

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**FINANCIAL AUDIT REPORT
STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
YEAR ENDED JUNE 30, 1979**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

480

FINANCIAL AUDIT REPORT
STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
YEAR ENDED JUNE 30, 1979

NOVEMBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits Deloitte Haskins & Sells and Catten Yu & Company's financial audit report of the Employment Development Department, year ended June 30, 1979. The work was performed under contract with the Auditor General's Office.

The auditor is Curt I. Davis, CPA, Audit Manager.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

Deloitte Haskins & Sells
44 Montgomery Street
San Francisco, California 94104

Catten Yu & Company
2617 "K" Street
Sacramento, California 95816

State of California
Employment Development Department:

August 1, 1980

We have examined the combined balance sheets of all fund types of the State of California Employment Development Department as of June 30, 1979 and the related combined statements of revenues, expenditures and encumbrances, and changes in equity for the year then ended. Except as set forth in the three following paragraphs, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Department's management advised us that they could not locate documentation supporting about 5% of expenditures and encumbrances in each fund type. They also advised us that certain records supporting an additional 20% of Special Revenue Funds' expenditures and encumbrances were destroyed when unemployment benefit files became bulky. Accordingly, we did not examine adequate evidential matter for expenditures and encumbrances aggregating about 5% of the General and Trust and Agency Funds and about 25% of the Special Revenue Funds.

Some expenditures are paid by the Unemployment Administration Fund and allocated to other funds. The Department does not maintain detailed records of certain amounts included in such allocations. Accordingly, we were unable to test such allocations, which amounted to 19% of the General Fund's expenditures and encumbrances.

Some Special Revenue and Trust and Agency Funds' expenditures are paid from the same checking account. The Department's management has advised us that detailed records are not retained for the distribution of such expenditures to each Fund. Accordingly, we were unable to test the distribution of expenditures aggregating 29% of Trust and Agency Funds and 62% of Special Revenue Funds expenditures and encumbrances.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to test the expenditures and encumbrances described in the three preceding paragraphs, the financial statements referred to above present fairly the combined financial position of all fund types of the State of California Employment Development Department as of June 30, 1979 and the results of their

operations and the changes in their combined fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting as described in Note 2 to the financial statements.

General fixed assets were not audited by us and, accordingly, we do not express an opinion on them.

Deloitte Haskins & Sells

Catten Yu & Co.

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT

COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1979

	GENERAL	FUND TYPES SPECIAL REVENUE	TRUST AND AGENCY	GENERAL ASSETS ACCOUNT GROUP	TOTAL (MEMORANDUM ONLY)
(Unaudited)					
ASSETS					
Cash and deposits.....	\$ 160,000	\$ 2,905,067,557	\$ 48,110,643		\$ 2,953,338,200
Accounts receivable from employers and others.....	1,464	29,122,643	7,042,345		36,166,452
Due from Federal government.....			93,700,907		93,700,907
Interest receivable from State surplus money investment fund.....		24,091,254			24,091,254
Due from local governments.....			3,692,373		3,692,373
Due from other funds.....	1,400,066	23,477,233	9,512,161		34,389,460
Due from other State agencies.....		2,004,876	2,704,826		4,709,702
Expense advances to employees.....		129,948	487,385		617,333
Prepayment to State service revolving fund Land.....			1,352,020		1,352,020
Improvements.....				\$ 6,180,454	6,180,454
Equipment.....				23,761,864	23,761,864
Advances to State architecture revolving fund.....				12,115,950	12,115,950
				5,268,815	5,268,815
TOTAL ASSETS.....	\$ 1,561,530	\$ 2,983,893,511	\$ 166,602,660	\$ 47,327,083	\$ 3,199,384,784

LIABILITIES AND EQUITY

LIABILITIES:					
Accounts payable and encumbrances.....	\$ 6,743,559	\$ 886,212	\$ 93,144,417		\$ 100,774,188
Cash overdrafts on State Treasury account.....			50,558,293		50,558,293
Due to other funds.....	1,587,707	25,645,166	7,156,587		34,389,460
Overpayments refundable to employers.....		4,372,406			4,372,406
Due to other State agencies.....		6,141,944	906,042		7,047,986
Due to local governments.....			429,469		429,469
Total liabilities.....	8,331,266	37,045,728	152,194,808		197,571,802
EQUITY:					
Investment in general fixed assets.....				\$ 42,058,268	42,058,268
Clearing account with State Controller.....	(6,769,736)				(6,769,736)
Fund balance:					
Designated for construction.....		2,946,847,783	14,407,852	5,268,815	5,268,815
Other.....		2,946,847,783	14,407,852	47,327,083	2,961,255,635
Total equity.....	(6,769,736)	2,946,847,783	14,407,852	47,327,083	3,001,812,982
TOTAL LIABILITIES AND EQUITY.....	\$ 1,561,530	\$ 2,983,893,511	\$ 166,602,660	\$ 47,327,083	\$ 3,199,384,784

See notes to financial statements

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT

COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND ENCUMBRANCES,
 AND CHANGES IN EQUITY
 FOR THE YEAR ENDED JUNE 30, 1979

FUND TYPES.....			TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	TRUST AND AGENCY	
REVENUES:				
Employer contributions.....		\$1,729,876,611		\$1,729,876,611
Employee contributions.....		671,030,332		671,030,332
Receipts from the Federal government.....	\$ 3,608,337	12,500,000	\$526,491,045	542,599,382
Interest and penalties.....		181,088,195		181,088,195
Receipts from local governments.....			32,152,440	32,152,440
Other.....	901,530	2,439,302	12,879,199	16,220,031
Total revenues.....	<u>4,509,867</u>	<u>2,596,934,440</u>	<u>571,522,684</u>	<u>3,172,966,991</u>
EXPENDITURES AND ENCUMBRANCES:				
Unemployment insurance benefits.....		960,268,929		960,268,929
Disability insurance benefits.....		483,403,050		483,403,050
Expenditures of receipts from the Federal government.....	3,608,337	10,792,313	554,582,070	568,982,720
Expenditures of receipts from local governments....			30,138,636	30,138,636
Administrative and other....	18,458,029	32,068,575	5,764,728	56,291,332
Total expenditures and encumbrances..	<u>22,066,366</u>	<u>1,486,532,867</u>	<u>590,485,434</u>	<u>2,099,084,667</u>
Revenues over (under) expen- ditures and encumbrances..	(17,556,499)	1,110,401,573	(18,962,750)	1,073,882,324
Funds transferred from the State Controller.....		17,502,451		17,502,451
Revenues and transferred funds over (under) expen- ditures and encumbrances..	(54,048)	1,110,401,573	(18,962,750)	1,091,384,775
EQUITY - July 1, 1978, as adjusted (Note 2).....	<u>(6,715,688)</u>	<u>1,836,446,210</u>	<u>33,370,602</u>	<u>1,863,101,124</u>
EQUITY - June 30, 1979.....	<u>\$ (6,769,736)</u>	<u>\$ 2,946,847,783</u>	<u>\$ 14,407,852</u>	<u>\$ 2,954,485,899</u>

See notes to financial statements.

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting has been used to prepare the accompanying financial statements. Modifications from the accrual basis are as follows:

- . Tax revenues are recorded when related tax payments are received. Receivables for delinquent payments and related interest and penalties were \$117,900,000 as of June 30, 1979. The Department does not believe that accruals for the collectible portion of such amounts would have a material effect on the financial statements.
- . Benefit payments are recorded when checks are issued. Contracted services are recorded when the contract is signed. Other goods and services are recorded when the invoice has been approved for payment. Vacation and sick leave are recorded when paid.
- . General fixed assets are recorded at cost when related expenditures are encumbered. No depreciation is provided on general fixed assets.
- . Special Revenue Funds' accounts receivable from employers represent estimated unbilled reimbursable benefit payments due from employers.

GENERAL FUND

The accompanying General Fund financial statements only include amounts related to the Employment Development Department. Complete financial statements for the General Fund would include amounts for other State operations.

Accompanying financial statements for other funds include all amounts for such funds, as follows:

SPECIAL REVENUE FUNDS

Special Revenue Funds account for revenues and expenditures designated for specific purposes, as follows:

Unemployment Compensation Disability Fund receives disability insurance taxes on wages of workers and assessments against voluntary insurance plans. Disability insurance benefits are paid for wage losses sustained by individuals who are unemployed due to sickness or injury.

Classified School Employees Fund provides funding for unemployment insurance for certain school employees.

Local Public Entity Employees Fund provides funding for unemployment insurance for employees of cities, counties, and other political subdivisions.

Unemployment Fund receives employer contributions for unemployment insurance and pays benefits to eligible individuals.

Contingent Fund receives interest and penalties collected in the administration of the unemployment and disability compensation law and transfers them to the fund to which they relate.

TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for assets held by the Department as trustee for a governmental unit and consist of the Unemployment Administration Fund and the Special Deposit Fund.

Unemployment Administration Fund consists of money received from the Federal government for the administration of the the Unemployment Insurance Program and certain other programs.

Special Deposit Fund is a depository for money collected by the Department for specific purposes for which no other fund has been created.

2. ACCOUNTING CHANGES

As of July 1, 1978 the Department adopted the accrual basis of accounting for:

- . amounts due from the Federal government, and
- . reimbursable benefit payments due from employers.

The retroactive effect of these accounting changes was to increase equity at July 1, 1978 by \$35,675,362 in the Trust and Agency Funds and \$14,699,149 in the Special Revenue Funds.

3. BUDGETARY DATA

Budgets for the General and Special Revenue Funds are prepared on the basis of cash receipts and disbursements. Budgeted and actual data using such basis are as follows for the year ended June 30, 1979:

General Fund.....	Special Revenue Funds.....	
	Budget	Actual	Budget	Actual
Revenues.....	\$24,029,915	\$22,012,318	\$2,547,925,992	\$2,572,236,555
Expenditures.	24,029,915	22,066,366	1,491,654,606	1,486,188,161

4. CONTINGENCIES

Rental Commitments - Rent expense for the year ended June 30, 1979 and minimum rental commitments for long-term leases are not material.

Retirement Plan - Regular employees of the Department are members of the Public Employees' Retirement System which is a defined benefit, contributory retirement plan covering most State employees. The Department's share of retirement contributions for the year was \$30,376,555, which includes amortization of prior service cost over thirty years. Pension costs are funded as accrued. For the System as a whole, the excess of the present value of total projected benefits over future employee contributions and employer normal costs was 183% of the assets of the pension fund at June 30, 1978, the latest date for which such information is available.

Litigation - The Department is a defendant in several lawsuits. Management believes that the outcome of such litigation will not have a material effect on the financial statements.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps