

We note that of the nine new camps which were proposed for inclusion in the 1955-56 Budget, the agency now only expects the actual inclusion of two. It is now estimated that \$372,260 of the amount budgeted last year will not be required. We pointed out last year that the proposal of nine camps appeared unrealistic. We suggested that prior to the inclusion of new camps in the subvention item, some positive indication should exist that the county would itself appropriate the necessary funds to activate the camp. The agency and the Department of Finance stated at that time that they had been assured that the nine new camps would be activated. Apparently these assurances were not as reliable as they should have been. Inasmuch as the remaining seven camps of the nine proposed last year are again proposed for the budget year, we raise the question as to whether any better assurance supports their inclusion in this budget than in the last one? It appears to us to be a poor budget procedure to overestimate any item to the extent that this item has been overestimated in the absence of factual data to justify the estimate.

The per capita cost of county camp care for the budget year is estimated at \$2,509 for an estimated population of 1,154. Compared with the estimated per capita cost for Youth Authority care of \$3,599, this represents a substantial margin of lesser cost to the taxpayer. In our opinion care at the county level should, in the long run, prove to be more successful in terms of rehabilitation of delinquents.

We again point out that the county is only charged \$25 per month for wards committed to the Youth Authority, whereas the State pays one-half of the cost up to \$95 a month for maintaining a delinquent youth in a county camp. We believe these costs should be equalized so as to encourage the development of county camps.

DEPARTMENT OF EMPLOYMENT

ITEM 451 of the Budget Bill

Budget page 1444
Budget line No. 25

FOR SUPPORT OF DISABILITY AND HOSPITAL BENEFITS PROGRAM FROM THE UNEMPLOYMENT COMPENSATION DISABILITY FUND

Amount requested	\$3,767,474
Estimated to be expended in 1955-56 Fiscal Year	3,618,656
Increase (4.1 percent)	\$148,818

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	\$92,986	\$92,986	---	1469 20
Operating expense	53,987	53,987	---	1469 21
Equipment	1,845	1,845	---	1469 22
Total increase	\$148,818	\$148,818		1469 24

RECOMMENDATIONS

Amount budgeted	\$3,767,474
Legislative Auditor's recommendation	3,767,474
Reduction	None

ANALYSIS

The major activity of the Department of Employment consists of the administration of the unemployment insurance and the employment service programs which are financed entirely by grants of federal funds. The department also performs certain functions under two other relatively minor federally financed programs, one for unemployment allowances to veterans of the Korean War and the other for federal employees' unemployment compensation. The expenditures for programs financed from federal grants are not included in the Budget Bill and as a consequence are not subject to the normal process of legislative review and control through the device of appropriation.

The appropriation requested under this item is for administration of the disability and hospital benefits program, which is state controlled, but many of its operations are so closely integrated with those of the federally financed programs as to render the usual type of budgetary analysis impossible. (See Table 1.)

The budgetary process in the Department of Employment for both the federally financed and the state-financed programs is geared directly to work load. Total personnel requirements are estimated on the basis of unit times per operation multiplied by the number of operations to be performed, and the resulting total hours are converted into units of personnel required, which in turn are converted into money at the average annual salary rate. These computations in summary form for the past, current, and budget years are as follows:

<i>Fiscal year</i> (1)	<i>Total hours</i> (2)	<i>Hours in year</i> (3)	<i>People</i> (2 ÷ 3) (4)	<i>Average annual salary</i> (5)	<i>Total salaries</i> (4 × 5) (6)
1954-55	1,166,355	2,016	578.6	\$4,175.78	\$2,415,690
1955-56	1,244,929	1,992	625.0	4,391.52	2,744,701
1956-57	1,259,130	1,984	634.6	4,471.62	2,837,687

The salaries and number of positions are those shown on budget page 1469, line 20, and the 634.6 positions requested for 1956-57 are a part of the total of 4,137.9 shown for that year in the total recapitulation by object for the entire agency, budget page 1468, line 46. It is impossible to identify the 634.6 positions requested for the disability insurance program for 1956-57 in the printed budget, although about two-thirds are in the Division of Disability and Hospital Benefits shown starting on budget page 1465, line 56, and ending on budget page 1465, line 39. The equivalent of the remaining units of personnel are in the sections primarily devoted to the unemployment insurance program and their time is distributed on the basis of a functional time reporting system.

We recommend approval of the budget as submitted.

Summary Tables

Table 1 shows proposed support expenditures for the Department of Employment for 1956-57 by funds and by operating units and gives a good indication of the extent to which the disability and hospital benefits program (financed from the Unemployment Compensation Disability Fund) is integrated with the federally financed program

(financed from the Unemployment Administration Fund) since all of the operating units shown in Table 1, except the last, are primarily concerned with the federally financed program.

The Department of Employment Contingent Fund is a state fund out of which one small operation is financed, the appropriation involved being shown under Budget Bill Item 452.

Table 1. Proposed Support Expenditures, Department of Employment, by Funds and Operating Units, 1956-57, Exclusive of the State's Contribution to the Employees' Retirement System

Operating Unit	Unemployment	Unemployment	Department	Total
	Administration	Compensation	of Employment	
	Fund	Disability	Contingent	
		Fund	Fund	
Office of the Director and Deputy Director -----	\$51,172	\$14,078	\$165	\$65,415
Advisory Council -----	11,488	--	--	11,488
Legal Section -----	77,979	13,786	--	91,765
Public Information Section---	36,185	10,711	--	46,896
Research and Statistics Section -----	240,885	55,077	42	296,004
Investigation Section -----	554,361	18,359	--	572,720
Division of Appeals -----	947,137	152,862	--	1,099,999
Division of Public Employment Offices and Benefit Payments -----	12,777,980	118,147	23,473	12,919,600
Division of Accounts and Tax Collections -----	1,926,811	121,639	--	2,048,450
Office of Assistant Director-Comptroller -----	38,889	765	83	39,737
Standards and Methods Section -----	51,821	9,916	--	61,737
Accounting Section -----	1,314,023	251,063	--	1,565,086
Tabulating Section -----	926,712	143,275	102	1,070,089
Administrative Services -----	5,234,500	149,576	12,924	5,397,000
Division of Disability and Hospital Benefits -----	16,469	2,708,220	--	2,724,689
Totals Support -----	\$24,206,412	\$3,767,474	\$36,789	\$28,010,675

Table 2, which follows, shows expenditures for administration of the Department of Employment for a 10-year period, by funds, and gives a good idea of the growth of the agency during that period. Data for this table are taken from the various printed budgets.

Table 2. Expenditures for Administration of Department of Employment, by Funds and Fiscal Years, Ten Years Ended With 1956-57, Exclusive of State's Contribution to Employees' Retirement System

Fiscal Year	Unemployment	Unemployment	Department	Total
	Administration	Compensation	of Employment	
	Fund	Disability	Contingent	
		Fund	Fund	
1947-48 (actual) -----	\$16,600,481	\$1,940,691	\$8	\$18,541,180
1948-49 (actual) -----	16,928,550	2,235,079	44	19,163,673
1949-50 (actual) -----	17,678,050	2,351,295	94	20,029,439
1950-51 (actual) -----	17,015,668	2,295,612	27,647	19,338,927
1951-52 (actual) -----	17,433,788	2,509,738	55,502	19,999,028
1952-53 (actual) -----	18,276,617	2,839,033	58,253	21,173,903
1953-54 (actual) -----	19,132,502	3,153,496	49,775	22,335,773
1954-55 (actual) -----	21,065,971	3,221,741	33,469	24,321,181
1955-56 (Estimated) -----	22,395,091	3,618,656	37,536	26,051,283
1956-57 (Proposed) -----	24,206,412	3,767,474	36,789	28,010,675

Table 3 shows benefit payments for the same ten-year period covered by Table 2, as shown by the various printed budgets.

Unemployment insurance benefits are paid out of the Unemployment Fund held in trust in the Federal Treasury, on requisition by the Director of the Department of Employment, while disability insurance benefits are paid out of the Unemployment Compensation Disability Fund in the State Treasury. The Unemployment Fund, a statement of the condition of which appears on budget page 1470, lines 44 to 63, receives most of its revenue from employer contributions imposed upon California employers under the provisions of the California Unemployment Insurance Code.

Table 3. Benefit Payments by Funds and Fiscal Years,
Ten Years Ended With 1956-57

<i>Fiscal year</i>	<i>Unemployment fund</i>	<i>Disability fund</i>	<i>Total</i>
1947-48 (actual) -----	\$128,660,669	\$19,242,744	\$147,903,413
1948-49 (actual) -----	210,152,660	23,243,619	233,396,279
1949-50 (actual) -----	242,819,265	25,164,331	267,983,596
1950-51 (actual) -----	112,283,610	25,146,125	137,429,735
1951-52 (actual) -----	102,584,258	25,964,753	128,549,011
1952-53 (actual) -----	94,850,316	31,759,690	126,610,006
1953-54 (actual) -----	124,993,158	38,195,311	163,188,469
1954-55 (actual) -----	125,456,971	46,601,731	172,058,752
1955-56 (estimated) -----	98,697,022	50,441,074	149,138,096
1956-57 (proposed) -----	102,500,000	54,000,000	156,500,000

Investment in Buildings

The amounts shown on budget page 1470, line 13, as "Investment in Employment Building, Sacramento" represents the unamortized costs of the main employment building on Capitol Avenue between Seventh and Ninth Streets in Sacramento, the building at Seventh and N Streets in Sacramento now occupied by the Department of Veterans Affairs, and a parking lot and appurtenant facilities on the block bounded by Seventh, Eighth, N and O Streets in Sacramento. These investments are authorized by Section 3125 of the Unemployment Insurance Code as amended by Chapter 1814, Statutes of 1955.

The costs of the buildings are being amortized over a period of approximately 40 years, with interest at 3 percent, out of federal grants for rent.

The site for the parking lot is in process of acquisition at the present time, and its costs will be amortized out of rental received from users of the parking space.

The amounts shown on budget page 1470, line 14, as "Investment in Branch Office Building, Los Angeles" represent an investment of not to exceed \$2,750,000 authorized by Chapter 16, Statutes of 1954 (1st Ex. Session) for the acquisition of a site and construction of a building to be used by the Department of Employment as a branch office in Los Angeles. At present negotiations are in progress for the acquisition of a site. This investment will be amortized over a period of years, with interest, in a manner similar to the investment in the building in Sacramento.

Efficiency and Economy

In answer to a request made by this office for a report on management improvements, organization changes, or other steps taken since January 1, 1955, to achieve efficiency and economy we have received replies from both the Director of the Department of Employment and the Unemployment Insurance Appeals Board.

While space does not permit a detailed listing of these various accomplishments their nature and variety indicate to us that both agencies are on the alert to seek better ways of doing their jobs.

The Director of the Department of Employment lists 16 changes made, the most significant of which appear to be the following:

1. Based on recommendations made by the Department of Finance as the result of an organization study (A. N. 712) significant changes were made in the organizational structure resulting in better coordination and communications, a reduction in the number of emergency actions required and a strengthening of employee morale.

2. By redirection of available staff more emphasis has been placed on job placement activities resulting in substantial increases in job placements.

3. Improvements were made in farm placement by more extensive use of trailers and other temporary office facilities resulting in substantial increases in job placements in farm activities.

4. Decentralization of disability insurance claim processing has resulted in reducing the payment interval of from nine or ten days to five or six days, and in spite of increased work load a reduction of 10 positions was made possible in the central office staff.

5. Operating manuals for local offices have been condensed and the style made more realistic and explicit, resulting in better understanding of their contents by local office staffs and improved quality of work in the determination function.

6. Cooperation of the medical profession was secured in limiting the scope of examinations in connection with the review of disability insurance claims resulting in a reduction in fees per case and decreased total costs for medical fees in spite of an increased work load.

7. As a result of a Merit Award suggestion the requisitioning of money from the Unemployment Insurance Trust Fund in Washington was changed from a weekly to a daily basis resulting in increased interest revenue to the fund of about \$16,000 per year.

8. Conversion from the use of conventional tabulating equipment to an electronic data processing system was in process all during 1955 with assurance of complete readiness for the cut-over date, early in 1956. Both improved performance and substantial operating economies will result from the electronic installation, the savings being estimated at between \$200,000 and \$400,000 per year, being progressively greater as work load increases.

In this connection we would like to point out that this electronic installation is one of a very few of its kind and also, one of the largest in the United States, and that after the shakedown period has been completed, which should be well before the end of the 1956-57 Fiscal Year, the agency might be in a position to use this installation for performing various types of analytical operations for other state

agencies on a contract basis, with resulting substantial over-all savings. We have in mind specifically statistical analyses such as that now being performed by the Franchise Tax Board with the use of an obsolete type of punched card equipment.

We recommend that a study be made, with a report to the 1957 Session of the Legislature looking toward the possibilities of maximum use of this electronic installation by other state agencies on a contract basis, the study to include recommendations for any changes in existing law necessary to permit such use.

The Unemployment Insurance Appeals Board reports that as the result of a survey which it made, it has decentralized its staff of referees to six locations in the State, in addition to Los Angeles, San Francisco and Sacramento, where the survey indicated there was sufficient work load to warrant such a procedure, with resulting elimination of lost time and expense due to excessive travel. It also reports savings of \$3,000 per year as the result of using improved methods for reproducing copies of its decisions for sale to interested parties.

ITEM 452 of the Budget Bill

Budget page 1444
Budget line No. 48

FOR ADDITIONAL SUPPORT OF THE DEPARTMENT OF EMPLOYMENT FROM THE DEPARTMENT OF EMPLOYMENT CONTINGENT FUND

Amount requested	\$36,789
Estimated to be expended in 1955-56 Fiscal Year	37,536
Decrease (2.0 percent)	<u>\$747</u>

Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Work load or salary adjustments	New services	
Salaries and wages	—\$974	—\$974	—	1469 28
Operating expense	230	230	—	1469 29
Equipment	—3	—3	—	1469 30
Total increase	<u>—\$747</u>	<u>—\$747</u>	—	1469 32

RECOMMENDATIONS

Amount budgeted	\$36,789
Legislative Auditor's recommendation	<u>36,789</u>
Reduction	None

ANALYSIS

The amount requested is for purposes similar to those for which appropriations have been made from this fund for the last several years and represents the following:

One-half the cost of the community employment program:	
Salaries and wages	\$22,230
Operating expenses and equipment	<u>1,846</u>
Total	<u>\$24,076</u>

Other items:	
Pro-rata, general fiscal administration.....	\$3,566
Pro-rata retirement administration.....	19
Audit charges, Department of Finance.....	3,628
Actuarial services.....	5,000
Out-of-state travel differential.....	500
Total	12,713
Total	\$36,789

The community employment program is carried on by a staff of four, in the area offices, and involves planning and developing programs for the development of job opportunities and the stabilization of employment. The amount requested of \$24,076 represents one-half the salaries of this staff, plus related supervision and clerical services, and it is anticipated that the other one-half will be paid out of federal grants through the Unemployment Administration Fund.

The other items represent charges for general administrative overhead applicable to the Contingent Fund activities, the cost of actuarial evaluation and solvency studies of the Unemployment Fund, for which purpose no federal grants will be made available and the cost of out-of-state travel in excess of amounts provided by federal grants, since the state allowances are more liberal than the federal in this respect.

We recommend approval of the budget as submitted.

Department of Employment Contingent Fund

A summary of the transactions in the Department of Employment Contingent Fund from the date of its inception on January 30, 1945, to June 30, 1957, is shown in Table 4, in thousands of dollars.

Table 4. Department of Employment Contingent Fund (in Thousands)

Period (1)	Receipts		Expenditures			Ending balance (7)
	Revenues (2)	Recovery of capital expendi- tures (3)	Capital outlay (4)	Transfers to other funds (5)	All other (6)	
January 30, 1945, to June 30, 1954 (actual)	\$7,149	\$536	\$5,848	--	\$226	\$1,611
1954-55 (actual)	859	372	—568	\$2,375	35	1,000
1955-56 (estimated)	804	403	—35	--	41	2,201
1956-57 (estimated)	875	403	50	--	39	3,390
Totals	\$9,687	\$1,714	\$5,295	\$2,375	\$341	\$3,390

Revenues shown in column 2 are from interest, penalties, and fines collected on contributions from employers and employees, less interest paid on refunds and judgments, which is nominal at present, plus a few minor items.

The expenditures for capital outlay shown in column 4 are for acquisition of sites and construction of 16 branch office buildings, and a warehouse in Sacramento, all of which are completed and occupied at present. These costs are to be recovered over varying periods of time in the form of rents paid out of federal grants and the Disability Fund,

the total amount recovered to date being that shown in column 3 of Table 4, while the amount still to be recovered after 1956-57 is the difference between \$5,295,000 and \$1,714,000 or \$3,581,000.

The amounts in column 5 of Table 1 represent the following:

Transfer to General Fund pursuant to Section 2.1, Budget Act of 1954-----	\$2,374,443
Transfer to Capital Outlay and Savings Fund pursuant to Section 5, Budget Act of 1954-----	674
Total -----	\$2,375,117

The amounts in column 6 of Table 4 are for support items, including the State's contribution to the employees retirement system for any salaries involved.

It will be noted that the balance in the Department of Employment Contingent Fund is expected to increase at the rate of about \$1,200,000 per year during the current and budget years.