based on preliminary information several work orders are carrying negative balances and many three year old funds which have not been encumbered have not reverted.

In view of the apparent confusion related to the ARF we recommend that (1) the Department of General Services establish procedures to assure compliance with existing law, (2) the Department of General Services implement the Department of Finance audit report and (3) supplemental report language be added under Item 112 requiring the Department of General Services to report each year, indicating the status of the ARF and detailing the status of three year old funds.

Schoolhouse and Hospital Structural Code Compliance Program

Item 111 from the Architecture Public Building Fund, plus \$1,282,324 from the continuously appropriated Structural Revolving Fund, supports the OSA plan checking and construction inspection activities related to public school and hospital construction in the state.

The OSA does not perform any design work under this program. Rather, it checks plans developed by others for conformance to code requirements. After it approves the plans, OSA inspects and monitors construction programs to insure compliance. For this service, the OSA receives a set filing fee under the schoolhouse program and a uniform fee based on a percentage of the estimated construction cost under the hospital program.

Table 2 shows the current estimated trend in schoolhouse and hospital construction and the resulting budgetary impact on OSA plan checking program.

Table 2
Structural Code Compliance
Workload Funding and Staffing Changes

	1975-76	1976-77	1977-78	Percent Change from Current Year
Construction Value				
Public schools.....	\$457,500,000	\$550,000,000	\$605,000,000	+10%
Hospitals	201,500,000	302,500,000	332,750,000	+10%
Total	\$659,000,000	\$852,500,000	\$937,750,000	+10%
Total program expenditures.....	\$2,944,201	\$3,477,697	\$3,569,734 ^a	+2.6%
Production personnel-years	92.6	110	110	—

^a Includes \$2,297,410 (Item 111) from the Architecture Public Building Fund and \$1,282,324 from the Structural Revolving Fund.

Structural Code Compliance Not Checked by OSA

We recommend that the OSA provide a report detailing workload and use of private consultants for the schoolhouse and hospital structural code compliance program. The report should be submitted to the fiscal committees prior to budget hearings.

In performing its duties under this program, the OSA provides an independent state review for conformance of structural design to code requirements. In several instances this review has been conducted by private structural firms rather than by OSA. Outside review subverts the intended independent state review. The OSA should detail the (1) workload in this program (2) magnitude of work accomplished by private structural firms and (3) desirability or undesirability of contracting with private firms.

Agriculture and Services Agency BOARD OF CONTROL

Item 120 from the General
Fund

Budget p. 242

Requested 1977-78	\$334,784
Estimated 1976-77	323,768
Actual 1975-76	447,551
Requested increase \$11,016 (3.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 1. Checks and Warrants. Recommend Board of Control not redeem outdated checks and warrants for amounts below \$50 and develop hardship and equity criteria for redeeming higher amounts. | 161 |
| 2. Inmate Claims. Recommend Department of Corrections be authorized to pay legitimate claims under \$100. Claims in the amount of \$100 or more should continue to be processed by the Board of Control. | 162 |
| 3. Annual Report. Recommend legislation simplifying the recordkeeping and reporting requirements of the board. | 163 |

GENERAL PROGRAM STATEMENT

The Board of Control investigates and processes all claims for money or damages against the state. These include tort liability claims, claims of citizens benefiting the public and claims of victims of crimes of violence. The board also reviews numerous fiscal transactions, including discharge of accounts receivable by the state, refunds, credits and cancellation of taxes, sale and disposal of unclaimed property and transfer of funds between state agencies. It also determines the pro-rata share of statewide administrative costs payable by each state agency, rules on employee travel claims, and holds hearings on purchase protests and other matters.

Funds are included in this item for the statewide suggestion system which is administered by a five-member Merit Award Board appointed by the Board of Control. Activities of this program include establishing standards and policies, providing guidance and assistance to all departments and reviewing suggestion evaluations.

ANALYSIS AND RECOMMENDATIONS

The board is proposing a General Fund expenditure of \$334,784 which is \$11,016 or 3.4 percent above the current General Fund support level. This increase largely is attributable to price increases and increased staff benefits. The board's administrative costs for processing claims of crime

victims are identified as reimbursements under this item. Direct support for the Victims of Violent Crimes program is included in the budget for Indemnification of Private Citizens (Items 367-368). Table 1 shows the board's proposed funding and expenditures for the budget year.

Table 1
Budget Summary

	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change From Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
Funding				
General Fund	\$323,768	\$334,784	\$11,016	3.4%
Reimbursements	290,261	310,568	20,307	7.0
Total Expenditures	\$614,029	\$645,352	\$31,323	5.1%
Personnel-years	26.8	26.8	—	—

The number of claims and merit award suggestions received by the board continues to rise annually. The projected workload of the board, as measured by claims and suggestions awarded, is shown in Table 2.

Table 2
Workload Measures

	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>
Victim claims	4,934	6,167	7,708
Nonvictim claims	4,821	5,500	6,200
Merit award suggestions.....	3,649	4,000	4,400

Consolidation of Victims of Violent Crimes Program

The administration advises that legislation will be proposed in 1977 to consolidate the total responsibility and funding for the administration of this program under the Board of Control. Presently, the investigative and legal aspects of the program are handled by the Department of Justice while the Board of Control provides administrative services and processes the payment of claims. Last year we recommended consolidation of the program under the board on the basis of improved efficiency and cost savings. A similar conclusion was reached by the Department of Finance review of the program. Adoption of the proposed legislation should provide overall savings, according to Board of Control estimates, of \$186,565 in both personnel and operating expenses and eliminate the need to augment the Department of Justice staff by six positions as discussed more fully under the analysis of that budget.

Outdated Checks and Warrants

We recommend that the Board of Control not redeem for payment outdated checks and warrants for amounts below \$50 and develop hardship and equity criteria for reviewing higher amounts.

Pursuant to Government Code Section 17070, "Whenever any warrant issued by the controller is unpaid for four years after it becomes payable, the controller shall cancel it." The canceled check reverts back to the fund from which it was drawn. Despite this provision, the board's practice has

BOARD OF CONTROL—Continued

been to hear the claims of individuals possessing such instruments on the basis of equity. A minimum or maximum amount for this type of claim has not been established, resulting in the submission of claims ranging, in recent years, from 69 cents to \$858.21. (Many of the claims consist of misplaced checks discovered when changing residences.) Of the claims received in the current year, 51 percent have been for amounts less than or equal to \$50, while 79 percent were for amounts less than or equal to \$100. The board advises that a conservative estimate of the total cost of processing each claim is approximately \$100, including filing and clerical procedures, staff and agency reviews, and the public hearing process.

The common practice in the private sector is to void uncashed checks and warrants six months after date of issue. Companies generally will reissue voided checks if given proper support data from the payee. In our judgment the board, as a matter of policy, should not consider for payment outdated checks and warrants for amounts less than \$50 because the four-year acceptance period for negotiable instruments is liberal compared to practices in the private sector and processing costs are at least double the amount of these claims. The board should review claims of \$50 or more only on the basis of demonstrated hardship or equity and not on the basis of negligence or inadvertence on the part of the payee.

Elimination of these claims represents a potential workload savings for the Board of Control at a time when nonvictim claims are projected to rise by 12.7 percent in the budget year. In addition, this policy should shrink the eligible pool of claims composed of the checks and warrants annually voided by the State Controller.

Growth in Inmate Claims

We recommend that the Department of Corrections be authorized to pay legitimate inmate personal property losses under \$100. Claims of \$100 or more should continue to be processed by the Board of Control.

The Board of Control, under its broad equity power, reviews claims of loss or damage to private property belonging to inmates in state facilities. These claims are initially investigated by the institution's warden or superintendent who makes a recommendation as to the validity and amount of the loss. If the inmate is dissatisfied with this recommendation, he may appeal to the Director of Corrections for review. A report on the department's investigation and recommendation is then forwarded to the Board of Control for processing and final decision.

The dollar value of approved inmate claims has risen significantly in recent years, from \$3,514 in calendar year 1972 to \$20,135 in calendar year 1975. Most of these awards, however, are below the \$100 level as shown in Table 3.

Table 3
Dollar Range of Approved Inmate Claims
1975-1976

<i>Period</i>	<i>Number of Claims</i>	<i>Percentage Under \$100</i>	<i>Percentage \$100 or more</i>	<i>Total Dollar Value</i>
1/1/75 to 3/31/75.....	49	79.6%	20.4%	\$2,947
4/1/75 to 6/30/75.....	65	69.2	30.8	8,784
7/1/75 to 12/31/75.....	115	83.5	16.5	8,404
1/1/76 to 3/31/76.....	54	79.6	20.4	3,708
4/1/76 to 11/2/76.....	138	84.8	15.2	9,015

As stated earlier, the Board of Control estimates the total cost of processing each claim at \$100, including filing and clerical procedures, staff and agency reviews, and the public hearing. In order to simplify this process and reduce costs, the Department of Corrections should have the authority to investigate and settle inmate personal property losses up to \$100. Claims in the amount of \$100 or more should continue to be processed by the Board of Control.

Department of Corrections review and payment of claims under \$100 should result in savings in time and cost required by the Board of Control to process and the Legislature to approve these claims. The Department of Corrections would incur no additional investigative costs as a result of this change because the department presently investigates all inmate claims presented to the Board of Control.

Annual Report Needs Simplification

We recommend legislation simplifying the recordkeeping and reporting requirements of the Board of Control.

The Board of Control, pursuant to Section 13914 of the Government Code, is required to report annually to the Legislature on actions it takes with respect to claims. The report shall include "a description of each claim, the contention of each claimant, and the opinion and recommendation of the agency whose act or omission is alleged to have given rise to the claim." The volume of claims annually received (over 12,000) has precluded the filing of this report for the past two years. A Government Code amendment is needed to simplify the recordkeeping requirements of the board and allow a reasonable distillation of claims activity to be reported to the Legislature. Information should be provided to the Legislature which includes (a) number of claims received by type and dollar amount, (b) number of claims awarded by type and dollar amount, and (c) number of claims rejected by type and dollar amount.

Agriculture and Services Agency
DEPARTMENT OF INDUSTRIAL RELATIONS

Items 122 and 123 from the
 General Fund

Budget p. 245

Requested 1977-78	\$69,480,835
Estimated 1976-77	68,291,562
Actual 1975-76	49,888,521
Requested increase \$1,189,273 (1.7 percent)	
Total recommended reduction	\$249,291

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
122	Department Support	General	\$47,338,898
123	Local Mandates	General	22,141,937
			<u>\$69,480,835</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
 page*

1. Administration. Recommend legislation requiring all division chiefs to be appointed by Director of Industrial Relations, subject to state civil service regulations, rather than by the Governor. 169
2. *Cal-OSHA Program Office. Reduce Item 122 by \$63,483.* Recommend elimination of Cal-OSHA program office and transfer of three positions to Division of Industrial Safety. 169
3. *Cal-OSHA Regional Managers. Reduce Item 122 by \$81,281.* Recommend deletion of four managerial and three clerical positions in the Division of Industrial Safety. 171
4. Information Reporting System. Recommend Division of Industrial Safety employ outside experts to simplify information reporting system and report to the Joint Legislative Budget Committee by November 1, 1977. 174
5. Cal-OSHA Complaints. Recommend Division of Industrial Safety establish formal procedure for screening employee complaints and report to Joint Legislative Budget Committee by November 1, 1977. 174
6. *Industrial Hygienists. Reduce Item 122 by \$68,587.* Recommend deletion of five industrial hygiene engineers in the Division of Industrial Safety. 175
7. Occupational Health. Recommend Division of Industrial Safety, in conjunction with Department of Health, develop procedures for improving the quality of referrals sent to Department of Health for investigation and report to Joint Legislative Budget Committee by November 1, 1977. 175

8. Cal-OSHA Standards. Recommend Division of Industrial Safety, in conjunction with the OSHA Standards Board, submit a workplan to the Legislature by January 1, 1978, for simplifying the safety and health orders. 176
9. Layman's Guide to Standards. Recommend Division of Industrial Safety develop a nonlegal, nontechnical version of the safety orders. 178
10. Special Outreach Program. Recommend the 28 proposed new positions for a concentrated enforcement program in selected low-wage industries be limited to June 30, 1978 and the division report to the Joint Legislative Budget Committee by February 1, 1978 on the accomplishments of the program. 179
11. *Apprenticeship Standards.* Reduce Item 122 by \$35,940. 179
Recommend deletion of two new positions to promote women in apprenticeship.
12. Uninsured Employers' Fund. Withhold recommendation pending receipt of estimate of claims costs from Department of Industrial Relations. 180

GENERAL PROGRAM STATEMENT

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

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

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

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

4. The Division of Industrial Accidents and the Workers' Compensation Appeals Board, which adjudicate disputed claims for compensating workers who suffer industrial injury in the course of their employment and which offers rehabilitation services to disabled workers.

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

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

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

labor, the licensing of artists' managers and farm labor contractors. This division was created by Reorganization Plan No. 2 of the 1975-76 legislative session by consolidating, as we recommended, the former Divisions of Labor Law Enforcement and Industrial Welfare.

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

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

9. The Division of Fair Employment Practices, which enforces laws promoting equal opportunity in housing and employment on the basis of race, religion, creed, national origin, ancestry, sex, marital status, age, physical handicaps, and medical conditions relating to cancer.

Legislative Mandated Local Costs

Under Section 2231(a) of the Revenue and Taxation Code, the state reimburses local governmental agencies for increased costs mandated by state legislation enacted after January 1, 1973. The budget contains funding for the following five mandates within the program area of the Department of Industrial Relations, all relating to workers' compensation benefits which affect local entities as employers.

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

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

(c) Chapter 1023, Statutes of 1973, which increased workers' disability payments.

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

(e) Chapter 1017, Statutes of 1976, which increased workers' disability payments and death benefits.

ANALYSIS AND RECOMMENDATIONS

The department's proposed General Fund appropriation of \$69,480,835 is \$1,189,273 or 1.7 percent above estimated General Fund expenditures for the current year. It consists of \$47,338,898 (Item 122) for support of the department and \$22,141,937 (Item 123) for legislative mandates. The increase includes \$250,000 for moving the department to the building recently purchased from the State Compensation Insurance Fund. The building is located about one block from the state office building in San Francisco where the department is currently housed. The department's proposed expenditure program, including reimbursements and federal funds, totals \$79,506,037. Table 1 shows funding sources and expenditures by program.

Table 1
Budget Summary

	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Funding</i>				
General Fund	\$68,291,562	\$69,480,835	\$1,189,273	1.7%
Reimbursements	738,988	568,267	-170,721	-23.1
Federal Funds	8,638,226	9,456,935	818,709	9.5
Total	\$77,668,776	\$79,506,037	\$1,837,261	2.4%
<i>Programs</i>				
Administrative support distributed to other programs	(\$2,634,567)	(\$3,141,636)	(\$507,069)	19.3%
Distributed to other state departments.....	\$76,408	\$52,500	\$-23,908	-31.3
Personnel-years	127.8	134.7	6.9	
Regulation of workers' compensation self-insurance plans	\$409,140	\$432,327	\$23,187	5.7
Personnel-years	16.5	17.5	1.0	
Conciliation of employer-employee disputes (State Conciliation Service)	\$722,648	\$838,910	\$116,262	16.1
Personnel-years	22.3	25.3	3.0	
Adjudication of workers' compensation disputes (Division of Industrial Accidents) ..	\$17,823,600	\$18,975,921	\$1,152,321	6.5
Personnel-years	680.2	715.1	34.9	
Prevention of industrial injuries and deaths (Division of Industrial Safety)	\$19,610,157	\$20,926,705	\$1,316,548	6.7
Personnel-years	548.7	563.8	15.1	
Enforcement of laws relating to wages, hours and working conditions (Division of Labor Standards Enforcement)	\$7,708,476	\$8,499,126	\$790,650	10.2
Personnel-years	318.5	351.1	32.6	
Apprenticeship and other on-the-job training (Division of Apprenticeship Standards)	\$3,307,308	\$3,403,455	\$96,147	2.9
Personnel-years	126.4	126.8	0.4	
Labor force research and data dissemination (Division of Labor Statistics and Research)	\$1,265,920	\$1,396,578	\$130,658	10.3
Personnel-years	52.8	55.1	2.3	
The prevention and elimination of discrimination in employment and housing (Division of Fair Employment Practices)	\$2,723,682	\$2,838,578	\$114,896	4.2
Personnel-years	101.8	109.6	7.8	
Subtotal	\$53,647,339	\$57,364,100	\$3,716,761	6.9%
Personnel-years	1,995.0	2,099.0	104.0	
Legislative mandates	\$24,021,437	\$22,141,937	\$-1,879,500	-7.8%
Total	\$77,668,776	\$79,506,037	\$1,837,261	2.4%

Proposed New Positions

The \$3.7 million increase in the department's support budget is mainly attributable to the proposed net addition of 127.5 new positions, 21.5 of which were established administratively in the current year. However, actual staff utilization is expected to increase by only 104 personnel-years,

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

reflecting the difference in administrative adjustments and salary savings between the current and budget years. The department's proposed new positions are shown in Table 2.

Table 2
New Positions
Division of Industrial Relations

<i>Function</i>	<i>Number of New Positions</i>	<i>Annual Salary Cost</i>
<i>Administration</i>		
a. Personnel management	3	\$33,732
b. Fiscal management	4	34,146
c. Data processing	1	17,364
<i>Self-Insurance Plans</i>	1	8,298
<i>State Conciliation Service</i>	3	56,988
<i>Division of Industrial Accidents</i>		
a. Adjudication of workers' compensation claims	40	514,909
b. Rehabilitation services	18	217,622
<i>Division of Industrial Safety</i>		
a. Elevator inspection	4.5	67,686
b. Cal-OSHA data base	3	24,894
c. Cal-OSHA carcinogen enforcement	3	48,480
d. Cal-OSHA industrial hygiene	5	90,900
<i>OSHA Appeal Board—Carcinogen enforcement</i>	2	36,552
<i>OSHA Standards Board</i>	0.3	3,000
<i>Division of Labor Standards Enforcement</i>		
a. Concentrated enforcement on low-wage industries	28	212,044
b. Workload for new legislation (Chapters 1184 and 779, Statutes of 1976)	5	39,308
<i>Division of Apprenticeship Standards</i>	2.4	30,462
<i>Division of Labor Research and Statistics</i>		
Workload for new legislation, Chapter 281, Statutes of 1976	2.3	26,584
<i>Fair Employment Practices</i>	21	154,494
Totals	146.5	\$1,617,463
Administrative adjustments	-19.0	-326,103
Net Total	127.5	\$1,291,360

Workload Positions. Most of the new positions are proposed on the basis of increased workload. These include six positions for administration, three for the State Conciliation Service, 7.5 for the Division of Industrial Safety (primarily for elevator inspections) and 21 for the Division of Fair Employment Practices. The latter are proposed to be funded for approximately six months from federal funds under the Public Works Employment Act and six months from the General Fund. Effective February 1, 1977, the division anticipates receiving a 12-month federal grant of \$1.4 million which will provide approximately 62 positions to reduce backlog. (The Governor's Budget erroneously reports that 89 personnel-years will be provided by this grant.) It is anticipated that 21 of these positions will be continued when the grant expires on January 30, 1978. The remaining positions are not shown as proposed new positions in the budget but are being established administratively.

Other workload positions include the 58 requested by the Division of Industrial Accidents for adjudication of a rapidly increasing number of workers' compensation claims and rehabilitation cases. These positions are

partially offset by a reduction of 12 positions in the current year.

New Program Positions. Several of the new positions result from new legislation. These include three positions for the Division of Industrial Safety, two for the OSHA Appeals Board and two for administration to handle anticipated workload arising from Chapter 1067, Statutes of 1976 (SB 1678), which requires the establishment of a permanent carcinogen enforcement program.

Five positions are requested by the Division of Labor Standards Enforcement for additional enforcement activity resulting from Chapter 1184, Statutes of 1976 (SB 1051), which prohibits discrimination on the basis of sex in the payment of wages, and Chapter 779, Statutes of 1976 (AB 3730), which requires farm labor contractors to supply growers with lists of workers for purposes of holding elections under the Agricultural Labor Relations Act. A total of 2.3 positions are proposed for the Division of Labor Statistics and Research to implement Chapter 281, Statutes of 1976 (AB 2363), which requires the Director of Industrial Relations to determine prevailing wage rates for public work contracts.

Most of the remaining new positions shown in Table 2 are proposed to improve the department's level of service in certain programs. These requests are discussed later in this analysis.

ADMINISTRATION

We recommend legislation requiring all future division chiefs to be appointed by the Director of Industrial Relations, subject to competitive examination under state civil service regulations, rather than by the Governor.

Under current law, all of the department's division chiefs, with the exception of the supervisor of the State Conciliation Service, are appointed by the Governor but serve at the pleasure of the director. Because of this, the department tends at times to resemble nine autonomous programs rather than a single unit. Moreover, because division chiefs generally change every four to eight years, it is difficult to develop and maintain consistent and uniform operating procedures and workload standards in the divisions.

This problem has been particularly acute in the Division of Industrial Safety which, among other functions, enforces the Cal-OSHA program. The division has had three chiefs in the last two years. The program has suffered greatly from the lack of consistent policy direction. As exempt appointees, the chiefs tend to reflect either labor or business viewpoints rather than developing objective standards for program administration and demonstrating skills relevant to occupational safety and health enforcement.

Cal-OSHA Program Office Not Needed

We recommend elimination of the Cal-OSHA Program Office and transfer of three of its positions to the Division of Industrial Safety for a savings of \$63,483 (Item 122).

The federal government requires a single state agency to be responsible for development and implementation of the California Occupational

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Safety and Health program. All states were given three years to develop an OSHA program acceptable to the federal government. As part of the Cal-OSHA plan, the Secretary for Agriculture and Services was designated by the Governor to fill this role when the program began in 1973, and the Cal-OSHA Program Office was established to assist the secretary in fulfilling this role. The office is staffed with a program manager (CEA III) and six support positions at a budget-year cost of \$199,843 which is included in the support budget of the Department Industrial Relations. The original purpose of this office was to:

- (1) Maintain liaison with, and develop reports required by, the federal government.
- (2) Prepare the program's budget for submission to the federal government (which pays 50 percent of total costs).
- (3) Secure approval of Cal-OSHA program change proposals or modifications from the federal government. The state has six months to adopt a safety or health standard as effective as a newly adopted federal standard.
- (4) Coordinate the administration of the Cal-OSHA plan between the Division of Industrial Safety of the Department of Industrial Relations, the Department of Health and the State Fire Marshal.
- (5) Analyze legislation affecting the Cal-OSHA program.

Because the three-year development and implementation period is now complete and federal certification of the state program is expected at any time, responsibility for maintaining liaison with the federal government should be transferred to the Department of Industrial Relations.

In our judgment, the secretary of Agriculture and Services cannot effectively perform the liaison function because both the secretary and the OSHA program manager are located in Sacramento, whereas the Department of Industrial Relations and the federal OSHA administration office are located in San Francisco across the street from each other. Moreover, the Department of Industrial Relations, rather than the Cal-OSHA Program Office, has always prepared the budget for the federal grant, and the department duplicates the office's legislative liaison function. The State Fire Marshal was eliminated from the program in 1974, and we find little evidence that the office has provided any coordination between the Division of Industrial Safety and the Department of Health.

We believe, therefore, that the office should be abolished, except for three positions (a senior safety engineer, an associate research analyst and a senior stenographer) which should be transferred to the department to continue the liaison, report preparation and change proposal clearance functions with the federal government.

Elimination of the office and transfer of the three positions would produce net savings of \$126,965 annually (\$63,483 General Fund and \$63,482 federal), leaving \$72,878 for support of the transferred positions.

DIVISION OF INDUSTRIAL SAFETY**Too Many Managers**

We recommend deletion of two assistant chiefs, two regional managers and three clerical positions in the Division of Industrial Safety for a savings of \$81,281. (Item 122).

The Division of Industrial Safety's Cal-OSHA compliance program has an excessive number of managerial positions. As shown in Chart A, the division is directed by a chief with the assistance of a deputy chief. Under the chief are a staff counsel II who directs legal services, an assistant chief for consultation, engineering and research, and a staff services manager who heads administrative support services. Two assistant chiefs (one for the north and one for the south) also report to the headquarters chief and are in charge of the OSHA compliance program. Reporting to each of these assistant chiefs are three regional managers (a total of six). In turn, each of the six regional managers supervises an average of 3.6 district managers, each of whom supervises an average of 7.5 safety compliance officers.

We believe that the two assistant chiefs for compliance, two regional managers and three clerical positions should be deleted, thereby eliminating one level of supervision and increasing the span of control of each remaining regional manager from an average of 3.6 to 5.5 district managers as shown in Chart B. Adoption of this recommendation would reduce program costs by \$162,562 annually, representing state General Fund savings of \$81,281 and corresponding savings to the federal government.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Chart A
Existing Organization
Division of Industrial Safety

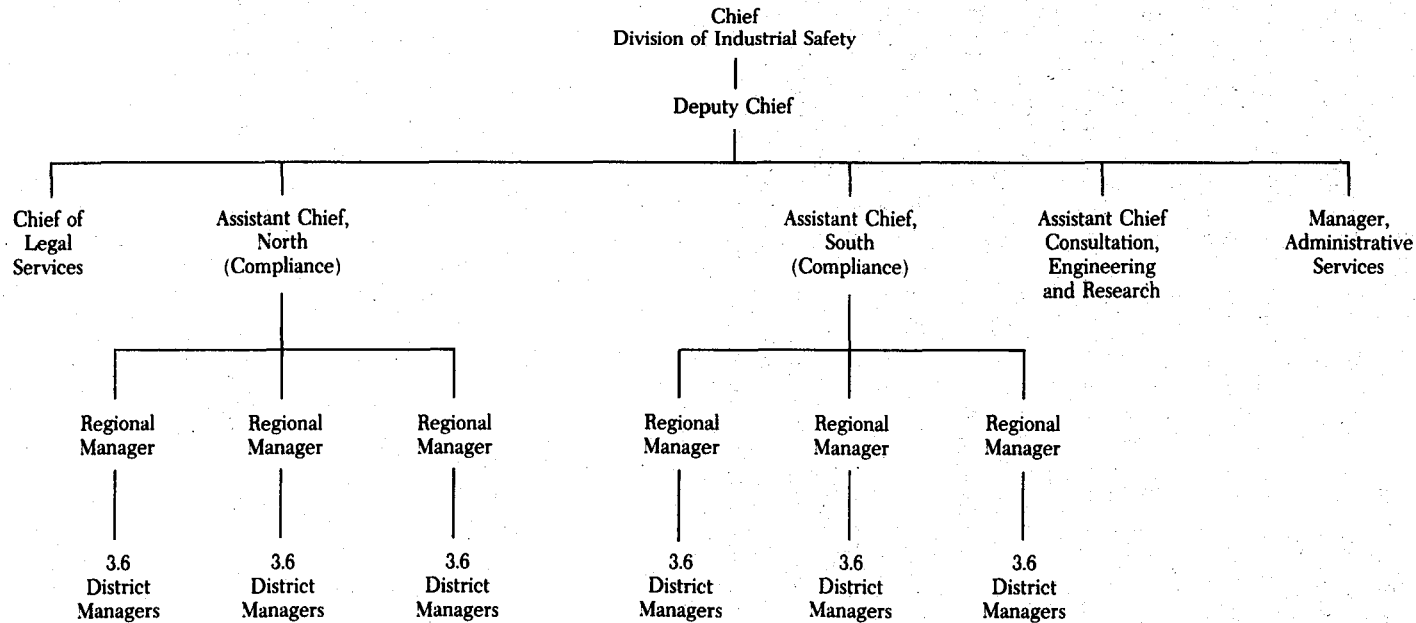
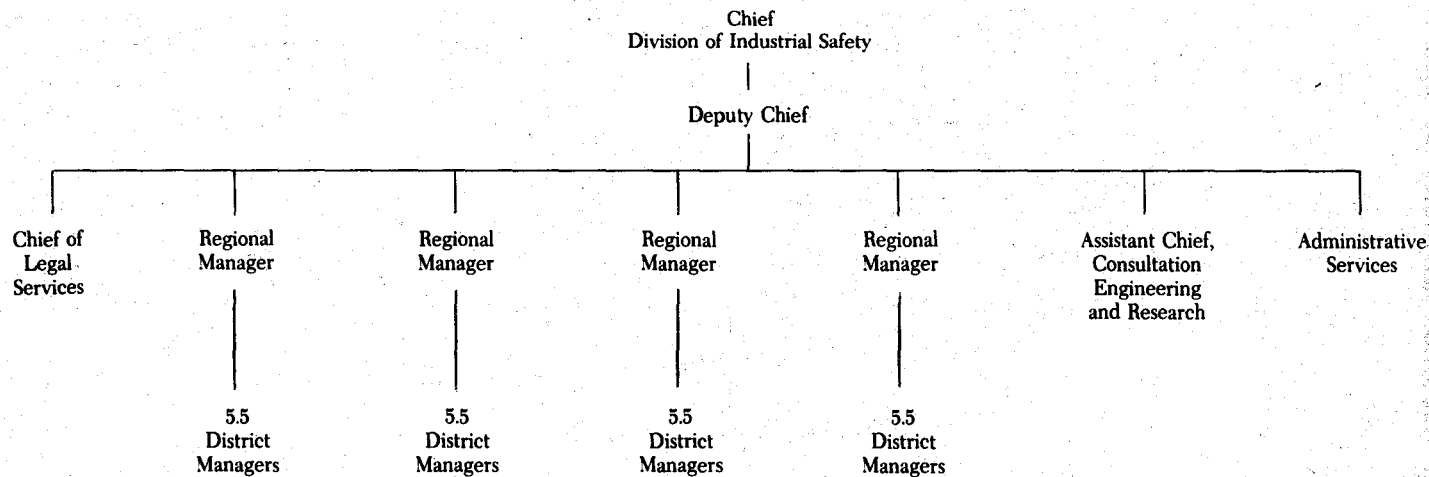


Chart B
Proposed Organization
Division of Industrial Safety



DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**Information Reporting System**

We recommend that the Division of Industrial Safety employ outside experts (such as the Management Services Office and the State Records Services in the Department of General Services) for the purpose of simplifying its information reporting system and report to the Joint Legislative Budget Committee by November 1, 1977.

The average compliance officer (safety engineer) in the Division of Industrial Safety spends approximately 24 percent of his time writing reports on his safety inspections. These reports utilize up to 25 different forms. Some data are required by the federal government and some are needed to sustain a conviction if an employer decides to appeal a citation. In reviewing the reporting process, we have observed that identical information is repeated on several forms, leading us to conclude that a number of forms should be consolidated and the entire process simplified.

The main objective of the study would be to improve the field productivity of compliance officers by reducing their paper workload and increasing the number of their inspections. Presently, these officers complete an average of only two inspections per week. At that rate, based on existing staffing, each of the approximately 400,000 workplaces in the state can expect an inspection, on the average, of once every 23 years.

Employee Complaints Not Always Valid

We recommend that the division establish a formal procedure for screening employee complaints and report to the Joint Legislative Budget Committee by November 1, 1977.

Chapter 544, Statutes of 1976 (AB 3535), requires the division to inspect an employment site within three days after receiving a complaint from an employee or employee representative alleging a serious violation and within 14 days in the case of complaints alleging nonserious violations. However, the division is not required to respond to a complaint if it determines from the facts stated in the complaint that it is "intended to willfully harass an employer or is without any reasonable basis."

Currently, the division classifies complaints into two groups, formal complaints, which are filed by an employee or an employee representative, and informal complaints (which the division does not have an obligation to investigate), which are filed by former employees, nonemployees or employees who insist on remaining anonymous.

Present practices vary widely among district offices in screening complaints. Most complaints are taken by clerical staff from the complainant, either in person or over the phone, and assigned to a compliance officer by the district manager. Some managers screen out complaints which are obviously frivolous, while others assign all complaints regardless of whether they are formal, informal or frivolous. The division made 5,182 investigations based on complaints in 1975-76.

While the exact number is not known because the division does not keep records regarding the validity of complaints, several compliance officers with whom we have discussed the inspection workload report that up to 40 percent of all employee complaints resulting in inspections are frivo-

lous.

The division will not significantly reduce the rate of occupational death, injuries and diseases if its resources are diverted by invalid complaints. The problem needs to be addressed in a uniform manner by all of the district offices. We believe that, at a minimum, all incoming complaints should be received personally by the district manager or a senior compliance officer to ascertain whether an investigation is warranted.

Industrial Hygienists Improperly Budgeted

We recommend deletion of five new industrial hygiene engineers in the Division of Industrial Safety for savings of \$68,587 (Item 122).

The Division of Industrial Safety proposes the establishment of five industrial hygiene engineers to enable the Department of Health to conduct self-initiated occupational health studies at a total cost of \$137,175 annually, 50 percent of which (\$68,587) would be borne by the General Fund and the remainder would be paid by federal OSHA funds.

We believe these positions should be deleted from this item because it is inappropriate to propose positions for one department in the budget of another. The positions were apparently included in this item because the administration earlier contemplated transferring the occupational health component of the Cal-OSHA program to the Division of Industrial Safety. However, when the administration decided against the transfer, it failed to delete these positions from this item.

Occupational Health Referrals Need Better Substantiation

We recommend that the Division of Industrial Safety, in conjunction with the Department of Health, develop procedures for improving the quality of referrals which are sent to the Department of Health for investigation by industrial hygienists and report to the Joint Legislative Budget Committee by November 1, 1977.

The Department of Health (DOH) reports that most Division of Industrial Safety referrals are deficient, as evidenced by the fact that only 6 percent of the investigations conducted in 1975 from such referrals resulted in the issuance of citations for "serious" violations. In the case of most of these referrals, the division's safety compliance officers have already inspected the site of the suspected health violations before requesting the assistance of the DOH industrial hygienists. DOH data do not reveal the number of "nonserious" violations which may, despite their nonserious classification, have resulted in serious illnesses. The terms "serious" and "nonserious" are misleading as used in the Cal-OSHA program. Their meanings are largely governed by a legal definition rather than by the gravity of the violation. In order to uphold a serious citation in the appeal process, the division must prove that the employer had prior knowledge of the violation and knew that it would result in serious injury or illness. Because of the latter requirement, about 30 percent of the citations issued are classified as nonserious even though they represent violations which resulted in the death of one or more workers.

Nevertheless, we believe that the division should take steps to improve the quality of the referrals to DOH and report to the Joint Legislative Budget Committee by November 1, 1977. At a minimum, the division

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

should (1) require all compliance officers or district managers to discuss the referral with their counterparts in DOH prior to deciding whether to make a formal request for the assistance of an industrial hygienist, (2) intensify its training of compliance officers to improve their recognition of health hazards and ability to handle the less complex problems and (3) obtain additional equipment to enable compliance officers to handle simple health inspections such as measuring noise levels. It would be relatively easy for compliance officers, if properly equipped, to handle most of the noise-level problems which comprise about one-third of all the current occupational health complaints. In obtaining such equipment, DIS should follow the advice of the Department of Health.

Cal-OSHA Safety Orders Need Simplification

We recommend that the Division of Industrial Safety, in conjunction with the OSHA Standards Board and the Occupational Health Branch in the Department of Health, submit to the Joint Legislative Budget Committee and the Assembly Permanent Subcommittee on Industrial Safety by January 1, 1978, a workplan for simplifying the Cal-OSHA safety and health orders. This revision should focus on improving the organization and format of the orders and eliminating inconsistencies and standards which are not relevant to worker safety and health.

The federal Occupational Safety and Health Act of 1970 made the U.S. Department of Labor, rather than the states, responsible for administration and enforcement of occupational safety and health programs. It permits, however, states to administer such programs provided they meet minimum federal requirements. States are eligible to receive reimbursement for up to 50 percent of the costs of such programs.

Under current law, the seven-member Occupational Safety and Health Standards Board has sole authority for promulgating standards for the protection of the safety and health of California workers. These standards are found in a publication entitled "General Industry Safety Orders". However, there are also orders containing standards for specialized industries, such as Construction Safety Orders, Electrical Safety Orders, Logging and Sawmill Safety Orders, and Tunnel Safety Orders. These standards have the force and effect of law and are enforced by the Division of Industrial Safety. Any employer who violates a standard is subject to civil penalties of up to \$1,000 per violation. Criminal penalties involving imprisonment and fines of up to \$20,000 are also prescribed for each willful violation which resulted in death or serious injury to a worker.

The Standards Board relies on the Division of Industrial Safety and the Department of Health for assistance in evaluating and writing standards. Proposed standards are usually also reviewed by advisory committees consisting of interested representatives from business and labor. These standards must also be approved by the U.S. Department of Labor because the federal Occupational Safety and Health Act of 1970 requires all state standards to be "at least as effective in providing safety and healthful employment and places of employment" as the federal standards. The

state has six months to adopt a standard following the adoption of a new federal standard.

Poor Organization and Formatting. The orders are ineffective because they are poorly organized and indexed. Not only employers, but even the division's compliance officers find them difficult to use. Many of the officers have devised their own indexing system to enable them to find material in the orders. Some officers report spending more than an hour searching for a specific standard covering a violation found during the course of an investigation. This has resulted in a great deal of wasted manpower.

Inconsistencies. Many of the orders are inconsistent. For example, the General Industry Safety Orders require guardrails for elevated working levels 30 inches or more above the ground, but the Construction Orders require guardrails only for heights of seven and one-half feet or more.

The division was recently unable to issue a citation to an employer who required an employee to work on the top step of a metal stepladder, resulting in a fall and serious injury. The General Industry Safety Orders do not prohibit working from the top step of a *metal* step ladder (Section 3279), although they do prohibit the working from the top step of a *wooden* step ladder (Section 3278, Subsection e, paragraph 24). The Construction Orders generally prohibit working from the top three steps of portable ladders.

Some Standards Not Related to Worker Safety and Health. Many of the standards contained in the orders have no direct relationship to worker safety and health. Among them are such requirements that an employer maintain locks and clothes hooks on toilet room doors and provide open-front toilet seats. The standards on ladders specify that the space between ladder rungs be exactly 12 inches. Local fire departments which have traditionally used ladders with rungs spaced at 14 inches have been told by Cal-OSHA compliance officers that they are in violation of the ladder standard and that they should replace their ladders. There is little, if any, evidence that the difference between 12 and 14 inches in ladder rung spacing has any bearing on worker safety in all circumstances.

To a significant degree, the problem with standards is traceable to the U.S. Department of Labor which has generally required state standards to incorporate provisions similar to federal standards. The federal standards, in turn, are based on a large number of "consensus standards" or design specification standards formulated by the American National Standards Institute. Such standards focus primarily on how equipment should be designed rather than on how it is to be used for safety purposes. The number of pages in the General Industry Safety Orders has almost doubled with the state's adoption of the federal orders.

The General Industry Safety Order's 49 pages of requirements for ladders illustrates the problems associated with consensus design standards which are not directly related to safety of their use, but apply to their manufacture. For example, the orders specify in great detail manufacturing data for all types of ladders, including the type of wood; slope of the grain; the number and size of allowable knots and pitch and bark pockets; a complex formula for determining the lower stress limit requirements for

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

portable wooden ladders; and methods of testing the strength of portable metal ladders. Many of these standards have no practical relevance to a safety inspection program. They are design standards meaningful primarily to the manufacturer. It is clearly beyond the normal scope of responsibility and expertise of the state's compliance officers to determine whether ladders have been constructed according to the complex formulas specified in the orders. It is doubtful that more than three or four of the 49 pages in the General Industry Safety Orders on ladders are enforceable by the division.

The task of revising the standards will require considerable effort by the division and the OSHA Standards Board and could involve a substantial cost. We believe that the division should therefore carefully consider all alternatives for revising the standards, such as contracting the task to private consultants, and devise the most efficient and economical work plan for presentation to the Legislature by January 1, 1978. The division should also explore the possibility of obtaining a grant from the federal government for this purpose.

Need Layman's Guide to the Standards

We recommend that the Division of Industrial Safety develop a nonlegal, nontechnical, simplified version of the safety orders concentrating on the standards of greatest concern to employers and the division.

The division issues citations regularly on only a small number of the estimated 7,000 standards contained in the safety orders. In 1975, 43,424 (or almost 70 percent) of the 62,539 citations issued involved 329 or less than 5 percent of these standards. Fifteen standards were responsible for almost a quarter of the citations, most of which involved electrical violations of various types, unguarded machinery and unsafe housekeeping practices. The greatest number of citations issued for serious violations involved the failure to slope or shore trenches properly.

Furthermore, compliance officers regularly report specific violations which have resulted in death or serious injury as a result of investigating fatalities and accidents involving serious injury to five or more employees as required by law. However, we find no evidence that the division uses these data for any purpose. We believe the reports should be analyzed and incorporated into a nontechnical, nonlegal guide to the Cal-OSHA standards as a basis for informing employers and employees of the work hazards most likely to result in injuries or deaths. The guide should omit standards which are unlikely to lead to serious injury or accidents and which are rarely violated or cited. It should specify, however, that it does not contain all Cal-OSHA requirements, and it should be carefully cross-referenced with the legal standards to avoid having employers rely on it solely for legal guidance.

DIVISION OF LABOR STANDARDS ENFORCEMENT**Special Outreach Program**

We recommend that the 28 new positions proposed by the Division of Labor Standards Enforcement for a concentrated enforcement program in selected low-wage industries be limited to June 30, 1978, and that the division report to the Joint Legislative Budget Committee by February 1, 1978, on the accomplishments of the program.

The Division of Labor Standards Enforcement proposes the establishment of 28 additional positions (eight deputy labor commissioners, eight special investigators, four payroll clerks and eight stenographers) to enforce labor laws in selected industries which are believed to generally disregard the minimum wage and other provisions of the Labor Code. Such industries employ a large number of non-English speaking workers who often have no knowledge of the law and are reluctant to make complaints. It is anticipated that the positions will receive half-year funding under a 12-month federal Public Works Employment Act grant (which overlaps two fiscal years) and the remainder from the General Fund.

The federal grant, totaling \$551,372, is expected to start about February 1, 1977. It will provide funding for 30 positions (rather than 41 as shown in the Governor's Budget) and related support costs. The department proposes to continue 28 of the positions at state expense when the grant terminates at mid-year.

We believe the program should not be continued beyond June 30, 1978, unless it proves effective in achieving its goals. In order to facilitate legislative evaluation of the program, the proposed new positions should be limited to June 30, 1978, and the division should be required to report on the accomplishments of the program by February 1, 1978.

DIVISION OF APPRENTICESHIP STANDARDS

We recommend deletion of one new apprenticeship consultant and one new clerical position requested to promote women in apprenticeship for a savings of \$35,940 (Item 122).

The Governor's Budget proposes the establishment of one apprenticeship consultant and one clerical position in the Division of Apprenticeship Standards at a total annual cost of \$35,940 to promote women in apprenticeship. Chapter 1179, Statutes of 1976 (AB 3676), specifically requires local Joint Apprenticeship Councils (JAC) to adopt affirmative programs to ensure equal employment in apprenticeship for women and minorities. We do not believe it is necessary to add special staff to achieve that goal. The division assured our office when this bill was before the Legislature that its implementation would not require additional staff because existing apprenticeship consultants are currently very active with the various local JACs in promoting women for various apprenticeship openings. The JACs, which consist of representatives of management and labor, exercise direction and control over local apprenticeship programs throughout the state. Divisional staff, as the title implies, serve as consultants to the JACs and keep them fully apprised of requirements of new laws.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

UNINSURED EMPLOYERS' FUND

The Uninsured Employers' Fund was established by Chapter 1598, Statutes of 1971, for the purpose of providing workers' compensation benefits for employees injured in the course of employment, whose employers fails to provide compensation. Enforcement power was vested in the Director of Industrial Relations. Chapter 1036, Statutes of 1976 (AB 3471), gave the director additional enforcement power, including the authority to shut down an employer who failed to obtain workers' compensation insurance.

The measure also increased civil penalties which can be assessed against an employer for failure to maintain insurance and appropriated \$2.0 million to the program from the General Fund, although we pointed out that \$6.0 million would be required to make it fully solvent.

The program is supposed to operate in the following manner:

After an injured employee receives an award for his injury from the Workers' Compensation Appeals Board, the Director of Industrial Relations is authorized to recover the amount of the award from the uninsured employer through civil action. He is also authorized to assess penalties at the rate of \$500 per employee not to exceed \$10,000. The recoveries and the penalties are used to replenish the fund (other penalties which are also paid into the fund are prescribed for employees found to be without insurance through routine inspections). The program was initiated with a \$50,000 loan from the Human Resources Development Contingent Fund (which has not been repaid).

The program was approved by the Legislature and the administration on the basis that it would be self-supporting. However, the experience of the fund and that of other states with similar programs, indicates that it will never be self-supporting because too many uninsured employers have no assets to seize and no means to pay the penalties. The current financial status of the fund is shown in Table 3.

No Funding for Claims Against Uninsured Employers

We withhold recommendation on the Uninsured Employers' Fund pending receipt of an estimate by the Department of Industrial Relations on the cost of claims which will be processed under a federal Public Works Employment Act grant to administer the Uninsured Employers' Fund.

The Governor's Budget has failed to provide funding for the payment of claims for the Uninsured Employers' Fund, although it proposes to utilize \$629,873 in federal Public Works Employment Act funds to administer the program, defend claims before the Workers' Compensation Appeals Board, collect penalties which are assessed against uninsured employers, and recover the amounts of the awards from uninsured employers. The grant will support 34 positions (attorneys, a senior deputy labor commissioner, investigators and clerical positions) from approximately February 1, 1977, to January 30, 1978. (The Department of Industrial Relations reports that 34 positions will be established by the grant rather than 32 as stated in the Governor's Budget.) The positions are not shown as new positions in the Governor's Budget but are being established administratively in the current year.

Table 3
Financial Status of the Uninsured Employers' Fund
As of November 30, 1976
Department of Industrial Relations

Receipts	
Amount initially borrowed from the Human Resources Development Contingent Fund	\$50,000
Penalties and recoveries	60,107
Allocation from Emergency Fund	22,960
Appropriation (Chapter 1036, Statutes of 1976)	2,000,000
Total Receipts.....	\$2,133,067
Disbursements	
Payment for 61 claims	\$84,501
Attorney General legal services	16,856
State Compensation Insurance Fund services	1,993
State Controller's services	573
Total Disbursements.....	\$103,923
Balance in fund as of November 30, 1976	\$2,029,144
Unpaid Obligations	
306 unpaid claims	\$1,942,475 ^a
Attorney General's legal services (1/1/73 to 10/31/76)	\$102,981
State Compensation Insurance Fund services (4/1/73 to 9/31/76)	149,050 ^b
Repayment to Human Resources Development Contingent Fund	50,000
Total Unpaid Obligations as of November 30, 1976	\$2,244,506
Total Unpaid Obligations Minus Balance in Fund	\$215,362

^a The department is currently processing the payment of these claims. Because some of the claims are more than four years old, the department has encountered delay in locating claimants and verifying that they have not received compensation from the employers since their claims were processed.

^b Prior to Chapter 1036, Statutes of 1976, the State Compensation Insurance Fund (SCIF) assisted in the determination of the penalty. Because of procedural changes mandated by Chapter 1036, SCIF services are no longer required.

As shown in Table 3, the Uninsured Employers' Fund had an unpaid obligation of \$215,362 as of November 30, 1976. The \$2.0 million which was appropriated by Chapter 1036, Statutes of 1976, is sufficient to pay only the 306 unpaid claims which have already been processed. There are no funds to pay the claims which are to be processed under the grant. There is a current backlog of more than 3,500 unprocessed claims. Few such claims have been processed in recent years because of the lack of funding to administer the program and to reimburse the Attorney General for defending the fund before the Workers' Compensation Appeals Board.

We believe that the failure to provide funding for the claims to be processed by the grant is inconsistent with the administration's support of Chapter 1036, Statutes of 1976, and with its decision to utilize federal Public Works Employment Act funds to process claims. We have therefore asked the department to furnish an estimate of the cost of such claims which will be processed by the grant.

As we have pointed out since early 1973, there is no possibility for the fund to become self-sufficient. In the last four years, we have recommended either (1) abolishment of the program, (2) General Fund support, or (3) a constitutional amendment to finance the program from a special tax on insurance companies.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Rather than abolish the program as we recommended last year, the Legislature enacted Chapter 1036, Statutes of 1976 (AB 3471), which appropriated \$2.0 million to the fund. It rejected the constitutional amendment approach (ACA 78). Twice previously the Legislature has augmented the program from the General Fund: \$150,000 in 1973 (Item 154.1) and \$1,366,000 in 1974 (Item 178.1). These measures were vetoed by the former governor on the basis that the program should become self-supporting.

The federal grant is proposed in part to ascertain whether the law regarding uninsured employers can be effectively enforced and whether sufficient penalties and awards can be collected to offset a significant portion of the costs of the program. If the grant is unsuccessful in meeting these goals, we believe that the Uninsured Employers' Fund should be abolished. We will advise the Legislature accordingly next year after we have had an opportunity to evaluate the results of the grant.

Agriculture and Services Agency**WORKERS' COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES**

Item 124 from the General
Fund

Budget p. 262

Requested 1977-78	\$1,500,000
Estimated 1976-77	1,465,000
Actual 1975-76	1,258,695
Requested increase \$35,000 (2.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Cost-benefit Analysis. Recommend Department of Justice develop operational data on the subsequent injury program to permit cost-benefit analysis and report to the Joint Legislative Budget Committee by December 1, 1977. 184

GENERAL PROGRAM STATEMENT

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

The cost of this program is paid by an annual budget appropriation and by revenue from Chapter 1334, Statutes of 1972 (as amended by Chapter

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

The Credit Period and Attorney Fees

Under current law, the state-paid benefits from the Subsequent Injury Fund are reduced by the amount of past benefits received from other sources (such as Social Security or insurance settlements) and do not commence until after the expiration of a "credit period." This period is determined by the total amount of such previous benefits and the weekly rate at which the injured employee is entitled to permanent disability payments. The weekly payment rate, which depends on his average weekly wage, ranges from \$30 to \$70 per week for permanent partial disability and from \$35 to \$154 for permanent total disability, under provisions of Chapter 1017, Statutes of 1976. The average length of the credit period is not known but is believed to approximate three and one-half years in most cases.

The attorney's fee constitutes the first lien on the benefits which are payable to the employee and begin to accrue after the "credit period." After sufficient funds have accumulated, the fund mails a check to the attorney. The disabled worker receives no benefits whatsoever until the expiration of the "credit period" and until after the attorney fee is paid.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The proposed funding and expenditures for the subsequent injury program, shown in Table 1, are based on estimates prepared by the State Compensation Insurance Fund which administers the payments for the program. Total expenditures under the program are expected to increase by \$435,000 or 13.1 percent in the budget year, due primarily to increased medical costs and benefits which have been liberalized by recent legislation such as Chapter 1017, Statutes of 1976 (AB 467). Most of this cost is expected to be covered by increased revenue from no-dependent death benefits in the budget year as a result of Chapter 1017, which increased the death benefit from \$40,000 to \$50,000 (see footnote in Table 1). In anticipation of this additional revenue, the General Fund appropriation of \$1,500,000 represents an increase of only 2.4 percent over General Fund expenditures in the current year.

WORKERS' COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES—Continued**Table 1**
Budget Summary

<i>Funding</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
<i>General Fund</i>				
Appropriation (Item 124)	\$1,465,000	\$1,500,000	\$35,000	2.4%
Chapter 1334, Statutes of 1973 (Death Payments) ^a	1,850,000	2,250,000	400,000	21.6
Total	\$3,315,000	\$3,750,000	\$435,000	13.1%
<i>Program</i>				
Benefit Payments	\$2,633,000	\$3,020,000	\$387,000	14.7%
State Compensation Insurance Fund Service Charges	132,000	152,000	20,000	15.2
Attorney General	550,000	578,000	28,000	5.1
Total	\$3,315,000	\$3,750,000	\$435,000	13.1%

^a Under current law, each worker's compensation death benefit payable to the state under this program is discounted to \$45,684.08 because it is paid in a lump sum rather than in installments as in the case of surviving dependents. However, many claims involving disputes as to whether they are industrially related are settled for lower amounts to avoid extensive litigation.

Cost-benefit Analysis Needed

We recommend that the Department of Justice develop operational data on the subsequent injury program to permit a cost-benefit analysis and report to the Joint Legislative Budget Committee by December 1, 1977.

No statistical data are currently available on this program to allow the Legislature to evaluate its effectiveness. There is some concern that it may not be fulfilling its policy objectives because of the delay in benefit payments resulting from the credit period and attorney fee provisions described earlier. Moreover, it is not possible to evaluate the cost of various legislative proposals which are introduced from time to time to modify the program because of the absence of statistical data. We believe that the report should provide an analysis of the following elements: (1) the kinds of disabilities for which subsequent injury payments are being made; (2) the amount of the awards; (3) the amounts and composition of "credits" which are subtracted from awards representing prior compensation for the disability from other sources; (4) the average length of the "credit period" during which the disabled person receives no benefits; (5) the average attorney fee and the average number of weeks over which the disabled person receives no benefits while the attorney fee accrues; (6) the age of the disabled worker when his claim is filed and his age benefits commence; and (7) the average amount of the award that claimants actually receive.

Agriculture and Services Agency
WORKERS' COMPENSATION FOR DISASTER SERVICE
WORKERS

Item 125 from the General
Fund

Budget p. 263

Requested 1977-78	\$193,000
Estimated 1976-77	187,000
Actual 1975-76	165,291
Requested increase \$6,000 (3.2 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

Agriculture and Services Agency
STATE PERSONNEL BOARD

Item 126 from the General
Fund and Item 127 from the
Cooperative Personnel Services
Revolving Fund

Budget p. 264

Requested 1977-78	\$18,958,913
Estimated 1976-77	17,916,460
Actual 1975-76	16,527,711
Requested increase \$1,042,453 (5.8 percent)	
Total recommended reduction	\$131,203

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
126	State Personnel Board (SPB). For direct support of board's operations.	General	\$17,529,155
127	Local government services. For support in form of revenues for services provided.	Cooperative Personnel Services Revolving Fund	1,429,758
	Subtotal of board's items included in this analysis.		\$18,958,913
	Reimbursements (to various SPB programs for services to state and other government agencies).		2,244,892
	Total expenditures budgeted.		\$21,203,805

STATE PERSONNEL BOARD—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS		Analysis page
1. Temporary Help. Withhold recommendation pending receipt of additional information.		188
2. <i>Building Alterations. Reduce Item 126 by \$10,000. Recommend deletion of unanticipated building alterations.</i>		188
3. <i>Budget Errors. Reduce Item 126 by \$36,765. Recommend reduction to correct technical errors.</i>		189
4. <i>Equipment. Reduce Item 126 by \$60,000. Recommend deletion of automatic files.</i>		189
5. Delegation of Control. Recommend \$135,802 for classification control workload be expended only if SPB rescinds its action to delegate this workload.		189
6. Loan Payment. Recommend balance of \$125,000 General Fund loan to revolving fund be repaid by June 30, 1979.		191
7. <i>Overhead Costs Understated. Reduce Item 126 by \$21,557; increase Item 127 by \$1,719; increase reimbursements by \$19,838. Recommend correcting underestimate of overhead charges to recover full cost of services to customer agencies.</i>		192
8. <i>Clerical Staff. Reduce Item 126 by \$4,600. Recommend deletion of one-half clerical position in line with reduced workload.</i>		192

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts state civil service rules and regulations. The state civil service system is administered by a staff of approximately 590 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees to ensure compliance with federal requirements. The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971, responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries. The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies in accordance with state policy and federal law.

ANALYSIS AND RECOMMENDATIONS

Programs and Resources

The SPB conducts six programs. Table 1 represents a summary of resources for each such program during the three-year period ending June 30, 1978. For the 1977-78 fiscal year, total expenditures are expected to increase \$1,118,844 and the total staff is expected to increase by 3.3 positions.

The staff increase is attributable to the addition of (1) one professional and .3 clerical positions transferred from the California internship program in the Governor's Office of Planning and Research to the SPB employment services division, (2) one clerical position to the personnel development division to satisfy increased workload requirements, and (3) one clerical position to the management services office to process work which has not been automated as intended previously.

Table 1
State Personnel Board
Summary of Resources Expended by Program

	1975-76		1976-77		1977-78	
	Personnel- years	Budget	Personnel- years	Budget	Personnel- years	Budget
1. Employment services.....	316.0	\$5,881,454	298.8	\$6,367,343	300.6	\$6,737,165
2. Personnel management services	113.1	2,261,058	101.3	2,358,275	101.6	2,492,082
3. Personnel development..	29.7	924,787	33.9	1,122,729	34.9	1,167,422
4. Public employment and affirmative action	65.0	7,890,094	54.2	8,135,152	54.4	8,615,942
5. Local government serv- ices	94.2	1,860,398	100.2	2,101,462	100.2	2,191,194
6. Management services (distributed among other programs)	(149.2)	(3,893,385)	(139.6)	(4,288,115)	(140.6)	(4,687,518)
Totals.....	618.0	\$18,817,791	588.4	\$20,084,961	591.7	\$21,203,805

Effort to Improve Budget Procedures

Last year, we detected serious inadequacies in the board's budget process. Various line item expenditures within the SPB budget were developed simply by applying gross percentage increases to the prior year budget, rather than on the basis of specific planned expenditures.

This year, the SPB made a conscientious effort to develop the detail necessary to support its proposed expenditures in accordance with the procedures prescribed in the State Administrative Manual (SAM).

Excessive Use of Temporary Help

The budget requests that 17.5 positions established administratively within the SPB during the 1976-77 fiscal year be continued as permanent positions in the budget year. The purpose of the request is to correct a situation, which we understand has developed over a number of years, in which full-time SPB employees were paid from temporary help blanket funds and not reflected in budgeted positions. The positions requested, all supported by workload data, are as follows:

STATE PERSONNEL BOARD—Continued

<i>Program</i>	<i>Class</i>	<i>Number</i>
Employment services	staff services analyst	6
	clerk typist II.....	4
		10
Personnel management services	associate personnel analyst	1
	staff services analyst	1
	personnel technician I	2
	clerk typist II.....	1.5
		5.5
Management services	clerk typist II.....	2
Total.....		17.5

Temporary Help Recommendation Pending

We withhold recommendation regarding the SPBs use of temporary help, pending receipt of additional information from the board.

We are concerned with the magnitude of temporary help used by the board. In reviewing recent SPB budgets, we found that actual temporary help usage consistently exceeded the budgeted level by a significant amount, as shown in Table 2. The table indicates that from fiscal years 1972-73 through 1975-76 more than twice the level budgeted was used (an average annual increase of 96 positions and \$941,855).

Table 2
Comparison of Temporary Help Resources Budgeted by SPB
With Those Actually Used

<i>Fiscal Year</i>	<i>Positions</i>			<i>Salary Cost</i>		
	<i>Budgeted</i>	<i>Actual</i>	<i>Difference</i>	<i>Budgeted</i>	<i>Actual</i>	<i>Difference</i>
1972-73	54.6	170.0	+115.4	\$569,103	\$1,579,709	\$+1,010,606
1973-74	90.5	176.7	+86.2	1,016,414	1,739,378	+722,964
1974-75	85.0	201.3	+116.3	950,805	2,182,913	+1,232,108
1975-76	73.0	139.6	+66.6	860,347	1,662,090	+801,743
1976-77	(35.5)	N/A	N/A	(193,977)	N/A	N/A
1977-78	(46.9)	N/A	N/A	(488,756)	N/A	N/A
Totals (1972-73 through 1975-76) ..	303.1	687.6	384.5	\$3,396,669	\$7,164,090	\$3,767,421

We have requested the board to provide information (1) reconciling the differences between temporary help budgeted and used, (2) explaining how the additional level of usage was funded, (3) specifying the nature and extent of *all* temporary help which the SPB expects to use during the 1977-78 fiscal year and (4) explaining why such work should not be performed by full-time employees. We will be prepared to comment on the adequacy of the board's use of temporary help at the budget hearings, after we have the opportunity to evaluate the information requested.

Building Alteration Funds Not Needed

We recommend deletion of \$10,000 requested for building alterations (reduce Item 126, General Fund).

The budget contains under "general expenses" \$10,000 for unanticipated-

ed building alterations. Contingency alterations should not be funded in this manner. Provisions under Sections 28 and 6.1 of the Budget Act and Sections 6229-30 of the State Administrative Manual (SAM) permit additional funds to be acquired for urgent unanticipated alteration projects and provide for proper project review. In addition, all planned building alteration projects (major and minor) should be included in the capital outlay section of the budget.

Overbudgeting Errors

We recommend a reduction of \$36,765 to correct technical budgeting errors (reduce Item 126, General Fund).

In reviewing the board's budget support data, we detected several budgeting errors, as indicated in Table 3.

Table 3
Summary of Overbudgeting Errors

<i>Description of Error</i>	<i>Amount Overbudgeted</i>
Data processing supply costs, price increase miscalculated	\$8,191
General supply costs, price increase miscalculated	5,486
Total budgeted for equipment exceeds detail	3,062
Advertising expenses, price increase miscalculated	10,199
Price of mail stuffing equipment overstated	4,827
Data processing costs double counted	5,000
Total	\$36,765

Equipment Not Necessary

We recommend deletion of \$60,000 requested for purchasing automatic files (reduce Item 126, General Fund).

Included in the 1977-78 budget is \$60,000 for replacing 112 file cases in the board's general files section with an automatic filing system. Because the present files continue to be serviceable and the SPB has been unable to provide economic justification for replacing them with automated files, we recommend deletion of the funds intended for this purpose.

EMPLOYMENT SERVICES PROGRAM

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

PERSONNEL MANAGEMENT SERVICES PROGRAM

This program involves (1) maintaining the state position classification and pay plan, (2) providing personnel consultation and services to state agencies, (3) processing personnel transactions and (4) administering the state civil service salary and total compensation programs. The total compensation program is administered by the board in cooperation with the PERS.

Classification Decisions Delegated

We recommend control language be added to Item 126 allowing expenditure of \$135,802 for six analyst positions only if the SPB rescinds its September 29, 1976 action which delegated classification control responsi-

STATE PERSONNEL BOARD—Continued

bility to line agencies.

Classification decisions relative to all state civil service positions used to be subject to prior approval by the SPB. Beginning in the mid-1950s, the board began delegating this responsibility to the individual line agencies. By 1976 the delegation applied to approximately 80 percent of state civil service jobs. It is our understanding that during the 1975-76 fiscal year the equivalent of six full-time analyst positions were being applied to reviewing classification decisions for those classes still subject to SPB approval. The board in a September 29, 1976 memorandum delegated effective October 1, 1976 its central review responsibility for almost all of the remaining job classes.

We are concerned about the board's continued deemphasis of this critical area of the state's personnel management program. The progressive delegation of this responsibility simply encourages "grade creep" within the state civil service whereby, over a period of time, employees performing the same tasks tend to be elevated to higher levels. This tendency is particularly strong now in regard to middle and higher level employees who received lower salary increases due to salary compaction or as a result of the Governor's flat salary increase program. We believe central review and control of classification decisions, particularly for the more complex ones, is necessary to offset these tendencies.

Because of reduced workload resulting from the policy change, a reduction of six personnel years would be appropriate and we would normally recommend that action. However, in this case, that action would appear to grant legislative approval to a policy decision which we do not support. In addition, it would preclude the SPB from rescinding its action because staffing for the restored workload would not be authorized. For these reasons we would recommend funds for these six positions (\$135,802) be retained in the budget with control language authorizing expenditure only if the SPB withdraws its delegation of September 29, 1976. Our recommendation would add the following control language to Item 126:

"... and provided further, that \$135,802 of the funds appropriated in subitem (a) is authorized for six personnel analyst positions and may be expended only if the State Personnel Board rescinds its action of September 29, 1976 which delegated classification review responsibilities to the separate line agencies."

PUBLIC EMPLOYEES AND AFFIRMATIVE ACTION PROGRAM

The stated objectives of this program are to (1) provide policy guidelines for achieving a fully integrated state work force, (2) assist in removing artificial barriers to the employment of disadvantaged and minority persons and (3) assist in developing affirmative action plans.

Program elements are (1) coordination and program development, (2) welfare recipient jobs and (3) affirmative action.

Welfare Recipients Jobs

We recommend approval of the \$6,487,624 General Fund support for jobs for welfare recipients as budgeted.

The jobs for welfare recipients program, created pursuant to the Wel-

fare Reform Act of 1971, provides for fully reimbursing state agencies and local governments for their payroll costs of employing welfare recipients during their on-the-job training period. The board operates the program in cooperation with the Employment Development Department (EDD).

The amount requested represents an additional \$367,224 (6 percent) cost-of-living adjustment over the \$6,120,400 appropriated for this purpose in the Budget Act of 1976.

Of the \$6,487,624, the board intends to apply \$1,299,624 toward placing welfare recipients who are clients of the Department of Rehabilitation (thereby enabling that department to receive \$5,198,496 in federal matching funds for placing clients under its own programs in both private and public employment). The board plans to use the remaining \$5,188,000 to acquire an equal amount of EDD work incentive (WIN) program funds (90 percent federal) on a 50/50 matching basis.

The SPB estimates the average payroll cost per placement during the 1977-78 fiscal year at \$7,500. On this basis, the \$6,487,624 requested plus the \$5,188,000 in WIN matching funds would permit approximately 1,557 welfare recipients to be placed under the program.

LOCAL GOVERNMENT SERVICES PROGRAM

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

General Fund Loan Should be Repaid Promptly

We recommend that the balance of the \$125,000 transferred from the General Fund to the SPB Cooperative Personnel Services Revolving Fund be repaid entirely by June 30, 1979.

Chapter 838, Statutes of 1973, established the SPB Cooperative Personnel Services Revolving Fund to enable the board to satisfy requests of its local government customers in a more responsive manner. In establishing the revolving fund, the act transferred \$125,000 to it from the General Fund and provided that the amount be repaid under conditions mutually agreeable to the SPB and the Department of Finance.

Twenty-Year Repayment Period Should be Reduced. The amount transferred from the General Fund is being repaid at the rate of \$6,250 annually over the 20-year period ending June 30, 1995. Because of the substantial amount of revolving fund revenues received from the board's local government customers (approximately \$1.4 million annually), we believe the board should be required to repay the entire balance owed to the General Fund by June 30, 1979.

MANAGEMENT SERVICES PROGRAM

This program consists of executive management and central support services including accounting, budgeting, personnel, mail and duplicating. Program costs are distributed among the board's five line programs.

STATE PERSONNEL BOARD—Continued

Overhead Costs Understated

We recommend a reduction of \$21,557 to the General Fund (reduce Item 126) and offsetting increases of (1) \$19,838 in reimbursements and (2) \$1,719 to the Cooperative Personnel Services Revolving Fund (Item 127) to correct an underestimate of overhead charges to recover full cost of services to customer agencies.

The board's two non-General Fund programs (personnel development program and local government services program) recover their costs from charges to customer agencies. These programs, in turn, are charged for services they receive under the board's management services program. The overhead charges to these programs for the 1977-78 fiscal year are understated by \$21,557. Our recommendation would correct this technical error by budgeting for full recovery of costs from the customers.

Clerical Staff Reduction

We recommend deletion of \$4,600 for one-half clerical position to correspond with an anticipated reduction in workload (reduce Item 126 General Fund).

The budget contains funds for purchasing a mail stuffing machine for processing increased mailings expected when the board automates a portion of its examination system in July 1977. We are advised that, in addition to processing the additional mail insertions, the machine should reduce the existing workload sufficiently to eliminate one-half clerical position.

Agriculture and Services Agency**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Item 128 from the General Fund, Item 129 from the Public Employees' Retirement Fund, Item 130 from the State Employees' Contingency Reserve Fund, Item 131 from the Legislators' Retirement Fund and Item 132 from the General Fund

Budget p. 273

Requested 1977-78	\$13,173,537
Estimated 1976-77	11,903,695
Actual 1975-76	9,785,909
Requested increase \$1,269,842 (10.7 percent)	
Total recommended reduction	\$21,908

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
128	Social Security and TEC Administration	General	\$201,498
129	Retirement Administration	Public Employees' Retirement	11,572,615
130	Health Benefits Administration	State Employees' Contingency Reserve	1,341,981
131	Retirement Administration	Legislators' Retirement	43,443
132	Local Assistance (Legislative Mandates)	General	14,000
			\$13,173,537

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. *Administrative Staffing. Reduce Item 129 by \$13,408. Recommend deletion of a proposed stenographer position.* 195
2. *Instate Travel Expense. Reduce Item 129 by \$8,500. Recommend deletion of funds for duplicative travel activities.* 195
3. *PERS System Redesign Project. Withhold recommendation on project pending justification of increased level of support and review of actual progress.* 196

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and other related benefits for over 700,000 active and retired public employees in California. The participants include state constitutional officers, members of the Legislature, state employees, most non-teaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS is managed by a Board of Administration whose members are either elected by specified membership groups or appointed by the Governor. It is under the administrative jurisdiction of the Agriculture and Services Agency.

Administrative costs of the system are shared by the employees and employers and are funded, primarily, from the interest earnings on investments of the employee and employer contributions.

The major PERS-administered retirement programs include a retirement, health benefits and social security program. The latter administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program which is mandatory for state employees and is available to local public workers whose employers elect such coverage. The health benefits program offers state employees, and other public employees, a number of health benefits and major medical plans on a premium-sharing basis.

The system provides and administers a number of alternate retirement plans through which the state and the contracting agencies provide their employees a variety of benefits.

Table 1 shows the changes in the number of participants in the system and the amount of benefits paid for the past, current and budget years.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 1
Selected PERS Workload Data

<i>Detail</i>	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Percent</i> <i>Increase</i> <i>from</i> <i>1975-76</i>	<i>Projected</i> <i>1977-78</i>	<i>Percent</i> <i>Increase</i> <i>from</i> <i>1976-77</i>
Total number of participants	714,314	757,739	6.1%	789,758	4.2%
Active members	543,467	571,565	5.2	594,038	3.9
Monthly benefit recipients	113,843	123,076	8.1	132,840	7.9
Benefits paid (millions)	\$356.2	\$390.1	9.5	\$432.9	11.0

ANALYSIS AND RECOMMENDATIONS

Staffing and expenditures for the past, current and budget year are shown in Table 2 and significant budget-year changes in Table 3.

Table 2
Budget Requirements of the PERS

<i>Programs</i>	<i>Personnel-years</i>			<i>Expenditures (Millions)</i>		
	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Proposed</i> <i>1977-78</i>	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Proposed</i> <i>1977-78</i>
Retirement	406.6	433.6	459.3	\$8.9	\$9.9	\$10.7
Social security	16.2	16.8	16.8	.3	.3	.3
Health benefits	41.5	40.9	43.2	.9	1.0	1.1
Redesign project	7.8	36.5	38.5	2	1.0	1.5
Administration						
undistributed	8.7	9.9	10.0	.3	.3	.3
distributed to other programs	(146.3)	(153.4)	(159.8)	(4.6)	(4.9)	(5.2)
Totals	480.8	537.7 ^(a)	567.8 ^(a)	\$10.6	\$12.6	\$13.9
Reimbursements	—	—	—	-.8	-.7	-.7
Net Totals	—	—	—	\$9.8	\$11.9	\$13.2

^(a) Excludes projected salary savings of 11 positions in 1976-77 and 15.5 positions in 1977-78.

Table 3
Summary of Proposed Budgetary Changes

<i>Program</i>	<i>Number of Positions</i> <i>Personnel-years</i>	<i>Expenditures</i>
Retirement	22.5	\$306,083
Health benefits	4.0	75,420
Redesign project		
Personnel	2.0	20,724
Operating expenses		
EDP costs	—	96,197
PIMS Contract with Controller	—	302,044
Administration		
Personnel	12.0	182,463
Operating expenses		
Board member's election (temporary help)	1.1	160,117
Quadrennial valuation	—	32,000
Other operating expense and equipment	—	94,794
Totals	41.6	\$1,269,842

No Justification for Additional Staffing for Executive Office

We recommend disapproval of a proposed senior stenographer position in the Executive Office for a savings of \$13,408 from the Public Employees' Retirement Fund (Item 129).

Currently, three secretaries provide clerical support for the Executive Office. One serves the Executive Officer as personal secretary, and one provides additional clerical support, and one serves the two assistant executive officers.

A new stenographer position is proposed to provide secretarial support for one of the assistant executive officers. The only justification submitted by PERS in support of this new position is the statement that "This would conform with the one-to-one ratio between executive and clerical personnel that is considered a proper staffing ratio." No workload data have been submitted to justify this additional position. We do not believe the need has been adequately justified and recommend its disapproval. This would maintain the current staffing of three clerical positions for three executive officers.

Required Fund Condition Statement Not Submitted

At special legislative request, supplemental language to the Budget Act of 1976 required the Department of Finance to include in its future budget presentations additional information relative to the actuarial fund-condition of the state-administered retirement systems.

The proposed 1977-78 PERS budget includes a table showing the condition of the Public Employees' Retirement Fund for the past, current and budget years. This is the same information as presented in previous years. There is no statement as to the actuarial long-term condition of the fund.

Instate Travel Expense

We recommend disapproval of \$8,500 from the Public Employees' Retirement Fund (Item 129) for instate travel because it funds activities which are duplicative.

The STSR accounting office is requesting a \$5,000 increase for instate travel to visit state and other contracting public agencies in order to improve the quality and timing of the existing payroll reporting. An additional \$5,000 is requested by the accounting office for getting on-site feedback from agency payroll personnel regarding the payroll reporting changes contemplated by the redesign project discussed in the following section. Furthermore, another \$3,500 is proposed for the redesign project staff to visit contracting agencies to explain the project and the procedural changes it will impose on these agencies.

PERS proposes to implement these activities with three separate people, hence the three separate budget requests. We believe that all of the proposed activities can be accomplished by one person. Therefore, we recommend approval of only the first \$5,000 requested and disapproval of the second \$5,000 and the \$3,500 as duplicate and unnecessary.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**PERS System Redesign Project**

We withhold recommendation on \$1,465,986 proposed to support the PERS System Redesign Project, pending justification of the increased level of support and a review of actual progress, costs and benefits.

The Governor's Budget proposes 38.5 positions and the expenditure of \$1,465,986 to continue an effort begun during the 1975-76 fiscal year to design and develop new systems to meet the total information processing requirements of the Public Employees' Retirement System (PERS). The project's objective is to improve existing automated and manual processes to achieve a more cost-effective and efficient departmental operation. The project is based on a system redesign plan and is in accordance with a 1975 Department of Finance management review of PERS. That review suggested the need for PERS to make more effective use of data processing technology.

Since the initial redesign plan published by PERS in 1975, the total estimated cost to accomplish the project has increased significantly. The original plan did not contain complete cost data but indicated a total development cost considerably less than \$6,082,772 contained in detailed estimates we have reviewed. However, more recent departmental correspondence has referred to the total cost at "between six and seven million dollars." Further, the proposed budget reflects a 16 percent increase over the previous estimate for 1977-78. According to the budget, expenditures for this project through the end of the current year will total \$1.2 million.

Although the plan anticipates accumulated savings by the time of full implementation which will offset the total development cost, we note that during last year's budget hearings the department indicated that \$120,000, scheduled as savings in 1976-77, would not be realized due to a delayed project start. Whether or not projected savings will occur in the budget year and how they will be treated has yet to be determined.

In our judgment, the inherent margin for substantial estimating errors in large data processing systems projects such as this one and the Personnel Information Management System (PIMS), which we discuss under Item 43, indicates that a closer examination of the PERS project should occur before approval of the requested funds. Therefore, we will review actual progress, costs and benefits with PERS staff and report our findings and recommendations to the fiscal committees during the budget hearings.

Agriculture and Services Agency
STATE TEACHERS' RETIREMENT SYSTEM

Item 133 from the Teachers'
 Retirement Fund

Budget p. 279

Requested 1977-78	\$7,067,326
Estimated 1976-77	6,645,602
Actual 1975-76	6,606,424
Requested increase \$421,724 (6.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Payment of Contributions. Recommend legislation to advance due date for payment of STRS contributions. 200

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) has the following primary responsibilities:

1. Maintaining a fiscally sound plan for funding approved benefits.
2. Providing authorized benefits to members and their beneficiaries in a timely manner.
3. Furnishing pertinent information to teachers, school districts and other interested groups.

The STRS was established in 1913 as a statewide system for payment of retirement benefits to public school teachers. Administratively, it became part of the Department of Education under the jurisdiction of the State Board of Education. In 1963, the system was placed under the management of a newly created State Teachers' Retirement Board and under the administrative jurisdiction of the Agriculture and Services Agency.

The Governor-appointed members of the board include three members each from the school system and from the public. The Superintendent of Public Instruction, the State Director of Finance and the State Controller are ex-officio members of the board. In addition to having overall management responsibility for STRS, the board reviews applications for benefits provided by the system.

Administrative expenditures of the STRS are funded out of interest income from the system's investments at no state cost. Therefore, these expenditures are excluded from the total state budget figure.

Funding of the benefits provided by the system is discussed under "Contributions to the Teachers' Retirement Fund" (Item 308).

ANALYSIS AND RECOMMENDATIONS

Table 1 shows the staffing and expenditures for the system.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Table 1
Staffing and Expenditures of the State Teachers' Retirement System

<i>Programs</i>	<i>Personnel-years</i>			<i>Expenditures</i>		
	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>
Records and statistics....	160.5	130.1	130.1	\$2,861,719	\$2,678,553	\$2,827,133
Member services.....	70.2	68.4	67.4	1,440,065	1,511,405	1,570,474
Accounting	30.3	30.0	31.0	839,719	791,293	861,337
Data processing.....	42.2	44.3	44.3	1,042,896	1,242,787	1,312,292
Management services ..	23.3	22.0	22.0	632,551	651,564	686,090
Administration (Cost distributed to other programs)	10.7	9.0	9.0	(176,583)	(195,232)	(197,720)
Totals	337.2	303.8	303.8	\$6,816,950	\$6,875,602	\$7,257,326
Reimbursements				-210,526	-230,000	-190,000
Net Teachers' Retirement Fund Costs.....				\$6,606,424	\$6,645,602	\$7,067,326

Significant Budget-Year Changes

Extension of 25 limited-term positions to complete the verification project, addition of one investment accountant, increased operating expenses in several categories, partially offset by an anticipated decline in reimbursable refund fees account for most of the \$421,724 (6.3 percent) net increase in budget-year expenditures. Table 2 details these changes.

Table 2
Summary of Budget-Year Changes

<i>Proposed changes</i>	<i>Number of Positions</i>	<i>Fiscal Impact</i>
Verification project	25	\$229,188
Investment accountant	1	12,636
Printing (STRS information booklet)	—	45,000
Consulting services (actuarial valuation)	—	37,500
General expenses		
Merit salary adjustments	—	39,900
Rent increase.....	—	18,667
Increased prorata charges	—	33,912
Increase in other operating expenses	—	44,921
Decreased reimbursements (reduced refund fee revenues)	—	-40,000
Net increase in budget-year expenditures.....	—	\$421,724

Verification Project Extended Until 1978-79

Commencing in 1971-72, a five-year project was designed to speed up the process of verifying member records. It was to produce economies in processing retirement applications by eliminating the need to verify service records of applicants after receipt of the retirement application, which was the procedure prior to initiation of this project. A staff augmentation of 50 limited-term positions was scheduled to complete the project by the end of 1975-76, at which time these positions were to terminate. Because the project was not fully staffed and underway until 1972-73, the Department of Finance agreed to phase it out over a two-year period, 25 positions each in 1975-76 and 1976-77.

Due to additional workload, changes in the data processing system and administrative problems unanticipated at the beginning, the project was expected to be only about two-thirds completed by the end of 1976-77. Consequently, in October 1975, STRS requested the Department of Finance to extend the project and its staff for a two-year period. This request was denied by the Department of Finance and, therefore, the project terminated June 30, 1976. Subsequently, however, the Department of Finance agreed to reconsider the request, provided STRS implemented certain Finance-suggested verification procedures which would keep all verified accounts current without manual reverification and thus permit timely completion of the project. In June 1976, these procedural changes were implemented by STRS. Subsequently, Finance approved, through Section 28 procedure, the 1976-77 funds for the project and also authorized STRS to request, through the regular budgetary procedure, the necessary funds for each of the next two fiscal years to complete the project.

We concur with the Department of Finance that these expenditures are necessary for the effective continuation and successful completion of the project. STRS is required to provide the agency secretary and the Department of Finance quarterly reports on the progress of the modified verification procedure.

Relocation Costs Not Budgeted

The Department of General Services has requested STRS to vacate its headquarters office space in the Resources Building by July 1, 1977, to provide space for expansion of the Public Employees' Retirement System. The estimated \$200,000 relocation expense was proposed to be funded from the Teachers' Retirement Fund. However, the Teachers' Retirement Board did not approve this proposal and consequently, it was deleted from the STRS budget request for 1977-78. Citing precedence for this action, the board pointed out that the full cost of the recent relocation of the STRS Santa Ana office was paid by the Department of Health which requested the relocation for its convenience.

The Department of General Services is currently working on this relocation project but no decision has been made as of this writing.

Location of suitable space will commence implementation of this relocation project and it will then become a budget issue because the proposed budget includes no funds for this potential expenditure.

Required Fund Condition Statement Not Submitted

At special legislative request, supplemental language to the Budget Act of 1976 required the Department of Finance to include in its future budget presentations a statement relative to the funding of each state-administered retirement system.

The proposed 1977-78 STRS budget includes a table showing the fund condition of the Teachers' Retirement Fund, but there is no statement or comment concerning funding and fund condition, as required by the supplemental language.

While the fund condition table in the Governor's Budget shows a healthy cash-flow situation on a year-to-year basis, there is no mention of

STATE TEACHERS' RETIREMENT SYSTEM—Continued

the long-term, actuarial unfunded liability of the fund. The latest actuarial valuation published in November 1976, estimated the amount of this unfunded liability at \$7.6 billion, a \$2.5 billion increase since the previous valuation in 1974. Our *Analysis* discusses this unfunded liability and the problems associated with it under "Contributions to the Teachers' Retirement Fund" (Item 308)

STRS Contributions Should Be Paid Earlier

We recommend enactment of legislation to advance the due dates for payment of employer and employee contributions to STRS.

Existing law provides for payment of the employee (teacher) and employer (school district) contributions to STRS by the 20th of each month and the payment becomes delinquent on the 30th. According to STRS, most districts are currently forwarding these contributions between the 20th and 30th of each month. However, districts deduct employee contributions from the monthly paychecks on the first of the month. Likewise, state equalization aid, which helps school districts pay their share of retirement costs, is also allocated to the districts on the first.

This time-lag of 20-30 days between the collection of the contribution money and its payment to STRS permits counties the use of these funds for their own cash-flow purposes. If this money were required to be paid to STRS earlier in the month, it would permit STRS to earn additional interest income through investments, thereby reducing the rate of increase in the unfunded liability.

Therefore, we recommend legislation requiring the payment of the employer and employee retirement contributions to STRS by the 5th of each month and that the state's equalization aid for employers' retirement contributions be credited directly to STRS on the first of each month, instead of being sent to the district for payment to STRS at a later date.

STRS estimates that this proposal would result in additional investment earning of about \$2.9 million per year, based on the currently prevailing average interest rate of 7.5 percent.

Agriculture and Services**DEPARTMENT OF VETERANS AFFAIRS**

Items 134-135, and 137-138 from
the General Fund and Item
136 from the Veterans Farm
and Home Building Fund

Budget p. 282

Requested 1977-78	\$12,396,923
Estimated 1976-77	12,319,053
Actual 1975-76	12,777,801
Requested increase \$77,870 (0.6 percent)	
Total recommended reduction	None

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
134	Administration	General	\$1,433,295
135	Educational Grants	General	1,875,000
136	Administration	Farm and Home Building	(383,034) ^a
137	Veterans Home	General	8,088,628
138	Local Assistance	General	1,000,000
			\$12,396,923

^a Transferred to Item 134**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis
page*

1. Utilization of Contingency Reserve. Recommend department outline, during the budget hearings, how monies made available by abolishment of the contingency reserve will be used for additional home loans. 204
2. Fee Adjustment for Veterans Home Members. Recommend department study the feasibility of establishing an income-related charge for members and report to the Joint Legislative Budget Committee by October 1, 1977. 204
3. Discharge Upgrading Service. Recommend eight positions (six new and two existing) requested for the discharge upgrading service be authorized for one year only. 205

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs, through four major programs, provides services for qualified California veterans and their dependents. The department's principal aim is to help needy veterans or dependents obtain direct federal or state aid of various kinds and to provide a hospital-nursing-home-domiciliary facility for veterans requiring such services.

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

Farm and Home Loans

The Farm and Home Loans to Veterans program, also known as the Cal-Vet loan program, provides low-interest farm, home and mobilehome loans to qualified veterans through the sale of general obligation bonds which are redeemed from the monthly payments of the participating veterans. Loans are available in the following maximum amounts: \$35,000 for a home, \$80,000 for a farm, and \$12,500 for a mobilehome.

Educational Assistance

The Educational Assistance to Veterans and Dependents program provides counseling and financial assistance to qualified dependents of veterans who were killed or totally disabled as a result of active military services. Full-time college students receive \$50 per month and high school students receive \$20 per month. In past years, financial assistance was provided to veterans in addition to their dependents, but this program

DEPARTMENT OF VETERANS AFFAIRS—Continued

element has been discontinued due to expansion of G.I. Bill educational benefits.

Veterans Claims and Rights

The Veterans Claims and Rights program provides information to veterans and their dependents concerning the availability of federal and state benefits and assists eligible persons in obtaining them through three elements: claims representation, employment preference and county subventions. Benefits include hospital and out-patient medical and dental care, pensions, insurance, burial benefits, educational assistance, employment preference and others.

Claims Representation. This element assists California veterans seeking federal benefits by appearing in their behalf before the Veterans Administration rating boards. Assistance is given for claims involving initial ratings of service-connected disabilities, increases in existing disabilities and review of other-than-honorable discharges.

Employment Preference. Honorably discharged veterans and veterans' widows receive a ten-point preference on state civil service examinations, and veterans with a service-connected disability receive 15 points. This element processes applications for the preference points and certifies eligible veterans to the State Personnel Board. Certification will be issued for an estimated 7,000 veterans in the budget year.

County Subvention. This element administers grants to local veterans service offices, operating in 54 of the state's counties, which assist veterans in establishing their claims and rights. Prior to January 1, 1975, this subvention was limited to \$75 monthly for each county veteran service officer. Legislation in 1974 removed this monthly limit and increased the total subvention to \$1 million.

Care of Sick and Disabled

The Care of Sick and Disabled Veterans program operates the Veterans Home in Yountville, which is one of the largest geriatric facilities in the country. The home maintains an 854-bed medical and nursing unit and domiciliary quarters with a bed capacity of 1,489. The home provides war veterans who are California residents with several levels of medical care (acute, skilled nursing and intermediate care), rehabilitation services and residential services. The home is licensed by the state and its hospital is fully accredited.

Administration

General Administration provides for administrative implementation of policies established by the California Veterans Board and the department director. Fiscal, legal, personnel and other functions not specifically assigned to the other programs are included in this program.

ANALYSIS AND RECOMMENDATIONS

The proposed budget in Items 134-138 is for \$12,396,923, an increase of \$77,870 over the current year.

The department's administrative support by funding sources, consisting

of Items 134 and 137; a continuing appropriation from the Farm and Home Building Fund; federal funds and reimbursements, are detailed in Table 1. The continuing appropriation (\$4,647,790) is provided by Section 988 of the Military and Veterans Code for administrative support of the Cal-Vet Loan program, which will acquire property and process loan transactions amounting to approximately \$458 million in the budget year.

The \$1,875,000 contained in Item 135 provides educational grants to veterans' dependents. The decline in funding in the budget year reflects the fact that the number of eligible dependents from World War II and the Korean conflict is declining faster than the number of participating Vietnam era dependents is increasing. The resulting net decrease will reduce funding requirements for the next two to three years. Item 138 provides \$1 million for assistance to county veteran service offices.

Table 1
Departmental Support
Funding Summary

<i>Funding</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
General Fund (Item 134)	\$1,299,326	\$1,433,295	\$133,969	10.3%
General Fund (Item 137)	8,019,727	8,088,628	68,901	0.9
Total General Fund.....	\$9,319,053	\$9,521,923	\$202,870	2.2%
Special Fund (Item 136)	\$365,753	\$383,034	\$17,281	4.7
Special Fund (Continuing Appropriation)	4,630,730	4,647,790	17,060	0.4
Subtotal, Special Fund	\$4,996,483	\$5,030,824	\$34,341	0.7%
Federal (direct)	\$4,434,409	\$4,746,949	\$312,540	7.0
Reimbursements.....	2,174,440	2,226,040	51,600	2.4
Grand Total	\$20,924,385	\$21,525,736	\$601,351	2.9%

The direct federal funding shown in Table 1 consists of medical and billet payments in behalf of residents at the Veterans Home. The reimbursements represent federal funds paid through the veteran to the home for "aid and attendance" and fees paid directly by the veteran.

Table 2 summarizes the department's administrative costs by program.

New Positions

The department and the Veterans Home presently have a combined authorized staff of 1,042.4. The budget proposes a net increase of 10.4 positions over the current level which, after deducting 24.8 personnel-years for salary savings, results in a proposed staffing level of 1,028.

The net increase of 10.4 positions includes five veterans' claims representatives and one clerk typist II to provide increased assistance to veterans with other-than-honorable discharges who wish to have the discharge reviewed. The remaining 4.4 positions are requested for the Veterans Home. They consist of one temporary food service assistant, 0.1 temporary medical services assistant, and 3.3 overtime positions for nursing and special operations to conform with the State Personnel Board's new overtime

DEPARTMENT OF VETERANS AFFAIRS—Continued

Table 2
Program Cost Summary

Program	Estimated 1976-77	Proposed 1977-78	Change from Current Year	
			Amount	Percent
Farm and Home Loan	\$4,630,730	\$4,647,790	\$17,060	0.4%
Personnel-years	177.4	176.2	-1.2	-0.7
Educational Assistance	\$295,071	\$277,957	\$-17,114	-5.8
Personnel-years	15.8	13.6	-2.2	-13.9
Veterans Claims and Rights	\$688,500	\$825,087	\$136,587	19.8
Personnel-years	36.9	44.4	7.5	20.3
Home and Hospital	\$14,628,376	\$15,061,417	\$433,041	3.0
Personnel-years	764.6	764.6	-	-
General Administration	\$681,708	\$713,485	\$31,777	4.7
Personnel-years	29.5	29.2	-0.3	-1.0
Total	\$20,924,385	\$21,525,736	\$601,351	2.9
Personnel-years	1,024.2	1,028.0	3.8	0.4

policy which requires special compensation for certain classifications when work is required on holidays.

The six discharge review positions are being added to the claims and rights element in the current year by means of a \$125,000 allocation from the federal Public Works Employment Act of 1976. In addition, two clerk typist II positions are being transferred from the educational assistance program to the claims and rights element in the budget year, as a result of the declining workload in education grant activity. It is proposed to finance all eight of these positions in the budget year by an allocation of \$125,000 from the educational assistance program (Item 135).

Abolishment of Cal-Vet Contingency Reserve

We recommend that the department outline in detail, during the budget hearings, how monies made available by the abolishment of the contingency reserve will be used for additional home loans.

In 1970, the Veterans Board adopted a policy of maintaining a contingency cash reserve equal to one-half of the annual Cal-Vet bond principal and interest payments due in the following year. Currently, \$80 million is maintained as the reserve. Our 1974-75 Analysis recommended termination of this reserve on the basis that emergency funds are available to the department, and that abolition of the reserve would make additional monies available to fund home loans. A June 1976 report of the Auditor General drew similar conclusions. At its December 10, 1976 meeting the Veterans Board voted to abolish the contingency reserve, but we lack information on what impact these funds will have on the loan program. We therefore recommend that the department outline in detail, during the budget hearings, how these new monies will be made available for additional home loans.

Fee Adjustment for Veterans Home Members

We recommend that the department study the feasibility of establishing a fee schedule at the Veterans Home based on ability of the members to pay and report to the Joint Legislative Budget Committee by October 1,

1977.

Prior to 1970, residents of the Veterans Home were not charged for services received. In September 1970, as the result of a mandate by the Legislature following our recommendation, a schedule of flat charges, dependent upon level of care, was adopted. These fees provided reimbursement of 16 percent of total home expenditures in 1971-72 (the first full year that charges were collected). As costs of operating the home continued to rise, the flat fee schedule constituted a declining percentage of support until new rates were established January 1, 1975, as recommended by our office. Charges are adjusted so that no resident is left with less than a minimum of \$50 a month (adjustments are made for dependents) for personal use. Table 3 compares the new rates with the original rates.

Table 3
Veterans Home
Members' Fees and Charges

	September	January	Increase/Decrease	
	1970	1975	Amount	Percent
Domiciliary care	\$60	\$80	\$20	33.3%
Nursing care	90	110	20	22.2
Hospital care	120	110	-10	-8.3

The department states that it is investigating the feasibility of adopting an income-related charge because of reports that some members are failing to seek needed medical care due to fears that more money may be required of them.

We support this income-based fee concept. In addition, we believe the charges should be subject to annual review to ensure consistency between veterans' ability to pay and fees imposed. We therefore recommend that the department report to the Joint Legislative Budget Committee by October 1, 1977 on the feasibility of tailoring Veterans Home fees to the income of the members, based on increments of income, without regard to level of care.

Discharge Upgrading Service

We recommend that eight positions (six new and two existing) requested for the discharge upgrading service be authorized for one year only.

The stigma attached to an "other-than-honorable" discharge has made it difficult for those holding such a discharge to find employment. There is no apparent uniformity among the branches of military service in the type of discharge they award for a particular reason. Reportedly, base commanders have wide discretion in such matters. There is no federal agency—civil or military—which provides assistance, on a uniform basis, to veterans seeking review of their discharges.

The Department of Veterans Affairs proposes to exercise a more aggressive role in this area and is requesting continuation of six new positions established in the current year (five claims representatives and one clerk) plus two existing clerical positions (to be transferred from the educational assistance program) for this purpose. As noted earlier, the \$125,000 cost of the program in the budget year is to be provided by a transfer of funds

DEPARTMENT OF VETERANS AFFAIRS—Continued

from the educational assistance program.

The department plans to establish a training program that would result in county veteran service offices assisting veterans with discharge upgrades by conducting preliminary reviews and gathering supporting documentation necessary for presentation to the discharge review board. The department estimates that 56,339 to 70,365 veterans with "other-than-honorable" discharges reside in California. The Governor's Budget states that 70,000 California residents have received other-than-honorable discharges since 1956 and that the military has acknowledged that many of these were improper.

Presently, the department handles approximately 14 discharge reviews per month on a referral basis from the federal review board and veterans organizations. Although firm data are not available on the number of veterans who might use this program, the department estimates that it will service up to 1,265 per year and that, on this basis, the program could extend for as long as ten years. This suggests that a larger number of veterans may be eligible for discharge review than is indicated in the Governor's Budget.

Based on our preliminary analysis, we have several concerns about the program. Until some workload experience is developed, the level of activity required to sustain the eight positions is unclear. Moreover, there is no basis for evaluating the effectiveness of the program. Because of these concerns, we recommend that these positions be authorized for one year only and that the department detail the costs and benefits of the program for legislative review next year.

Business and Transportation Agency**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

Item 139 from the General

Fund

Budget p. 293

Requested 1977-78	\$10,562,967
Estimated 1976-77	10,290,628
Actual 1975-76	9,162,951
Requested increase \$272,339 (2.6 percent)	
Total recommended reduction	\$1,742,967

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Minimum Price Maintenance and Price Posting Law.* Reduce by \$193,000. Recommend deletion of funds for enforcement, and repeal, of the minimum price maintenance and price posting provisions of the Alcoholic Beverage Control Act. 208
2. *Departmental Funding.* Reduce by \$1,549,967^a. Recommend reduction in expenditures to level of General Fund fees received by the department. 209

^a Based on adoption of both recommendations 1 and 2.