

**JOINT OVERSIGHT HEARING:  
ASSEMBLY WATER, PARKS & WILDLIFE AND  
SENATE NATURAL RESOURCES COMMITTEES**

**February 20, 2013  
9:30 a.m. - Noon, State Capitol, Room 4202**

**California Department of Parks and Recreation:  
Review of Audits and Compliance with 2012 Legislation**

**COMMITTEE BACKGROUND**

California's state park system consists of 278 state park units covering over 1.5 million acres of lands, and protecting many unique and diverse natural and historical resources. California's state parks are public assets managed by the Department of Parks & Recreation (DPR) for their natural, cultural, historical and recreational values, and for the benefit of the people of the state. The state park system has faced numerous challenges over the past several years, including budget cuts, threats of park closures, and most recently this past summer, revelations regarding nondisclosures of hidden fund reserves and other fiscal mismanagement issues.

**BRIEF HISTORY**

In 2010 the Governor proposed and the Legislature approved a \$22 million ongoing reduction in DPR's annual base level of General Fund (GF) support, which was phased in over two years beginning with the 2011-12 and 2012-13 fiscal years. In May 2011 DPR announced it would be permanently closing 70 state parks effective July 1, 2012 that it could no longer afford to operate as a result of the reductions in ongoing GF support to DPR. The Legislature in 2011 passed legislation authorizing DPR to enter into operating agreements with nonprofit organizations to help keep some of the parks open. Starting in the Fall of 2011 and continuing into 2012, DPR negotiated operating agreements and accepted donations from private groups and individuals who made contributions to help keep the parks open. As a result of the donations and operating agreements, DPR announced at the beginning of July 2012 that only one park out of the original 70 would be subject to full closure.

Then on or around July 15, 2012, the Sacramento Bee newspaper reported that a high-ranking official at DPR had carried out an unauthorized vacation buy-back program during 2011 for himself and other headquarters staff involving the payout of some \$271,000. Shortly after that, the State Natural Resources Agency announced that DPR had failed to report \$20.5 million in the State Parks and Recreation Fund (SPRF) and \$34 million in the Off-Highway Vehicle Trust Fund (OHVTF) to the Department of Finance (DOF). These revelations led to the resignation of the DPR director and the termination of several upper-management level employees. The discoveries also led the DOF, the State Controller's Office (SCO), the Attorney General (AG), and the Bureau of State Audits (BSA) to launch four separate audits or investigations into activities at DPR. The Legislature also responded with enactment of legislation that, among other things, placed a 2-year moratorium on state park closures, appropriated the \$20 million in found funds from the SPRF to provide matching funds for donor and nonprofit operating agreements, and to pay for critical infrastructure projects in parks necessary to protect public health and safety. The Legislature also directed DPR to develop revenue targets and action plans to generate revenues within parks, and strengthened the oversight role of the State Park & Recreation Commission.

## SUMMARIZING AUDIT AND INVESTIGATION RESULTS

The ongoing audits were mostly concluded in December of 2012. The results of these audits are summarized briefly below and discussed in more detail following the table.

### Summary of Investigations and Findings\*

Investigator	Results
Department of Justice (Attorney General)	<ul style="list-style-type: none"> <li>• Confirms deliberate hiding of \$21 million State Parks and Recreation Fund from Legislature and Administration</li> <li>• Confirms no Off-Highway-Vehicle funds hidden</li> <li>• Recommends oversight measures</li> </ul>
State Controller's Office	<ul style="list-style-type: none"> <li>• Management processes circumvented for out-of-class payroll</li> <li>• Personal leave program violations</li> <li>• Retired annuitants and non-permanent employees exceeded hours allowed</li> </ul>
Office of State Audits and Evaluation (OSAE)	<ul style="list-style-type: none"> <li>• Key budgeting functions need improvement</li> <li>• Risks over State Park Contingent Funds</li> <li>• Key internal controls over procurement violated</li> </ul>
Bureau of State Audits	<ul style="list-style-type: none"> <li>• Phase 1 confirms DPR continually reported different fund balance amounts to DOF than to SCO for SPRF and OHVTF. DOF adjustments in 2011 led to public misconception DPR was hiding OHVTF monies.</li> <li>• DPR lacked written analyses to justify parks selected for closure to the public and announcement of need to close 70 parks to meet GF reduction may have been premature.</li> <li>• DPR does not budget or track expenditures at park unit level and used outdated information for estimated operating costs.</li> </ul>
Local District Attorney	<ul style="list-style-type: none"> <li>• Declined to take up criminal charges</li> </ul>

\*Sources: Senate Budget Committee Overview and Assembly WPW Committee.

## AUDIT SUMMARIES

### Department of Finance:

**Scope of Audit:** The DOF audited DPR's internal controls, focusing on DPR headquarters and specifically the activities overseen by the DPR Administrative Services Division. The audit objectives included: 1) to determine the July 2012 ending fund balances in the SPRF and the OHVTF; 2) assess if key internal controls over the State Park Revolving Fund and the State Park Contingent Fund were in place; and 3) assess if key internal controls were in place over procurement activities.

**Key Findings and Recommendations:** The DOF audit confirmed that variances existed between the fund balances maintained by the State Controller's Office and the Governor's budgets for at least 19 years because DPR submitted certified year-end financial statements to the State Controller's Office reflecting actual fund balances but intentionally underreported fund balances to the DOF for development of the Governor's Budget. On September 6, 2012, DOF, at the direction of the Legislature issued Budget Letter 12-22 which requires each state departmental head beginning with fiscal year 2012-13 to certify that the information provided to DOF is accurate and consistent with the information provided to the State Controller. DOF also found the governance structure at DPR over budgeting functions needs improvement, that risks to the State Park Contingent Fund exist, and that key controls over procurement activities need improvement. DOF concluded DPR must improve accountability, transparency and communication to restore trust with the public, DPR's partners, and internally within DPR. DOF directed DPR to develop a corrective action plan to address the issues identified in the audit.

**Outstanding Issues:** DPR under its new leadership has concurred with most if not all of the findings in the DOF audit. DOF and DPR indicate that any remaining issues will be addressed through the corrective action plan. The corrective action plan required by DOF is due on February 21<sup>st</sup>, 60 days after completion of the audit. DOF acknowledges that the new management at DPR has taken steps to implement the recommendations of the audit and has stated it plans to follow up to verify the actions taken following receipt of the corrective action plan.

### **State Controller's Office:**

**Scope of Audit:** The SCO's audit focused on DPR payroll processes for the period of July 1, 2009 through June 30, 2012. The objectives of the audit were to determine whether DPR has proper internal controls in place for payroll transactions.

**Key Findings and Recommendations:** The SCO audit identified internal control weaknesses and violations of DPR and State policies that created a risk of abuse, fraud and overpayments to employees for out-of-class assignment pay. The review revealed that DPR has sufficient policies and procedures in place for day-to-day accounting of employee time and leave. However, similar to the leave buy-out program, SCO identified potentially abusive practices and internal control weaknesses involving out-of-class pay assignments. Out-of-class assignments are temporary assignments of employees to perform work outside their current scope of work assignment. It is the State's policy that out-of-class assignments are infrequent occurrences prompted by extraordinary, temporary or crisis situations, and are required to be offered to all staff within an office or division, subject to prior approval, and limited in duration. As with the leave buy-back program, the problems with out-of-class assignments resulted from management overriding controls, lack of proper support documentation, and failure to follow State personnel and payroll procedures. The SCO recommended that DPR implement policies and procedures to ensure proper documentation and justification for all out of class assignments, conduct regular internal audits of these assignments, provide training of DPR staff, and seek reimbursement from employees who received payments they were not entitled to.

**Outstanding Issues:** DPR through its new management concurred with much of the recommendations of the SCO but disagreed with the SCO's finding that individuals identified through the review had inappropriate access to the payroll system and with some of the SCO's

findings regarding disability leave requirements. The SCO recommends that DPR provide training to staff to ensure instructions on disability leave credits and balances are followed and understood. The SCO has also recommended that the Legislature consider authorizing the SCO to conduct several similar audits of other departments to determine whether the payroll problems at DPR are isolated or symptomatic of a more widespread problem with state government processes. DPR has indicated that it plans to comply with all of the SCO recommendations.

### **Attorney General's Office:**

**Scope of Investigation:** The AG's Office conducted an administrative investigation into the discrepancies in financial reports submitted by DPR. The AG conducted interviews with 40 current and former DPR state employees.

**Key Findings and Recommendations:** The AG's investigation found no evidence of intentional or systematic nondisclosure of OHVTF monies to DOF, including the \$34 million described as under-reported by the DOF at the close of fiscal year 2010-11. However, the AG did find systematic non-disclosure to the DOF of millions in SPRF monies for the past 15 years. While evidence indicates the disparity in SPRF year-end balance reports began and grew unintentionally during a challenging financial tracking and budgeting period from 1995 to 2003, it is clear that by no later than 2003, the failure to accurately report all SPRF monies to the DOF became conscious and deliberate. The primary reason consistently given for not doing so was fear that DPR would see its already-reduced GF cut further if the extra monies in the SPRF were revealed. The AG indicates that conclusively identifying everyone who knew of the funds and gave orders that they not be reported to the DOF is difficult, and concludes reports that former director Ruth Coleman knew of the funds are unreliable. There is no indication the funds were ever expended. Because they were not reported to the DOF, the monies seem to have represented an essentially useless reserve that could not be spent by DPR as there was no legislative appropriation to do so. The AG report concludes that with better internal management and oversight, and increased coordination and sharing of financial information among control agencies as now legislatively mandated a repeat of any such non-disclosures should be less likely.

**Outstanding Issues:** The AG's investigation was a civil administrative investigation and makes no findings as to whether any crimes were committed, nor any recommendations as to whether any additional disciplinary actions are warranted. The AG's Office submitted its investigation to the Sacramento County District Attorney's (DA's) Office for review but the DA's Office declined to pursue prosecution and indicated that without an initial preliminary conclusion on the part of the AG's investigative staff that a crime was committed, referral of the case to the DA's Office was inappropriate.

### **Bureau of State Audits:**

The Legislature requested a more comprehensive audit by the Bureau of State Audit (BSA) that is due in February 2013. This audit is intended to address both the vacation buyout program, staffing decisions at the department, revenue and reserve balances, and reasons for misreporting to the Legislature. The report is intended to provide the Legislature with an independent and objective review of the department's overall management shortcomings, and provide recommendations for action that can be implemented.

**Scope of Investigation:** Phase 1 of the audit examined DPR's financial accounting processes and the accuracy of its reporting of fund balances in the SPRF and OHVTF. The audit also reviewed a select number of partnership agreements to determine their cost savings or revenue enhancing impacts on DPR operations. It also confirmed that DPR does not budget or track expenditures by park unit. Phase 1 was released on February 14, 2013.

**Key Findings and Recommendations of Phase 1:** The overall conclusion of the audit is that weak procedures have led to inconsistent budgetary reporting and difficulties in measuring the impact of efforts to keep parks open. Specific findings highlighted include:

- For years DPR has continually reported different fund balance amounts—usually lesser amounts—to the Department of Finance (Finance) than it reported to the State Controller's Office for both the State Parks and Recreation Fund and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund).
- Finance notified the department of those differences as early as April 1999, yet the issue was not resolved until the fall of 2012.
- Although various budget officers—including the current one—raised concerns about the differences in reporting, the budget office continued to report the different amounts.
- The former deputy director of administration and the former acting chief deputy director directed the current budget officer to continue reporting the information as in the past out of fear of a budget reduction.
- In 2011 Finance significantly reduced the transfer amounts the department reported to the off-highway vehicle fund. This contributed to a \$33.5 million understatement of the fund balance leading the public to believe that the department was hiding these funds.
- The department lacks written analyses regarding how it selected 70 specific parks for closure and, thus, may not be able to justify the reasonableness of the selections to the public.
- The department does not budget or track expenditures at the park level and used outdated information to develop estimated operating costs for its parks.

Key recommendations include that DPR should implement detailed procedures for reporting of fund balances to DOF and SCO, and DPR's executive management should monitor the budget process closely to ensure accurate reporting. DOF should develop policies and procedures for full disclosure of the need for adjustments in amounts reported in the Governor's budget to ensure transparency and accurate reporting. DPR should determine the amount necessary to fully operate all state parks at the 2010 level, and DPR should also develop individual park operating costs and update these costs periodically.

**Outstanding Issues:** The audit indicates DPR and DOF concur with the recommendations of the audit. Phase 2 will look into other issues at DPR, including the vacation buy-outs, vacancy and staffing issues, and DPR's process for budgeting of park operations.

## Statutory Changes in AB 1478\*

Goal	Summary
Moratorium on Park Closures for Two Years	<ul style="list-style-type: none"> <li>Prohibits the department from closing or proposing the closure of a state park in the 2012-13 and 2013-14 fiscal years.</li> </ul>
Matching Funds for Park Donors and Local Agreements	<ul style="list-style-type: none"> <li>Provides a one-time appropriation of \$10 million from revenues generated by the department to be allocated to match contributions from donors and local partner agreements for 2012-13 and 2013-14.</li> </ul>
Funding to Prevent Park Closures	<ul style="list-style-type: none"> <li>Provides a one-time appropriation of \$10 million to parks that remain at-risk of closure in order to maintain a two-year moratorium on park closures.</li> </ul>
Funding for Audits and Investigations	<ul style="list-style-type: none"> <li>Provides a one-time appropriation of \$500,000 to ensure that all ongoing internal and external investigations into the department are fully funded.</li> </ul>
Funding for Capital Projects	<ul style="list-style-type: none"> <li>Provides a \$10 million one-time appropriation of bond funds for capital improvements projects to prevent full or partial park closures.</li> </ul>
State Park and Recreation Commission	<ul style="list-style-type: none"> <li>Establishes criteria for membership positions on the commission including requirements for cultural and park management experience.</li> <li>Requires the appointment of two ex officio legislative members by the Assembly and Senate Rules committees, respectively.</li> <li>Allows the commission a more direct oversight role of the department, particularly over the department's deferred maintenance backlog.</li> </ul>
Funding for the Park Enterprise Fund	<ul style="list-style-type: none"> <li>Clarifies funds appropriated to the California State Park Enterprise Fund, established to enable the department to set revenue targets and goals, are transferred appropriately from the State Parks and Recreation Fund. Provides for annual accounting and reporting.</li> </ul>

\* Source: Senate Budget Committee Overview

## Statutory Changes in AB 1589

Goal	Summary
Master Plan for State Parks	<ul style="list-style-type: none"> <li>• States legislative policy for a state park master plan to:               <ul style="list-style-type: none"> <li>- ensure adequate long term funding, accurate and transparent accounting and disclosure of all available state park special funds, and identification of new revenues and fundraising strategies.</li> <li>- ensure greater efficiency in management, including collection of existing fees and other revenue generating potential within state parks while maintaining public access.</li> <li>- minimize park closures and encourage partnerships.</li> </ul> </li> </ul>
Multi-disciplinary Council	<ul style="list-style-type: none"> <li>• Calls for formation of a multi-disciplinary advisory council to conduct independent assessment and make recommendations to the Legislature and Governor on sustainability of the state park system.</li> </ul>
Prioritized Action Plan	<ul style="list-style-type: none"> <li>• Requires DPR to develop a prioritized action plan by July 1, 2013 to increase revenues and collection of user fees at state parks including:               <ul style="list-style-type: none"> <li>- modernizing fee collection equipment</li> <li>- peak demand pricing</li> <li>- assessment of appropriate fees at all units</li> <li>- mission appropriate fee-for-service amenities</li> <li>- state park sponsorship programs</li> <li>- expansion and marketing of annual access pass programs</li> </ul> </li> </ul>
Income Tax Contributions	<ul style="list-style-type: none"> <li>• Authorizes taxpayers to purchase a state park annual access pass when filing their income tax returns</li> <li>• Authorizes additional tax-deductible contributions over and above price of annual parks pass</li> </ul>

## Statutory Changes in SB 1018

Goal	Summary
<ul style="list-style-type: none"> <li>• Park Revenue Incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Creates State Park New Revenue Incentives Subaccount which is continuously appropriated for two years to create revenue generation incentives.</li> <li>• 50% of revenue above targets to be expended in district where generated.</li> </ul>
<ul style="list-style-type: none"> <li>• State Park License Plates</li> </ul>	<ul style="list-style-type: none"> <li>• Authorizes sale of specialized State Park Environmental License Plates to support state parks.</li> </ul>
<ul style="list-style-type: none"> <li>• Revenue Generation</li> </ul>	<ul style="list-style-type: none"> <li>• Requires DPR to develop 2-year revenue targets for each district on or before October 1, 2012.</li> <li>• Creates State Park Enterprise Fund as a working capital fund.</li> </ul>