

SECTION IV

Over-all Analysis of the California Budget for the Fiscal Year July 1, 1947, to June 30, 1948, Followed by an Item by Item Analysis of the Budget Bill

Introduction

We again call attention to the fact that the Legislature is now considering an Annual Budget, and there is the necessity of reorienting ourselves in our thinking, particularly in comparison with previous periods. We must remember that we are now considering appropriations and revenue accruals on an annual rather than a biennial basis.

In the previous sections of this report we have presented various aspects of the Governor's Budget and the Budget Bill, together with an analysis of the Governor's Budget Message and his over-all spending program, and a general analysis of the estimates of revenue to support the Budget. We have pointed out how far we believe the proposed Budget falls short of meeting the constitutional requirements for the Executive Budget covering the entire spending plan of the State as proposed by the Governor for the budgeted fiscal year.

We have indicated by careful and detailed analysis of the Governor's Budget Message and his message to the Legislature what the additional expenditures he has recommended will cost and how they will affect the financial program of the State. We have pointed out how the Appropriation Bill itself provides for expenditures omitted from the Budget. We have shown how much the expenditure program announced by the Governor in various ways will exceed the Budget as presented. We have made specific recommendations that the entire expenditure program of the State be included in the Budget so that the entire fiscal plan of the State may be considered by the Legislature at one time. We have suggested that this is necessary in order to view the entire tax burden which will be paid by the people and provide for its equitable incidence.

We have analyzed the interpretation of controllable and uncontrollable expenditures as given in the Budget, including those established by the Constitution and those arising from continuing legislation. We have recommended that the Legislature reassume its normal power and exercise a greater control over appropriations and expenditures.

We have analyzed and explained the Governor's responsibility in relation to the Budget Document and the Budget Bill or Appropriation Bill. In addition, we have pointed out the authority of the Governor to propose amendments to the Budget Bill while under consideration and after passage. We have recommended that this provision of the law be observed to the fullest extent so as to coordinate the expenditure program of the State as well as to speed up the legislative process.

An explanation has been given of the Legislature's power in relation to the Budget and Appropriation Bill, and a careful explanation has been presented showing that the Budget itself has no effect at law or power of control over appropriations other than what the Governor and his

Budget staff choose to give it. We have explained, however, that once the Budget Bill is introduced into the Legislature it becomes the property of the Legislature, and it can be made into any form the Legislature desires. Restrictions can be placed in it. It can be enlarged or reduced or otherwise amended. Expenditures for departments that are not now included in the Budget Bill because they are provided for by continuing appropriations can be placed under budgetary control merely by being included in the Budget Bill. In particular we have suggested that now, under the Annual Budget, the Legislature can and should exercise a more definite control over appropriations so as to make effective to the fullest degree the benefits claimed for the Annual Budget.

An explanation has been given, showing why the controllable amounts in this Budget are considerably greater in percentage than in prior budgets despite the recent increase in constitutional allotments to schools. It is also explained that additional departments and divisions can be brought under budgetary control.

We have given specific recommendations for legislative action on all of the above matters where either economy or efficiency can be produced or where it is believed that the Legislature, by exercising greater financial control, can produce economies or provide greater services to the public for the money expended.

The following analysis of the Budget and the Budget Bill for 1947-48 is an analysis of these documents as presented to the Legislature by the Chief Executive. The amounts used are those presented in these documents and are not those produced on the basis of our interpretation of what we feel they should contain or what we estimate they will ultimately contain. We are, in this section of our report, using the documents as presented to the Legislature and as they will be before the several committees.

In making this analysis we are following serially the items in the Budget Bills (Senate Bill No. 666 and Assembly Bill No. 1250) which are identical bills.

Over-all Analysis of the 1947-48 Budget

Budget Reaches All-Time High

This Annual Budget totaling \$641,599,026 is the highest in the history of the State. It is within \$42,111,617 of the Biennial Budget as submitted by the Governor to the Legislature in 1945. This expenditure program in the Budget alone represents an increase of \$153,741,225, or an increase of 24 percent over the actual and estimated expenditures for 1946-47 and \$299,424,371, or an increase of 87.5 percent over actual expenditures for 1945-46. We have pointed out that the actual and estimated expenses for the current Fiscal Year 1946-47 include \$10,000,000 or \$15,000,000 more than actually should be expended.

In this comparison of the Budget for 1947-48 with the actual and estimated expenditures for 1946-47, we have noted that in the prior fiscal year there are included all the additions made to the Budget Bill after submission to the Legislature, the expenditures made by special appropriations both by the regular and special sessions of the Legislature and all expenditures made to meet the increased fixed charges. These increases for the biennium resulted in an expenditure program of

\$830,032,455, as set forth on Schedule I, page A-2 of the Budget for 1947-48. This was an increase of \$146,321,812 over the Governor's Budget as submitted.

We have estimated that the actual expenditure program for the 1947-48 Fiscal Year, without including an expanded highway program or anything for relief, will be approximately \$90,000,000 more than the Governor's Budget as submitted.

The 1947-48 Budget calls for an annual expenditure of \$67.97 for each man, woman and child in the State as compared with \$40.50 annually as provided by the Governor's Budget as originally submitted for 1945-47, and \$37.07 for 1943-45 based on actual and estimated expenditures for 1943-45. It is significant that not only has the total of the Budget shown a marked increase, but the per capita cost of State Government has likewise shown a continued upward sweep despite the unprecedented increase in our population during the war period. Reference to tables in Sections I and II on the cost of State Government and the analysis of the per capita cost of government provide additional detail.

Preparation of Budget and Budget Bill

We have previously explained the procedure followed in making the Budget and the extent of the participation of the Legislative Auditor and staff. We believe that this cooperation aided not only in reducing the Budget but resulted in a better distribution of expenditures. We have pointed out previously, however, that many improvements can be made in the Budget and in budgetary procedure and in the Budget Bill. This will have the effect not only of improving the Budget and smoothing out irregularities, but it will also provide the Legislature with more complete information.

While this Budget is a distinct improvement over previous ones, it should continue through its evolutionary process and show continued improvement in the future. California already has one of the best budget laws, budget documents and budgetary procedures. The improvements in the Budget itself, while useful, are only valuable as the basis for the items in the Appropriation Bill and for such use as is made of it in functioning the annual or fiscal year budgets used by the Director of Finance in exercising budgetary control.

Budget Bill Should Be Improved

We contend that a similar improvement should be carried over into the Budget Bill and that further controls and restrictions should appear in the Budget Bill to assure more efficient government. In fact, with an Annual Budget, we see no reasons why budgetary controls should not be established by the Legislature even to the point of enacting into law all of those parts of the Governor's Budget as can be made effective, including all items that are provided by continuing legislation and all legislative provisions which control the expenditure of constitutionally fixed charges. We have pointed out the advantages of this in establishing a fuller legislative control of appropriations and also the desirability of having a legislative review each year of the full expenditure program of the State. We are convinced that such a review would yield large

results. It would bring to life forgotten activities and archaic procedures that have gone on undisturbed and unnoticed by the Legislature for a long time.

The lump sum appropriation method has been modified somewhat by the action of the Legislature in 1941 and in 1945 by the establishment of a schedule dividing appropriations into three classes in addition to the two former divisions of support and capital outlay as follows:

- (a) Salaries and wages;
- (b) Operating expense;
- (c) Equipment;
- (d) Capital outlay (where it appears).

While this is a small departure from the lump sum method, it still does not establish controls which are complete. We are of the opinion that with the Annual Budget more definite controls should be and can be readily established. For example, in the last Appropriation Bill (1945-47) the Ways and Means Committee adopted provisions providing for a Salary Restoration Fund and a Salary Savings Fund. These operated satisfactorily and produced material savings. We suggest that this procedure be followed further.

Controls Can be Amended Into Budget Bill

Specifically, we suggest that the following provisions be placed in the Appropriation Bill at this time:

1. No expenditures shall be made from the funds appropriated or from any other funds supplementing this appropriation for the payment of salaries or wages of any new position until the Director of Finance has made a specific review of the proposed position and certifies that he is satisfied that the workload of the agency of the State requesting the position is such that such position is fully justified. If the Director of Finance denies a request the funds requested for the payment of such a position shall be transferred immediately into a Salary Savings Fund and shall not be available for expenditure. Likewise any money which it is proposed to spend for the expense of such position should be similarly transferred. The predicted workload on which positions are allowed in the Budget and for which appropriations are requested may not actually materialize and savings should be made.

2. An amendment should also be made to provide that where there is a reduction in personnel due to the decline in the workload or for any other reason, the salary and expenses so saved should be transferred to this Salary Savings Fund.

3. Also, it should provide that any salary savings which shall arise from a decrease in salary scales under the authorization of the Personnel Board shall also be considered as a savings and transferred to the Salary Savings Fund.

4. Consideration should be given by the Legislature to fixing the salary scale for the budget period so that it will fall within the appropriations and provide that it shall not vary from that during the one year budget period by action of the Personnel Board by more than a specified

percent or amount for the budget year. Item 326, page 62 of the Appropriation Bill, sets up \$1,500,000 for a Salary Increase Fund with certain very desirable restrictions, but it does not go far enough.

5. Provision should be made by restrictions in the Appropriation Bill that the so-called merit salary adjustments shall be truly increases for merit. These should no longer be made automatically, and they should not be paid unless there is definitely and specifically a showing that they are merited. A number of administrators endeavoring to operate their departments and divisions of the State Government efficiently have complained bitterly that they are not able to reward the most efficient and thereby improve their functioning under the present law. The author of this bill for salary raises himself concedes that the Act is not doing what he had hoped it would do.

6. It is suggested that limitation be placed on appropriations so that it will not be possible to make payments from this appropriation or by the deficiency method for the salaries of new positions which were not contained in the Governor's Budget and were not used as the basis for appropriations or were not provided by some legislative action. A large number of new positions now appear in the Budget for 1947-48, including some nine positions in the Governor's Office which were never approved by the Legislature and for which no funds were in fact provided. These positions, however, are included in the Budget and are the basis or place of departure for requesting additional appropriations on a percentage increase for new personnel.

7. Definite restrictions should be placed on the purchase of automobiles. Section 15, page 70 of the Budget Bill, does establish some restrictions by providing:

"No purchase order for acquisition or replacement of motor vehicles shall be issued against any appropriation made herein until the Department of Finance has investigated and established the necessity therefor."

It is suggested that this be amended to state that a classification of automobiles based upon necessity, use, and status of user shall be established by the Board of Control, and that no automobile shall be purchased for any officer or employee outside of this class, nor shall any automobile be transferred for the use of a person not entitled to an automobile of this class. Such procedure was followed from 1931 to 1934 with reasonably good results and with a large saving.

A procedure should be set up in relation to the expenditure of money for the operation of automobiles so that unconscionable abuses in the use of state automobiles will be eliminated. The Department of Finance now has an adviser on the matter of purchase and repair and replacement of automobiles, but his hand, as well as that of the Director of Finance, needs to be strengthened by a declaration of legislative intent and legislative restrictions which will make this intent definitely effective.

For example, when salaries were low, automobiles were assigned to certain state officers who had such little use for a state car on official business that it would have been far better had they driven their own private car and had been allowed mileage at a generous rate for every

trip taken on state business. This still applies to some of the very highest officials of the State.

In some instances these officers are now insisting that they be permitted to buy cars of the most expensive type and in the highest class. Apparently in some instances they have enough support back of the request to overcome any resistance that is offered by the Department of Finance. For example, recently a request for the purchase of a new automobile was made by a state officer despite the fact that he had a high-priced automobile of recent, postwar model, with a total mileage of less than 25,000. We are recommending that no money be appropriated for this purchase. This is an individual case but many will arise. Unless there is a specific restriction placed on such purchases, including this case, when the Legislature returns a year from now they will find this officer driving the new automobile he requested, and the almost new one he is now driving will be turned over to some subordinate, thus giving the subordinate a car far beyond the price range he should have.

Restrictions should be placed in an effective way in the Budget Bill so that the tremendous abuses in using state automobiles on private business will be controlled and to a large degree eliminated. These abuses are by the minority of state employees—but some are very flagrant.

For example, there is a chief of a division in one state department who drives a big state automobile from his home in one of the remote suburbs of Sacramento to his office each morning and almost every day leaves early at lunchtime and drives home to the said suburb, returns after lunch usually a little late, and at the end of the day's work drives the same automobile to his suburban home. This happens day in and day out, the only exceptions being on the weekends when he does not drive it to work but uses it as his private automobile and at other times when he is on trips away from the office. Other similar instances can be cited.

There are some persons employed by the State driving state automobiles regularly assigned to them who are by temperament, nature or physical condition not fitted to drive one. This is demonstrated by the innumerable minor and major accidents which they have had with the resultant costly repair bills. One such person has had repair bills of approximately \$1,800 in a relatively few months. When such cases are found and yet there is demonstrated need for an automobile, such persons should be allowed to drive their own car on a mileage basis and not expect the State to assume the risk and costs involved due to their inability to drive properly.

Much of the abuse in the use of state automobiles, particularly use for social purposes and for pleasure trips such as on weekends to the mountains, to Lake Tahoe, to the beaches and to athletic contests, would be eliminated if all state automobiles, with the exception of undercover cars, were painted a distinct color and bore the seal of the State of California permanently displayed. Abuse in use of undercover cars and state cars driven with private owner plates should also be controlled.

The abuse of the use of state automobiles would be reduced appreciably if there were a requirement of a specific filing of records for each trip taken indicating the nature of the business, together with a sufficient penalty for improper use. It would make possible the auditing of expense accounts in a more effective way and would prevent the use of a state

automobile by a state officer or employee while actually employed by some other agency. This practice in some instances has gone so far as to actually have the state employee collect money on a mileage basis from another employing party for the use of a state automobile.

All of this matter of the abuse of state automobile use can be materially corrected by placing restrictions in the Appropriation Bill and placing the responsibility for making them effective in the first instance in the Director of Finance on rules and regulations established by the Board of Control, and secondly, in the Controller through his process of determining what is a state expenditure in accordance with law.

For five years the Legislative Auditor has observed these abuses and reported them. Very little has been done to remedy them. The fact that they can be remedied is demonstrated by the results achieved in some of the state departments, among them being the Department of Agriculture.

For our previous reaction on this, see page 121 of our 1945 report.

Basis of Estimating Allotments for Expenditures in the Budget

Proposed expenditures shown in the Budget are based primarily upon the actual expenditures for the Fiscal Year 1945-46 and the actual and estimated expenditures for the Fiscal Year 1946-47. We have pointed out that the actual and estimated expenditures in many instances constitute the remainder of appropriations available for the second year of the biennium for 1945-47. Those who supported the Annual Budget have stated that the estimates for the second year of the biennium are necessarily more inaccurate and require more leeway than estimates made for a period closer to the date when they were made. From this we see that if the general practice is to make the balances available from the biennial appropriation the budgeted amounts for the 1946-47 year and then to set up the Budget for 1947-48 at an increase on these sums, it is in fact allowing an increase over and above sums that were generally liberalized to cover the difficulties of long-time estimates. We believe that this has resulted in considerable excess amounts being budgeted both for 1945-47 and for 1947-48. In the detail following, these excesses will be pointed out wherever pertinent.

In many instances amounts allowed in the budget period are based primarily on expenditures in the past. Obviously, under this arrangement past errors in allowing expenditures are carried forward and generally perpetuated. The elimination of these errors is the exception rather than the rule. There is a continuous endeavor on the part of the budget makers to eliminate them, and this was done in preparing the present budget by means of various administrative studies, particularly in relation to workload. This has not been done, however, to as great a degree as should be and not to the satisfaction of the budget makers themselves. For this reason critical review in many instances will show that reasonable reductions are possible.

Effective reorganizations have been started in many instances that have not been carried into full effect.

For example, the Department of Education has too many separate divisions, some eighteen, with division chiefs serving under division chiefs.

The Department of Public Health also has many small divisions with a chief and one or two persons forming a division. A number of reorganizations of this nature have been suggested in the detailed report.

Effective reorganization in the Department of Motor Vehicles, which can be done under existing law, would materially increase the results secured in this department. Adding more employees, particularly an additional 200 highway patrolmen as provided in the Budget and in the Appropriation Bill, will not yield, under the present set-up, the full results that should be expected. We believe that no such addition should be made to the patrol until a higher degree of efficiency in organization is established.

We have followed this same principle in making our recommendations in other departments where we have found faulty management and administration.

We also recommend that as an aid to effective preparation and administration of the Budget there should be more continuous studies along the following lines:

1. Cost analysis of the several state functions covering operation and unit cost of service.

2. Studies to determine the adequacy of administrative organization and procedure in different sections of the state service with a view to eliminating duplication and overlapping of activities by different branches of the State Government. This will include the consolidation of activities, such as is suggested for Criminal Statistics and Research in the Department of Justice and the Department of Corrections, discussed subsequently in connection with the Department of Justice.

3. Study should be made covering the use of materials so as to make the greatest use thereof, including surpluses in one department which might be used by another. Studies should also be made of the fullest use of equipment, including automobiles, giving consideration in the latter case to the operation of the state pools.

4. Study should be made looking toward setting up and maintaining complete property records. With few exceptions, the accountability for state property is entirely unsatisfactory. Adequate property records are not kept. A system should be worked out so that proper accountability can be established and maintained. Property can be charged to respective officers. When property is lost, accountability should be established. At the present time, very few departments or agencies of the State Government know what property they own. It should be possible to include in the Budget a statement showing all surplus property and recommend its best disposition. Such a record would also make possible the discovery and transfer of property not needed in one department to another department which might be able to use it. The value of property lost each year to the State through lack of records or carelessness in handling them, or lack of adequate accountability reaches a sizeable figure.

These studies will eliminate the present excessive reliance upon prior expenditures as the basis for budgetary estimates. Some states, notably New York, have set up an organization to carry on studies and research in the management of state operation in general with the object

of finding improved methods and increased efficiency. California has started to do this through the Division of Administrative Research in the Department of Finance. The Legislative Auditor has had several studies conducted along this same line, including the test study in the Department of Motor Vehicles for the purpose of increasing service and reducing costs through establishing a mechanized procedure for automobile registration. This procedure, we believe, will give much improved service and at the same time will produce a saving approaching \$500,000 annually. The result of this should be reflected in the registration period of 1948.

Studies made by the Department of Finance have resulted in approved efficiencies and economies and have produced better budgeting.

Substantial Economy Through Control of Personnel and Improved Efficiency

The largest single expenditure of the State for any one category is the expenditure for salaries and wages. There was a decline in the number of state employees during the war. There has, however, been a material increase since that date, until the State had a total of 36,955 employees as of the end of 1946.

The growth in the number of civil service and exempt employees from December, 1936, to December, 1946, is shown in the following schedule:

NUMBER OF CIVIL SERVICE AND EXEMPT EMPLOYEES
December, 1936, Through December, 1946

<i>Year</i>	<i>Civil service employees</i>				<i>Exempt employees</i>				<i>Grand total</i>
	<i>Full time</i>	<i>Part time</i>	<i>Seasonal</i>	<i>Total</i>	<i>Full time</i>	<i>Part time</i>	<i>Seasonal</i>	<i>Total</i>	
1936-----	17,026	1,741	1,688	20,455	1,823	760	23	2,606	23,061
1937-----	19,217	1,976	1,072	22,265	1,874	875	13	2,762	25,027
1938-----	22,010	1,528	1,257	24,795	2,069	783	31	2,883	27,678
1939-----	22,387	1,240	689	24,316	2,225	973	30	3,228	27,544
1940-----	22,475	831	1,854	25,160	2,325	1,581	31	3,937	29,097
1941-----	24,640	860	3,574	29,074	2,492	1,150	61	3,703	32,777
1942-----	21,459	1,022	1,667	24,148	2,306	1,154	153	3,613	27,761
1943-----	20,592	1,107	2,258	23,957	2,056	1,357	92	3,505	27,462
1944-----	20,857	1,168	1,727	23,752	1,941	1,230	67	3,238	26,990
1945-----	24,806	934	2,743	28,483	1,149	936	111	2,196	30,679
1946-----	31,496	1,200	1,880	34,576	1,522	751	106	2,379	36,955

It will be at once recognized that a very small improvement in the efficiency of each state employee will result either in a material increase in service or a reduction in personnel or both. The possible saving is very large. The budgeted amount for salaries and wages for 1947-48 totals \$122,000,000 in round numbers. This is despite the fact that a number of wartime agencies have been eliminated and wartime services in the several departments supposedly done away with.

We believe that the State should now be securing employees of higher efficiency than could be secured during the war. We also feel that the most efficient employees should be rewarded for their efficiency and diligence, and the inefficient and ineffective employee should be eliminated.

To aid in doing this, we suggest that the probation period actually be considered a part of the recruiting process, and the employees who are found to be unquestionably unsatisfactory within this probationary period should be dismissed.

Performance Reports Should Be Revised and Made Effective

The performance reports used to determine the efficiency and performance of a state employee should be revised by the Personnel Board so that they will accomplish the purpose for which they were intended. Their use should be such as to make it possible to eliminate the inefficient and to reward the efficient. We suggest that this be made effective, and that a mandate be placed upon the several administrators of the several state agencies requiring that they shall do their part in controlling state personnel.

Abuses of Sick Leave

The abuses of sick leave throughout the state service should be eliminated by administrative action and possibly by legislation.

There is an inadequate control of sick leave and the abuse of sick leave still goes on, despite the attempt of the Personnel Board to tighten up somewhat. The head of one department or agency hesitates to be more strict concerning sick leave than another agency. As a result, nearly all of them become more and more liberal. Some administrators admit they cannot control the abuse. It has grown so large that it is necessary to add a new employee for every five, merely to take care of vacations and sick leave. The proper control of sick leave would materially reduce this, increase the efficiency of personnel, and would cut out the advantage the chiseler has over the conscientious employee.

Sick leave is now costing the State of California approximately \$1,000,000 a year. Much of this cost results from the liberal allowances provided by the State. Some of it results from the abuse of the sick leave privileges by the minority. Several administrators have suggested that the State modify its sick leave plans along the same lines as followed by many other governmental jurisdictions and followed by insurance companies in paying sick benefits; that is, to provide that the State would make no payment for the first or second day of any sickness. It would still leave to state employees one of the most generous sick leave provisions enjoyed by any employee group.

In other words, if a state employee took two days off for sickness, he would not be paid for the first or second day. Some department heads have estimated this would eliminate 90 percent of the sick leave in their departments.

Study of records of the Highway Patrol show that the elimination of pay for the first two days of sickness would not only result in a very material saving, but without a doubt would place on the highways a large number of highway patrolmen which in turn would do much toward controlling traffic.

More Employees Is Not Only Solution for Reducing Workload

Merely adding more personnel to take care of increased workload is not the only solution or is it justified if increased efficiency, change of methods or the elimination of unnecessary or fruitless work will make it possible to satisfactorily provide the required services with the same or less personnel. There are departments where more and more personnel is added to meet the workload without any consideration being given to changing the methods or eliminating unnecessary work.

For example, we find the Division of Registration of the Department of Motor Vehicles asking as they have done for years in each biennial budget for an increase in the number of permanent and temporary employees. They have not, however, attempted to find another solution through mechanization or other change in procedure.

In the Division of Drivers' Licenses of the same Department a similar policy has been followed and is followed in this Budget, where an increased personnel is provided to give a fixed number of driver's license examinations on a more intensive basis. They have not yet recognized that their records show that there are little or no results secured from the reexamination of the vast bulk of persons to whom a driver's license has been issued. They have not made a satisfactory study designed to eliminate fruitless and costly examination of the competent drivers and to spend their real time and efforts in finding incompetent and dangerous drivers and revoking their permits.

It is generally conceded that if a method could be found, and we believe it can be, to eliminate 50 or 60 percent of the hazardous drivers, a vast number of the motor vehicle accidents would likewise be eliminated. This can be done at a fraction of the present cost.

It is recognized that a comprehensive and searching examination should be given to those who are first being examined for a driver's license. It should be a real examination and should be a certification of the ability to drive a motor vehicle. Those who do not pass either an original or subsequent examination and are demonstrated to be incompetent should be barred from driving. Some of the money now spent in giving unnecessary examinations should be used to follow up and see that those who fail to qualify for driver's licenses, new or renewed, shall not be allowed to operate a motor vehicle on the streets and highways of the State.

We hesitate to recommend any additional employees for any department where such improvements are possible and where no progress has been made toward improving the situation.

We would like to have it understood that our failure to object to classification and/or reclassifications of certain positions and their inclusion in the Budget shall not be taken as an endorsement of such classes or reclassification but merely approval of setting up of the money necessary for such classes and these reclassifications if they are made. We recommend that the approval or disapproval of such reclassification shall be made by the Personnel Board only after studies have been completed covering the circumstances surrounding each position. Neither the Budget nor our recommendations should be grounds for the Personnel Board to reclassify any position without making a careful study thereof. Our recommendation and the inclusion by the Legislature of money in appropriations merely shows that the money will be available pending approval of reclassifications by the Personnel Board. We do not have the means nor the duty of making such determinations.

Legislative Intent

We have already suggested and wish to reiterate that legislative intent as respects any appropriations should be specifically and definitely determined and expressed and if not in the Budget Bill now should be put in either by amendments to the Budget Bill or by joint resolution or in some other official way.

If it is the intent of the Legislature to eliminate an item from the Budget and to make certain that no money shall be spent for that particular service, this can be done by placing such limitation in the Appropriation Bill.

Elimination of Wartime Agencies

The Budget Committee instructed the Legislative Auditor to recommend the elimination of all wartime agencies and services. This we have done throughout our analysis, and we have covered wartime services in the several agencies wherever they were discovered. This is in line with our prior recommendations.

Farm Production Council

We previously recommended that the Farm Production Council be abolished at the end of the 1945 farm labor season. It was carried on, however, on the basis of a self-supporting agency and will officially end June 30, 1947. It will return to the State at that time funds in excess of \$1,000,000, thus repaying a part of the money appropriated for its operations. This organization is omitted entirely from the Governor's Budget and is not in the Budget Bill.

State Guard

The State Guard was a wartime establishment which, under ruling by the Attorney General, is being supplanted by the reestablished National Guard. We will comment in detail on this under the item for the National Guard.

Child Care Centers

These have been omitted from the Budget and Budget Bill.

The elimination of other wartime services has already been discussed and will be covered in the Item by Item analysis where pertinent.

Capital Outlay

We have recommended that the items requested for construction throughout the Budget be set up for capital outlay with the restriction that no money be spent therefor until the building index as used by the Division of Architecture and Department of Public Works shows a decline to 400, and then only the most urgent buildings should be constructed. And until the construction index further declines to 350, no general construction should follow unless the Legislature takes further action. This will make possible securing at least as much for the money expended as was possible when the Postwar Employment Fund was established. If this backlog of public building can be held intact during the period when there would otherwise be competition with private building, it may later serve to help maintain full employment and a greater prosperity.

Reference to our prior report on page 109 will show that we made a number of suggestions and recommendations in relation to capital outlay for postwar construction and postwar employment reserve based on a comprehensive study of the needs of the State and costs prevailing. Our recommendations in general coincided with those of the Director of Finance but with some differences. The Legislature approved these recommendations with some variations and reservations, and subsequently at the special session the Postwar Employment Reserve was established and \$154,000,000 was appropriated for state buildings. Due to increased costs—the building index reaching nearly 800 on certain bids—little building has been done.

We stated before that we did not believe certain capital outlay items budgeted for 1943-45 could be expended in that biennium but would be carried forward to 1945-47. This is exactly what occurred. We now predict that many of the capital outlay items allocated for 1945-47 will not be expended but will be carried forward to 1947-48. Sufficient reserves have been set up to meet the State's building program for a considerable number of years. However, the State continues to grow and eventually the needs of the State will exceed the buildings which can be secured from this appropriation. When the needs outstrip the buildings provided, another building program will be required. Appropriations should keep abreast of needs even if construction lags behind.

Action or Failure to Act in Certain State Departments and Agencies Directly Affect Functioning in Other Departments

We wish to call attention to the fact that the action of certain agencies of the State or their failure to act may directly influence the operations of other state departments or agencies. The Legislature should recognize this and insist on the effectiveness of such departments and should be concerned accordingly with appropriations and the expenditure thereof.

For example, the operation of the Personnel Board affects every other agency of the State. If it does not have available lists for various classified positions, costly delays and costly procedures follow in the departments concerned. If lists are not available, temporary employees must be secured. They can only be kept for six months and if examinations are not held in time, a new temporary employee must be hired with corresponding loss in both instances. Not only the failure to act but the action itself of the Personnel Board may be costly.

For example, in one department a satisfactory temporary employee was secured. An examination was given for the class of position. The satisfactory employee did not pass the examination given high enough in the opinion of the Personnel Board to be placed on the eligible list, although he was only four or five below the bottom of the list. It happened that no successful applicant on the list would accept the position because it was in a remote place. However, the experienced temporary employee had to be dismissed and another inexperienced temporary employee secured.

In other words, the method of preparing and giving examinations requires several months resulting in the loss of employees in many state departments. It appears that these special situations could be solved by equitable procedure where delays or a certain line of action prove costly without bestowing comparable benefit.

The changing of salary scales by the Personnel Board, particularly in the hourly rates and postdating the same, has the effect of adding a tremendous expense in pay roll accounting in some instances where distribution back to many jobs is required.

Delay in completing purchases and in paying for the same not only interrupts the functioning of other agencies of the State, but it also is the cause for failure to earn discounts for prompt payment.

Excessive costs have resulted from failure of the Purchasing Division to render the best service in the purchase and delivery of goods; and insistence on out-worn procedures, or such action as purchasing commodities in San Francisco for requirements to be filled in Southern California which requires reshipment and rehandling; and the failure of the Purchasing Division to carefully understand the problems of other state agencies.

Loss to the State Through Failure of State Departments to Coordinate Their Activities

Large sums of money are lost to the State through the continued failure of certain departments to coordinate their activities with other departments. We mean by this that the activity of one department definitely ties into the activity of another department and yet frequently no notice is taken thereof.

For example, the Public Utilities Commission regulates certain for-hire truck companies and it collects one-fourth of a cent of the gross income of certain carriers to pay for administration. The Board of Equalization collects a 3 percent gross income tax on the same carriers. It would seem that coordination here would be desirable, so that one agency would do the auditing and provide the other with the information already secured, and the tax would be levied and collected by just

one agency on the same income. Why not at least eliminate the tax collecting by the Public Utilities Commission and have the Board of Equalization, the largest tax agency of the State, collect and remit?

There are other instances where a department makes certain inspections for the purpose of enforcement of the safety laws, and at this time they could or do discover that a hazardous fire condition exists. Why should not this be communicated to the Fire Marshal? There are various other places where the coordination of information would be advantageous to the State.

The establishment and operation of radio communication by the several divisions of the State Government in our opinion can be coordinated. This presents an excellent example of the advantages and savings through establishing a coordinated system of radio communication.

Likewise, the statistical activities of the Department of Justice and the Department of Corrections can be coordinated with mutual advantage and saving.

Printing costs are frequently increased for the reason that the Department ordering the printing does not work closely enough with the Printing Plant in trying to evolve the most economical printing. Instances have come to our attention where the failure to prepare proper copy or adjust this copy to reduce the loss of paper or additional handling in the Printing Plant has almost doubled printing costs. Cooperation with the Printing Plant so that ordinary printing can be done when the press of legislative printing is over will lower the cost through reducing overtime.

Available Administrative Procedures to Increase Efficiency in Use

Failure on the part of the administrators of several departments of the State to make proper use of procedures established for the functioning of State Government has and is causing a tremendous loss to the State and a deterioration of efficiency. For example, there is almost complete failure to use the performance reports of employees for the purpose for which they were intended. The performance reports are supposed to be used to provide a means of recognition of the competent employee and to eliminate the incompetent. Promotions and increases in salaries are to a considerable degree dependent upon performance reports. The almost universal failure to use performance reports for this service is recognized by the fact that in this Budget under consideration, the Department of Finance has included enough money to take care of increases in pay on the basis of assuming that every state employee will have such a satisfactory performance report that he will be entitled to it.

There has been ample demonstration in the past that frequently ratings on performance reports are far in excess of what they should be. These instances have come to light when the administrator has preferred charges of inefficiency against the employee and in the resultant hearing before the Personnel Board. It is then found that the administrator has rated the said employee on performance reports in the "excellent" bracket.

We have found actual cases within the past year where employees finally resigned because of admitted continual drunkenness when their performance report indicated time after time that the consumption of alcoholic liquor did not interfere with the employee's work. We have

other instances where performance reports show the employee to be an excellent worker, and yet the time records checked showed conclusively that said employee was entirely undependable, took time off whenever he felt like it, frequently when the workload was the heaviest, and in any private employment would probably have not stayed through the second week.

In several other instances performance reports showed a rating in the high 90's, whereas in the budget hearing the same administrator who made out the report testified that he would need more employees because of the low quality of help he had. This has occurred in many state agencies. There have been instances where administrators have appeared before the Personnel Board and asked for increases of pay rates and an upgrading in classification for the reason that they could not get competent employees, and yet the employees they had in the same classifications were all rated in excess of 90. There have been other instances where an administrator has told an employee that he did not consider him available to take promotional examinations, and yet the rating on his job was in excess of 90, indicating excellence of performance which would qualify for promotion.

The proper use of performance reports as originally intended by the administrators of the several departments of the State will result in materially improving the efficiency of state employees and increasing the quality and quantity of work.

The budgets of the operation of such agencies whose functioning affects others should be so adjusted that the necessary services are adequately provided and appropriations therefor are not diverted to other purposes of expenditure.

Likewise the budgets of agencies not making use of established administrative procedures to increase efficiency should be adjusted so as to require these administrators to take such action.

In the following item by item analysis of the Appropriation Bill we have made recommendation wherever appropriations for individual agencies involve any of the over-all principles we have previously mentioned.

Item Analysis of the Proposed Appropriations in the Budget Bill (Senate Bill No. 666 and Assembly Bill No. 1250) for the Fiscal Year 1947-48

Legislative

Analysis of Proposed Expenditures for the 1947-48 Fiscal Year

For Current Expenses of the Legislature

Items 1 to 14, inclusive, page 2 of the Budget Bill, pages 1 to 3, inclusive, of the Budget. Amount requested, \$1,012,045 for current expenses—from the General Fund. This represents an increase of \$563,463 or 125.6 percent over expenditures of \$448,582 for the 1945-46 Fiscal Year; and a decrease of \$469,981 or 31.7 percent under the amount of \$1,482,026 allowed for expenditures in the 1946-47 Fiscal Year.

At the request of legislative officers, the Legislative Auditor assisted in the preparation of a Legislative Budget for the 1947-48 Fiscal Year. This budget was approved by the President pro Tempore of the Senate