

**RECOMMENDATIONS**

Amount budgeted .....	\$50,000
Legislative Auditor's recommendation .....	50,000
<hr/>	
Reduction .....	None

**ANALYSIS**

The sum of \$50,000 is requested for promotion of the commercial and maritime interests of the harbor through advertising of the harbor's advantages and the port's facilities. A like sum was appropriated for these purposes during the current year and, in view of very keen competition from the other ports and the need for increased business, we recommend approval of this item as requested. In the event of war, however, we would recommend that any unspent portion of this sum be withheld from expenditure through budgetary control.

ITEM 387 of the Budget Bill

Budget page 1094  
Budget line No. 23

*For Construction, Improvements, Repairs, and Equipment for San Francisco Harbor, From the San Francisco Harbor Improvement Fund*

Amount requested .....	\$93,500
Estimated to be expended in 1950-51 Fiscal Year .....	257,000
<hr/>	
Decrease (64.0 percent) .....	\$163,500

**RECOMMENDATIONS**

Amount budgeted .....	\$93,500
Legislative Auditor's recommendation .....	93,500
<hr/>	
Reduction .....	None

**ANALYSIS**

The sum of \$93,500 requested for capital outlay for the port is considered by the board as necessary to provide for the minimum of construction projects to be financed from the Harbor Improvement Fund. This sum represents a decrease of 64 percent from the current year expenditures for these projects.

We recommend approval of the request.

**Department of Employment  
DISABILITY AND HOSPITAL BENEFITS PROGRAM**

ITEM 388 of the Budget Bill

Budget page 1147  
Budget line No. 24

*For Support of Department of Employment From the Unemployment Compensation Disability Fund*

Amount requested .....	\$2,398,945
Estimated to be expended in 1950-51 Fiscal Year .....	2,515,944
<hr/>	
Decrease (4.7 percent) .....	\$116,999

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$118,476	\$118,476	---	1166	9
Operating expense	9,365	9,365	---	1166	10
Equipment	11,589	11,589	---	1166	11
Plus:					
Reimbursements	747	747	---	1166	15
Total increase	\$116,999	\$116,999	---		

RECOMMENDATIONS

Amount budgeted	\$2,398,945
Legislative Auditor's recommendation	2,398,945
Reduction	None

ANALYSIS

We recommend approval of the budget as submitted.

The total amount requested of \$2,398,945, Budget page 1146, line 37, consists of the following:

Salaries and wages	\$1,823,206
Operating expense	545,279
Equipment	30,460
Total	\$2,398,945

This breakdown does not appear in the printed Budget because a large part of the activities attributable to the Disability and Hospital Benefits Program are carried on by personnel who work jointly on this program and the Unemployment Insurance Program and who are shown in the Unemployment Insurance sections of the Budget. This is also true of certain of the operating expenses. Of the total requested, \$681,310, or 28.4 percent, represents apportionment of these joint costs.

Revenues for the Unemployment Compensation Disability Fund continue to exceed expenditures as in the past but at a decreasing rate. They are estimated to exceed such expenditures for the current and budget years as shown in the following tabulation:

Unemployment Compensation Disability Fund

Year	Revenues	Support	Expenditures		Ending balance	Increase in ending balance
			Employees Retirement payments	Benefit		
1949-50 (actual)	\$36,098,835	\$2,351,295	\$145,350	\$25,164,331	\$98,363,846	\$8,437,859
1950-51 (est.)	35,637,425	2,515,944	147,625	28,842,641	102,545,061	4,181,215
1951-52 (est.)	33,115,328	2,398,945	138,564	27,753,000	105,369,880	2,824,819

The decreasing revenue is due to the gradually increasing percentage of total payrolls covered by voluntary plans with private insurance carriers. The percentage of total payrolls covered by the state plan by calendar years since the inception of the program is as follows:

Year	Percent
1946	98.7
1947	79.0
1948	69.4
1949	55.8
1950	48.2
1951 estimated	43.0

The decrease in revenues from contributions of employees is offset to some extent by assessments against employers using voluntary plans, and the necessity for revenues with which to pay benefits decreases as the employees covered under the state plan decrease.

Chapter 951, Statutes of 1949, provided for payment of additional hospital benefits starting January 1, 1950. For the first 11 months of the calendar year 1950, total benefit payments were \$24,380,000 as compared with \$21,212,000 for the corresponding period of 1949, an increase of \$3,168,000, or 14.9 percent. Approximately \$2,500,000 of this increase, or 10.3 percent, is attributable to additional hospital benefits.

The balance of \$98,363,846 in the Disability Fund on June 30, 1950, does not include \$102,968,116 principal and \$8,623,481 interest in the Unemployment Trust Fund in the United States Treasury which is also available for disability insurance payments. Under Section 403 of the California Unemployment Insurance Act, the Director of the Department of Employment has the power to transfer this money to the Disability Fund. To date it has not been transferred because it has not been needed and because it earns a higher rate of interest where it is.

An additional amount of approximately \$210,000,000, representing employee contributions to the Unemployment Fund prior to 1944, is on deposit in the Unemployment Trust Fund and can be transferred to the Disability Fund at any time by appropriate legislative action.

The total revenues and expenditures of the Disability Fund are not included in budget totals. In our opinion a more accurate picture of the total expenditure program and total revenue receipts would be presented by the inclusion of these amounts in the budget totals.

**DEPARTMENT OF EMPLOYMENT**

ITEM 389 of the Budget Bill

Budget page 1147  
Budget line No. 38

*For Support of Employment From the Department of Employment  
Contingent Fund*

Amount requested -----	\$95,027
Estimated to be expended in 1950-51 Fiscal Year -----	43,721
 Increase (117.3 percent) -----	 \$51,306

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$49,392	\$6,540	\$42,852	1166	9
Operating expense -----	3,502	—239	3,741	1166	10
Equipment -----	—1,588	—1,588	---	1166	11
 Total increase -----	 \$51,306	 \$4,713	 \$46,593		

**RECOMMENDATIONS**

Amount budgeted -----	\$95,027
Legislative Auditor's recommendation -----	43,434
 Reduction -----	 \$46,593

ANALYSIS

The amount requested for support includes \$46,593 for the employment of 12 additional field auditors to be attached to the regular field audit section of the Division of Accounts and Tax Collections and represents the following:

*Salaries*

1 Auditor, grade 3-----	\$4,740	
4 Auditors, grade 2-----	15,600	
7 Accountant-auditors, grade 1-----	22,512	\$42,852

*Operating Expense*

Travel-----	\$3,355	
Personnel Board charges-----	386	3,741

Total-----		\$46,593
------------	--	----------

The Department of Employment Contingent Fund was established in 1945, its only source of revenue being interest and penalties received on contributions. The balance in the fund on June 30, 1950, was \$1,962,084. It was not intended that the fund be used as a substitute for any part of the costs of administration of the unemployment insurance program normally financed by federal grants. Its principal use to date has been to acquire office facilities for the use of the Department of Employment, the cost of which is to be recovered through rents paid out of federal grants.

The field audit program of the Department of Employment is a part of the program normally financed by federal grants, no part of which has ever been financed by an appropriation from the Contingent Fund in the past.

At present there are 202 auditor positions on the field audit staff, and it is proposed to increase this by 12 from this appropriation. The agency also hopes to add an additional 12 during 1951-52, conditioned on the availability of federal funds.

The agency is urging this appropriation on the ground that federal grants in the past have not been sufficient to provide for an adequate audit program, either by standards desired by the agency or by those recommended by the Bureau of Employment Security. During 1949-50 the ratio of audits completed to number of active taxpayers at the year's end was 1.9 percent, whereas in the Sale Tax Division it was 16.6 percent. The Bureau of Employment Security recommends a ratio of 13.8 percent for the Department of Employment.

The agency submits further data in support of this appropriation to indicate that additional auditors will show a "profit" to the State by pointing out that 51.84 auditors produced \$550,637 in additional revenue during the first six months of 1950 at a direct salary cost of \$99,100. These data are misleading, however, for the same reasons that are discussed in our analysis of the Sales Tax Division of the Board of Equalization, where comparable data have always been misleading in the past.

In the first place, there were 209.7 auditors on the field audit staff during the period, the 51.84 representing only the direct time of these men spent on field auditing. In the second place, the \$99,100 does not include the 8 percent retirement contribution by the State. In the third place, the so-called "revenue" is the gross amount recommended by field

auditors, which should probably be discounted at least 15 percent in order to arrive at the actual amount to be collected.

A more accurate picture of the probable additional revenue to be realized per dollar of salary costs from any increase in the field audit staff is as follows:

Total salary costs, \$99,100 + 8 percent.....	\$107,028.00
Average salary per auditor working on audits, \$107,028 ÷ 51.84 .....	2,064.46
Total salaries of all auditors, 209.7 × \$2,064.46.....	432,917.00
Total estimated revenue produced by 209.7 auditors, 85 percent × \$550,637.....	468,041.00
Additional revenue per dollar of direct salary cost, \$468,041 ÷ \$432,917.....	1.08

On the basis of these figures, which are based on the agency's own justification, it appears that the best that can be expected in the way of additional revenue per dollar of salary costs for additional auditors is \$1.08.

It must be remembered that the penalties and interest included in additional revenue resulting from audit recoveries will probably not exceed 20 percent of the total and that, therefore, out of each \$1.08 in additional revenue only about 22 cents will go to the Contingent Fund. The other 86 cents will go to the Unemployment Trust Fund in the United States Treasury, available only for benefit payments and not administrative costs.

Accordingly, we recommend against this item since it represents an activity which should be supported by federal funds and since the Contingent Fund will only realize about 22 cents in additional revenue for each dollar proposed to be appropriation.

We recommend approval of the remainder of the proposed expenditure of \$95,027, or \$48,434, since all but \$200 represents the continuation of the program for which a similar amount was approved at the last session, namely half the support of the Division of Development and Stabilization of Employment, only half of the cost of which is supported by federal grants.

Neither the revenue nor expenditures of the Department of Employment Contingent Fund are included in the budget total. In our opinion their inclusion in the budget total would present a more accurate picture of the total expenditure program of the State.

From the standpoint of number of employees and total disbursements controlled by an agency, the Department of Employment is one of the three largest state agencies, while from the standpoint of total revenues collected it is the second largest. While it operates under a program subject to certain broad federal controls, and while its operations are financed by federal grants, the details of its activities are prescribed by state law to the same extent as any other state agency. This is true of its basic structure and organization, its employees who are subject to state civil service to the same degree as any other group of state employees, of the tax rates paid by employers, and the scale of benefit payments made to unemployed workers.

Accordingly, we believe that it is in fact a state agency and that the revenues and expenditures from all of its funds should be included in budget totals and not excluded as in the past.

ITEM 390 of the Budget Bill

Budget page 1168  
Budget line No. 52**For Major Construction, Department of Employment, From the  
Department of Employment Contingent Fund**

Amount budgeted .....	\$944,000
Legislative Auditor's recommendation .....	944,000
Reduction .....	None

This item will provide for the continuation of the Department's program to replace uneconomical leased space with state-owned buildings. Included is \$891,000 for construction of buildings in Englewood, San Bernardino, Torrance, Eureka, and Vallejo, and for the acquisition of building sites at Pasadena, Merced and Hayward amounting to \$53,000. The cost of the buildings will be ultimately returned to the Contingent Fund in the form of rentals for the building, paid out of federal funds. We recommend approval of this item as requested.

**BUDGETARY CONTROL SECTIONS****Section 3, page 84, of the Budget Bill**

Recommendation: *We recommend approval.*

This section provides that major construction projects authorized in the Budget Act shall be subject to approval of the Public Works Board and reports on expenditures for these projects shall be made in the budget document rather than in the report of the Public Works Board. The present procedures require all projects exceeding \$10,000 to be submitted to the Public Works Board. We believe the change in projects to be reviewed by the Public Works Board from projects exceeding \$10,000 to major construction projects is desirable.

**Section 4, page 85, of the Budget Bill**

Recommendation: *We recommend approval.*

This section restricts expenditures from appropriations made in the Budget Act to categories or projects set forth in the Budget Act schedule except as otherwise provided in other sections of this Act.

**Section 5, page 85, of the Budget Bill**

Recommendation: *We recommend that this section be amended to eliminate the words which would permit the Director of Finance to transfer funds between projects in capital outlay items.*

Section 5 heretofore has permitted transfer of funds with approval of the Director of Finance only between so-called object categories in support, i.e., salaries and wages, operating expenses, and equipment. As Section 5 is now worded it would permit transfers between projects scheduled in each separate capital outlay item.

We do not believe that this change is desirable, but feel that the Legislature should continue the line item type of control which was in the 1949 and 1950 Budget Acts for capital outlay projects.