

## Department of Parks and Recreation

Weak Procedures Have Led to Inconsistent  
Budgetary Reporting and Difficulties in Measuring  
the Impact of Efforts to Keep Parks Open

February 2013 Report 2012-121.1



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February 14, 2013

2012-121.1

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

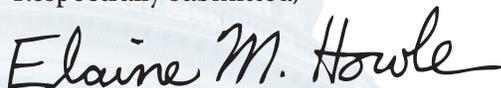
As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the Department of Parks and Recreation's (department) oversight and management of the state park system and budgeting practices. This report concludes that for years the department has continually reported different fund balance amounts to the Department of Finance (Finance) than it reported to the State Controller's Office (State Controller) for both the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund). In most cases, the fund balance amounts that the department's budget office reported to Finance for use in preparing the governor's budget were less than the amounts its accounting office reported to the State Controller. Although the department has known about these differences for years, neither current staff nor documentation we reviewed in the department's accounting and budget files could explain what originally caused the differences or why the issue was not resolved until the fall of 2012. The former acting chief deputy director for the department told us that he was informed about the difference in reporting for the parks fund when he started at the department in 2003 by the budget officer at the time and that the difference was the result of an error made several years earlier that understated the amount reported to Finance.

Although the department correctly used its year-end financial statements for reporting that it received \$117.5 million in transfers for the off-highway vehicle fund in fiscal year 2010–11, Finance made an adjustment reducing the transfer amount to \$62.6 million based on proposed legislation. This reduction—totaling nearly \$55 million—contributed to the understatement of the department's ending fund balance when compared to the State Controller's budgetary report. The department lacked policies and procedures to handle such changes by Finance and to ensure that the department's highest levels of management were informed of the change and the effects on its fund balance.

The department's announcement of its plan to close up to 70 parks may have been premature. State law that became effective March 2011 requires the department to determine the amount of a required budget reduction in future budget acts by using as its baseline the amount necessary to fully operate its 278 parks at the 2010 level. However, the department has not yet determined that baseline amount nor has it compared the baseline to its appropriation to determine whether the results created a condition that would trigger required park service reductions or closures.

Finally, the department does not budget or track expenditures at the park level. As part of its analysis to select parks for closure, the department estimated the cost of each park. However, these estimates were outdated and incomplete, making it difficult to measure the impact of its efforts to keep parks open through its partnership agreements.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Summary

### Results in Brief

The Department of Parks and Recreation (department) is responsible for preserving the State's biological diversity; protecting natural, cultural, and historical resources; and creating opportunities for high-quality outdoor recreation for current and future generations to enjoy. With a budget of nearly \$574 million for fiscal year 2012–13, the department manages more than 270 park properties or units, such as state beaches, state historic parks, and off-highway vehicle parks. The department's park system is organized into 25 districts, five of which include off-highway vehicle parks. Many of the districts are further organized into 66 smaller groupings called sectors, and each sector comprises several park properties. The department receives funding from several sources, including the State's General Fund, various bond funds, and several special funds such as the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund).

In fiscal year 2011–12 the parks fund received a majority of its revenue from state beach and park service fees, which include revenue collected at state parks for camping, day use,<sup>1</sup> pay showers, reservations, and seasonal passes. The parks fund also received revenue as transfers from the Highway Users Tax Account and a portion of the fuel taxes deposited in the Motor Vehicle Fuel Account. Finally, the parks fund received miscellaneous revenues from concessions, merchandise sales, and lease or rent payments, among other revenues received at state parks. The parks fund can be used for a broad range of activities to support park operations, including state park planning, acquisition, and development projects. Other purposes for which the parks fund can be used include resource and property management and protection, and training department employees in the Ranger/Lifeguard classification.

For fiscal year 2011–12 the off-highway vehicle fund received revenues from four sources, including transfers from the Motor Vehicle Fuel Account; the off-highway vehicle fees, which are service fees collected by the Department of Motor Vehicles for the issuance and renewal of identification plates or devices for off-highway motor vehicles and delinquency penalties related to those fees; state beach and park service fees; and miscellaneous revenue. The off-highway vehicle fund may be used for planning, acquiring, developing, constructing, maintaining, administering,

<sup>1</sup> According to the department's Web site, most parks charge day use fees for vehicle day use only; there is no charge to walk or bike into these parks. However, most historical parks and museums charge a day use fee per person.

### Audit Highlights . . .

*Our audit on the Department of Parks and Recreation's (department) budgeting processes highlighted the following:*

» *For years the department 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.*

*continued on next page . . .*

- » *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.*

and conserving trails and areas used by off-highway vehicles, including dirt bikes, all-terrain vehicles, recreational utility vehicles, jeeps, and snowmobiles.

For years the department has continually reported different fund balance amounts to the Department of Finance (Finance) than it reported to the State Controller's Office (State Controller) for both the parks fund and the off-highway vehicle fund. In most cases, the fund balance amounts that the department's budget office reported to Finance for use in preparing the governor's budget were less than the amounts its accounting office reported to the State Controller for use in the *Budgetary/Legal Basis Annual Report* (budgetary report). As the administering organization for these funds, the department is instructed by Finance to use its year-end financial statements as the basis for preparing budget documents for the following year's governor's budget. Additionally, according to the *State Administrative Manual*, it is important that fund balance, revenue, expenditure, and other accounting data included in the prior-year presentation of the governor's budget agree in amount and classification with similar data published in the State Controller's budgetary report. However, we found that the fund balances reported in the governor's budget and the State Controller's budgetary report over the past two decades were almost always reported differently, a discrepancy that continued until the fall of 2012.

Correspondence we reviewed in the department's accounting and budget files show that Finance informed the department that differences existed between the amounts reported in the governor's budget and those provided in the State Controller's budgetary report as early as April 1999, yet neither current staff nor documentation we reviewed in the accounting and budget files at the department supplied an explanation regarding what originally caused the differences or why the issue was not resolved until the fall of 2012. The department's former acting chief deputy director told us that when he started at the department in 2003 as the deputy director of administration he was informed by the budget officer at the time that the difference in reporting for the parks fund was the result of an error made several years earlier that understated the amount reported to Finance.

Over the years, various individuals at the department became aware of the differences in the amounts being reported. According to the current accounting administrator, approximately one year after she became aware of reporting differences in 2002, she was directed by the accounting administrator at the time to begin preparing fund condition statements—which show revenues, expenditures, prior-year adjustments, transfers, and fund balances—and providing them to the department's budget office. However, she

stated that the department's budget office continued to report its own amounts and that over the next six years three different budget officers, including the current one, came to her with concerns about the differences in reporting. According to the department's current budget officer, she noticed the reporting differences when she started working at the department in February 2011. She stated that she discussed the issue with the former deputy director of administration and the former acting chief deputy director, and both told her not to change anything in the way the budget office was reporting, as they were concerned that, if the department reported the fund balances accurately, as shown in the State Controller's records, the department's General Fund appropriation could be reduced. Because amounts in the governor's budget were inconsistent with amounts reported in the State Controller's budgetary report, the difference created confusion among the public and decision makers regarding the actual balance in each fund. Additionally, such inconsistencies may have resulted in the Legislature and the governor using inaccurate financial information when making budgetary decisions concerning the department.

An adjustment by Finance to the off-highway vehicle fund in 2011 contributed to the difference between the fund balance reported in the governor's budget and the one reported in the State Controller's budgetary report. During the preparation of the January 2012 Governor's Budget, the department correctly used its year-end financial statements for fiscal year 2010-11 to report transfer amounts to the off-highway vehicle fund. However, we found that Finance significantly reduced these transfer amounts from \$117.5 million to \$62.6 million, based on proposed legislation. The reduction, totaling nearly \$55 million, contributed to the department's ending fund balance for the off-highway vehicle fund in the governor's budget being understated by more than \$33.5 million<sup>2</sup> when compared to the ending fund balance in the State Controller's budgetary report. According to a principal program budget analyst (principal analyst), Finance made the adjustment to avoid misleading the Legislature and other stakeholders that would need to consult the fund condition statement in the January 2012 Governor's Budget. Specifically, he stated that Finance reduced the amounts transferred to the off-highway vehicle fund because a state law that took effect in July 2010 resulted in an unintended increase in deposits to the off-highway vehicle fund. Finance proposed legislation that would transfer the additional funds deposited into the off-highway vehicle fund to the Transportation Tax Fund. However, the

<sup>2</sup> Before including the effect of the \$55 million reduction, the department's ending fund balance for the off-highway vehicle fund in the governor's budget would have been overstated by more than \$20 million compared to the ending fund balance reported in the State Controller's budgetary report.

legislation was not approved at the time Finance reduced the transfers and did not become law until June 2012—well after fiscal year 2010–11 ended.<sup>3</sup>

The principal analyst agreed that the way the transfer was presented could be perceived as misleading if viewed in isolation. He stated that Finance handles pending bills that may have an effect on fund condition statements on a case-by-case basis and that there are no specific guidelines for how it should treat funds that could potentially be influenced by pending legislation. He also stated that this is the only instance that he is aware of in which Finance made a major adjustment to prior-year actual amounts that in turn created a large discrepancy between the department's accounting records and what was reported in the fund condition statement. According to the chief of Finance's fiscal systems and consulting unit, Finance will consider implementing a policy to ensure that, in the future, when a decision is made to reflect the effect of pending legislation in a prior-year fund condition statement, any related adjustments will be made explicit and obvious.

In considering the department's reaction to Finance's decision, we noted that the department lacked policies and procedures to handle such changes. According to the department's budget officer, she discussed this issue with the former deputy director of administration and they were comfortable with Finance adjusting the transfer amount, since it was supported by proposed legislation to move the unintended additional funds out of the off-highway vehicle fund. However, the budget officer acknowledged that she did not document the discussion. At a minimum we would have expected to see such a significant change escalated within the department to ensure that the department's highest levels of management were informed of the change and its effect on the fund balance. This adjustment and its presentation in the governor's budget contributed to a \$33.5 million understatement of the fund balance in the off-highway vehicle fund. When coupled with the \$20.4 million that the department's budget office underreported for the parks fund, the resulting difference led the public to believe that the department was hiding nearly \$54 million.

In addition to the spending authority it receives from the parks fund and the off-highway vehicle fund, the department receives appropriations from the General Fund to operate state parks. The January 2011 proposed Governor's Budget included a reduction of \$11 million in the department's fiscal year 2011–12 General Fund appropriation and indicated that the decrease would result in

<sup>3</sup> Although Finance initially proposed to move the additional funds to the Transportation Tax Fund, the legislation that was eventually enacted requires that the additional funds be transferred to the General Fund.

partially or fully closing some parks. In response to the proposed reduction in its funding, the department developed a methodology for selecting parks for closure, and in May 2011, announced that it would need to close up to 70 specific parks to achieve the budget reduction. According to the department's former acting chief deputy director, in late 2010 Finance verbally communicated to the department that it would be reducing the department's General Fund appropriation by \$22 million, and it asked the department to propose a plan to achieve savings. He stated that he then verbally communicated to Finance the department's decision that it would close parks rather than reduce services. Further, he stated that to the best of his recollection this decision was made by the management team at that time, which included the department's director, himself, the deputy director of administration, and the deputy director of park operations. The team believed that reducing park operations further would not be the best option, because park services were already operating at minimum levels, and it felt that park closures provided a better long-term solution.

A new state law that became effective in March 2011 specifies the factors that the department must consider when selecting parks for closure to achieve a required budget reduction. The new law also requires the department to determine the amount of a budget reduction in future budget acts by using as its baseline the amount necessary to fully operate its 278 parks at the 2010 level. The former acting chief deputy director indicated that the list of 70 parks selected for closure, and the criteria used to select them, were identified before the law took effect. He also explained that a working team consisting of district superintendents and park operations management identified the factors used to select parks for closure. We noted that the methodology the department said that it used to select the 70 parks generally included most of the factors specified in the new law, and the former acting chief deputy director indicated that the department's criteria were used as the basis for the new legislation. However, because the department lacks written analyses of this process, it may not be able to justify the reasonableness of its park closure selections to the public.

Although we would have expected the department to have already determined this baseline amount, as well as the difference between that amount and the amount appropriated in the fiscal years 2011–12 and 2012–13 budget acts, the deputy director of administration<sup>4</sup> stated that the department has not determined the amount needed to fully operate the 278 parks at the 2010 level. As a

<sup>4</sup> Although the deputy director of administration started working at that position in January 2012, in November 2012 he was appointed to the position of chief deputy director. Throughout this report we refer to him as the deputy director of administration, which was his title during most of our fieldwork.

result, the department may have been premature in announcing that it would have to close up to 70 specific parks to achieve the General Fund reduction.

Although a new state law that took effect in September 2012 prevents the department from closing any parks through fiscal year 2013–14, it is possible that it will face funding challenges in the future. Therefore, we believe it is important for the department to determine the amount to fully operate its 278 parks at the 2010 level.

Finally, because of concerns with the department's outdated and incomplete cost estimates, we found it difficult to measure the impact of the department's operating, concession, and donation agreements, collectively known as partnership agreements. To determine the effect of a partnership agreement on a park, the district would need to know the cost of operating that park; however, according to the deputy director of administration, the department does not budget or track expenditures at the park level. The methodology that the department developed to estimate operating costs for its parks, including those that it identified for closure, uses the proportion of a district's costs that are attributed to each park in the district—proportions that were last determined in 2002—and applies these proportions to the actual district expenditures for fiscal year 2007–08 to divide up the costs among the parks. As a result, the department's estimated park operating costs were outdated.

Further, the estimated costs included only the direct costs of the parks, not indirect costs such as a park's share of statewide costs for accounting, payroll processing, and procurement. More recently the department asked the districts to develop new estimated operating costs for parks on the closure list. However, these estimates were difficult to compare to the department's earlier estimates because the district estimates were not consistent in terms of the time periods they covered or their completeness. Nevertheless, the department's estimates based on the older information were higher than the districts' estimates for six of the seven parks we reviewed, and some were significantly higher. Without updated and complete estimates of the costs to operate each park, it is difficult to accurately estimate the amount the department would save by closing a given park, and to measure the impact of partnership agreements that provide funding to help pay parks' operating costs and offset the effects of budget reductions.

### **Recommendations**

To ensure that it reports consistent amounts to Finance and the State Controller, the department's budget office should develop and implement detailed procedures that describe how to use the

year-end financial statements to report prior-year accounting information to Finance. These procedures should include steps to ensure that the ending fund balances reported in the most recent governor's budget and State Controller's budgetary report agree, and that the subsequent year's beginning fund balances in the governor's budget do not carry forward any differences.

The department's executive management should monitor the budget process closely to prevent any future variance from established policies and procedures designed to ensure accurate reporting.

To ensure transparency and accurate reporting, in those instances when Finance believes it is necessary to adjust amounts that departments have reported for presentation in the governor's budget, causing them to be different from the amounts reported to the State Controller, Finance should develop a policy and procedures to fully disclose the need for the adjustments it makes, including a reconciliation to the amounts reported by the State Controller.

To ensure that any significant changes affecting fund balances proposed by Finance for presentation in the governor's budget are presented accurately and transparently, the department should develop procedures to require higher-level review and approval of such changes by its chief deputy director, director, and potentially the secretary for the Natural Resources Agency. The department should identify levels of significance for the proposed changes in fund balances that would trigger seeking these higher-level approvals.

To ensure that it adheres to the statutory requirement to reduce services or close parks to achieve any required budget reductions in the future, the department should determine the amount necessary to fully operate its 278 parks at the 2010 level. Moreover, the department should document its calculations and ensure that they include all costs associated with the operation of parks in 2010.

To assure the Legislature and the public that future proposed park service reductions and closures are appropriate to achieve any required budget reduction, the department should develop individual park operating costs and update these costs periodically. These individual park costs should include all direct and indirect costs associated with operating the park, and the aggregated costs of all the individual parks should correspond with the related fiscal year's actual expenditures needed to operate the department's park system. Additionally, when proposing park service reductions or closures in the future, the department should compare the most

recent cost estimates to the amount the department determines is necessary to fully operate its 278 parks at the 2010 level, to determine the actual amount of the reductions or closures needed.

**Agency Comments**

The department concurs with and intends to implement our recommendations.

Finance indicated that it agrees with the report's recommendations.

## Introduction

### Background

The Department of Parks and Recreation (department) is responsible for preserving the State's biological diversity; protecting natural, cultural, and historical resources; and creating opportunities for high-quality outdoor recreation for current and future generations to enjoy. With more than 3,800 positions and a budget of nearly \$574 million for fiscal year 2012–13, the department manages more than 270 park properties or units, such as state beaches, state historic parks, recreational areas, historic homes, and off-highway vehicle parks. The department's park system is organized into 25 districts, five of which include off-highway vehicle parks. Many of the districts are further organized into 66 smaller groupings called sectors, and each sector comprises several park properties.

### Department Funding Sources

As shown in Figure 1 on page 12, the department receives funding from several sources, including the State's General Fund, various bond funds, and several special funds. Although bond funds contributed significantly to the department's funding sources for fiscal year 2011–12, the amount of bond funding varies from year to year. For example, the department was appropriated \$505 million in bond funds in the 2011 Budget Act, a majority of which was for local assistance grants. Unlike bond funds, special funds consistently make up a large source of department funding, ranging from 57 percent to 58 percent of its total appropriation authority excluding bond funding for fiscal years 2010–11 to 2012–13. A special fund is used to account for taxes and revenues that are legally restricted for particular functions or activities of government. The department receives funding from various special funds, such as the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund).

#### *State Parks and Recreation Fund*

Effective July 1980, state law created the parks fund for the collection of various fees, rentals, and other revenues by the department. Before the creation of the parks fund, state law required that these revenues be deposited into various funds and accounts. When these funds and accounts were eliminated, their existing balances were consolidated into the parks fund. State law authorizes the department to use the amounts in the parks fund for specific purposes.

### Purposes for Which State Parks and Recreation Fund Revenues Can Be Used

- The care, protection, supervision, extension, improvement, or development of property under the Department of Parks and Recreation's jurisdiction.
- State park planning, acquisition, and development projects.
- Operation of the state park system.
- Resource and property management and protection.
- Training department employees in the Ranger/Lifeguard classification, including:
  - Law enforcement
  - Interpretation
  - First aid
  - Cardiopulmonary resuscitation
  - Medical technical training
- Refunds of fines and forfeitures.
- Boating safety, enforcement, operation, and maintenance programs.
- Labor contracts with the Collins-Dugan California Corps.

Source: California Public Resources Code, sections 5003, 5008.4, 5010, and 14315.

As shown in the text box, the parks fund can be used for a broad range of activities to support park operations, including state park planning, acquisition, and other purposes.

As shown in Figure 2 on page 13, for fiscal year 2011–12, the parks fund received revenue from three sources: state beach and park service fees, transfers from other funds, and miscellaneous revenue. State beach and park service fees account for the majority of the funds. Such fees include revenue collected by state parks for camping, day use,<sup>5</sup> pay showers, reservations, and seasonal passes. Transfers from other funds are the second largest revenue source for the parks fund, which receives funds from the Highway Users Tax Account (highway account) and a portion of the fuel taxes deposited in the Motor Vehicle Fuel Account (fuel account). The state budget for each of the last three fiscal years included a transfer of \$3.4 million into the parks fund from the highway account for maintenance, repair, construction, and improvement of highways within state parks. Additionally, the state budget for each of the last three fiscal years authorized a transfer of nearly \$27 million from the fuel account to the parks fund to be used for the authorized purposes of the parks fund. Finally, miscellaneous revenue

comprises revenues from concessions, merchandise sales, lease or rent payments, private donations, and other revenues received at state parks.

### Off-Highway Vehicle Trust Fund

State law initially established the Off-Highway Vehicle Fund in 1972 to receive fees from the issuance or renewal of off-highway vehicle identification plates or devices. These fees were to be used for planning, acquiring, developing, constructing, maintaining, administering, and conserving trails and areas used by off-highway vehicles. The department defines off-highway vehicles as any vehicles that are operated off the highway, such as dirt bikes, all-terrain vehicles, recreational utility vehicles, jeeps, and snowmobiles. In 1994 state law was amended to rename the fund the Off-Highway Vehicle Trust Fund (off-highway vehicle fund) and

<sup>5</sup> According to the department's Web site, most parks charge day use fees for vehicle day use only; there is no charge to walk or bike into these parks. However, most historical parks and museums charge a per person day use fee.

to require that certain taxes imposed upon the distribution of motor vehicle fuel and certain other fees, fines, forfeitures, and reimbursements be deposited into the fund. State law authorizes the department to use the amounts in the off-highway vehicle fund for purposes related to the use of off-highway vehicles, as shown in the text box. State law also requires that all fees from day use, overnight use, or annual or biennial use of state vehicular recreation areas be deposited into the off-highway vehicle fund.

As shown in Figure 3 on page 14, in fiscal year 2011–12 the off-highway vehicle fund received revenue from four sources: transfers from other funds, off-highway vehicle fees, state beach and park service fees, and miscellaneous revenue. Transfers from other funds to the off-highway vehicle fund accounted for 82 percent<sup>6</sup> of revenues. During fiscal year 2011–12, the off-highway vehicle fund received more than \$100 million in transfers from the fuel account, consisting of revenue related to taxes imposed upon distributions of fuel used for off-highway motor vehicle activities. Off-highway vehicle fees include service fees collected by the Department of Motor Vehicles for the issuance and renewal of identification plates or devices for off-highway motor vehicles. State beach and park service fees include day use, overnight use, or annual or biennial use fees from state off-highway vehicular recreational areas. Miscellaneous revenue includes revenue from merchandise sales and concessions collected at state off-highway vehicular recreation areas.

#### Purposes for Which Off-Highway Vehicle Trust Fund Revenues Can Be Used

- To support the Department of Parks and Recreation's off-highway vehicle recreation program.
- To fund grants and cooperative agreements that support the planning, acquisition, development, maintenance, administration, operation, enforcement, restoration, and conservation of trails and areas associated with the use of off-highway motor vehicles.
- For the repair of any boundary fence that segregates off-highway vehicle use from adjoining landowners and is adjacent to an off-highway vehicle site that was supported by the fund when the fence was broken or damaged by off-highway vehicle users.
- Agreements with the U.S. Forest Service and the U.S. Bureau of Land Management to complete necessary route designation planning work and to implement route planning decisions.

Sources: California Public Resources Code, sections 5090.50, 5090.61, and 5090.65; and California Revenue and Taxation Code, Section 8352.8.

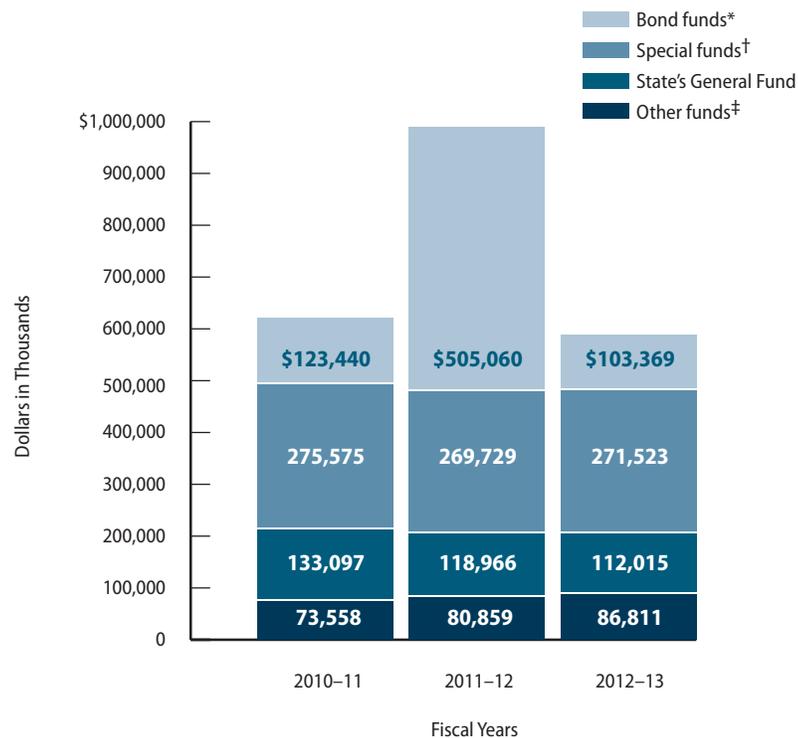
### Fund Balance Reporting

The Department of Finance (Finance) and the State Controller's Office (State Controller) both report fund balance information in annual reports. For budgeting purposes, the fund balance represents the excess of a fund's resources over its expenditures and generally represents amounts that are available for future spending. Finance directs the effort to prepare the governor's budget, which includes fund condition statements for every special fund. A fund condition statement presents a summary of the fund's operations over the fiscal year. The statement starts with the beginning

<sup>6</sup> Commencing July 2012, state law requires that a portion of the revenue deposited in the off-highway vehicle fund for fiscal years 2010–11 and 2011–12 be transferred to the General Fund.

fund balance, which should agree with the prior year's ending fund balance unless prior-year adjustments are needed to calculate an adjusted beginning fund balance. This balance is then adjusted for actual revenues, expenditures, transfers, and loans of funds to and from other funding sources, to arrive at the current-year ending fund balance. The State Controller also reports a summary of changes to the fund balance over the reporting year for each fund in its *Budgetary/Legal Basis Annual Report* (budgetary report).

**Figure 1**  
**Appropriations to the Department of Parks and Recreation**  
**Fiscal Years 2010–11 Through 2012–13**



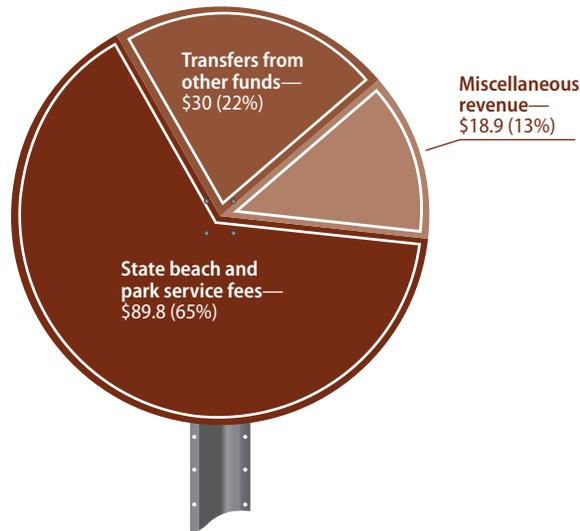
Sources: Enacted budgets for fiscal years 2010–11 through 2012–13.

\* Although Bond funds are classified as nongovernmental cost funds, we display them separately from the Other funds category to demonstrate the volatility of the total amounts appropriated to the Department of Parks and Recreation from Bond funds.

† The Off-Highway Vehicle Trust Fund and the State Parks and Recreation Fund make up 93 percent of Special funds for each of the three years presented.

‡ Other funds include federal funds, nongovernmental cost funds, and reimbursements. Nongovernmental cost funds are used to record and report activities from sources other than general and special taxes, licenses, fees, or other state revenues.

**Figure 2**  
Revenue Sources for the State Parks and Recreation Fund  
Fiscal Year 2011–12  
(Dollars in Millions)



Source: California State Auditor’s analysis of data obtained from the State Controller’s Office Budgetary/Legal Basis system for fiscal year 2011–12.

### Department of Finance

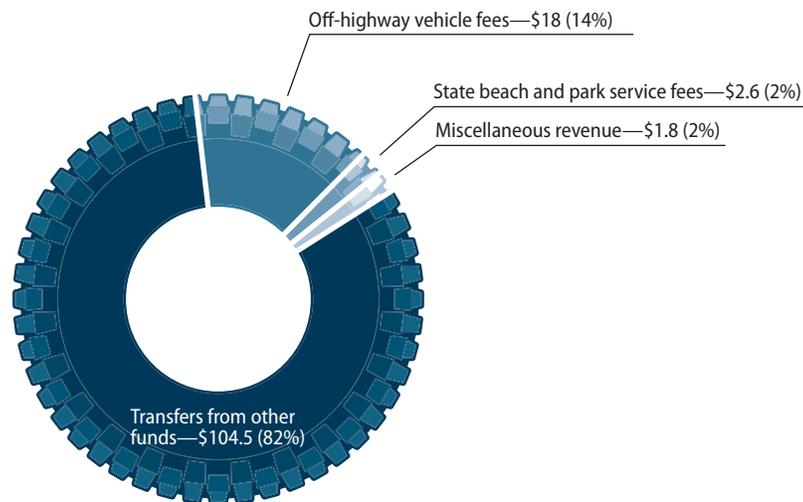
The director of finance is the governor’s chief fiscal policy adviser and is responsible for directing the effort of preparing the annual governor’s budget. Issued each year in January, the governor’s budget provides a three-year presentation of each department’s funding by fiscal year. Specifically, the budget contains prior-year actual expenditures and revenues, current-year estimated expenditures and revenues, and budgeted expenditures and revenues for the next fiscal year. The first column in the three-year display reflects the most recent fiscal year ended at the time the governor’s budget is issued. These amounts are based on actual revenues and expenditures for the last completed fiscal year. Throughout this report we refer to this column as *prior year*.

According to its *Budget Analyst Guide*,<sup>7</sup> Finance reconciles the General Fund prior-year amounts shown in the governor’s budget to the State Controller’s preliminary statements. However, for other funds, the organization that administers the fund is responsible for reconciling the prior-year amounts displayed in the governor’s budget with the State Controller’s data. For example, the department

<sup>7</sup> The *Budget Analyst Guide* is an Internet browser-based handbook containing descriptions, instructions, and examples of various processes, procedures, and documents involved in the preparation, enactment, and administration of the governor’s budget.

is the administering organization for the parks fund and off-highway vehicle fund. Through its budget guidance, Finance directs the administering organization to submit financial information, using specified budget documents to report its fund balances, revenues, transfers, and expenditures.

**Figure 3**  
**Revenue Sources for the Off-Highway Vehicle Trust Fund**  
**Fiscal Year 2011–12**  
**(Dollars in Millions)**



Source: California State Auditor's analysis of data obtained from the State Controller's Office Budgetary/Legal Basis system for fiscal year 2011–12.

Note: Commencing July 2012, state law requires that a portion of the revenue deposited in the Off-Highway Vehicle Trust Fund for fiscal years 2010–11 and 2011–12 be transferred to the General Fund.

The *State Administrative Manual* directs departments to make certain that the information provided in their budget documents is identical to their related year-end financial reports submitted to the State Controller. Therefore, a department's revenues, expenditures, and fund balance displayed in the prior-year column of the governor's budget should agree with the information submitted to the State Controller for the fiscal year just ended. The *State Administrative Manual* also provides instructions and examples for the preparation of forms, documents, and schedules to assist departments in the development of the governor's budget.

Finance issues budget policy and supplemental instructions through budget letters, budget-related management memos, and other memoranda. Budget letters are periodic policies and instructions that Finance releases as supplements to the *State Administrative Manual*. Finance also communicates instructions to departments

regarding the budget process through its *Budget Analyst Guide* and offers a number of training classes aimed at assisting department staff in preparing and submitting financial information for the governor's budget. According to the fiscal systems and consulting unit chief at Finance, although the training is not mandatory, Finance recommends attendance by department staff involved in the budget process.

In the past, Finance verified the data departments submitted to it regarding expenditures and revenues for the prior, current, and budget years. According to one of its principal program budget analysts, Finance requested documentation to ensure the accuracy of amounts the departments reported in their fund condition statements, particularly when there were concerns with the reported amounts, such as if the reported amount was significantly above or below the appropriated amount, there was a significant change in the amounts reported compared to previous years, or the prior-year adjustments consistently represented a large dollar amount. Otherwise, Finance relied on the departments—if designated as the fund administrators—to ensure that the prior-year amounts were accurate and had been reconciled with the State Controller's budgetary report.

The principal program budget analyst further stated that Finance recognized that its overreliance on departments designated as fund administrators may have contributed to the differences discovered between the fund condition statements of the governor's budget and the State Controller's budgetary report. As a result, Finance recently implemented several changes, such as new certifications to be completed by each department head under penalty of perjury; a new worksheet form for reporting prior-year adjustments; and a joint review of fund balances for all special funds, conducted by Finance and the fund administrators, in collaboration with the State Controller.

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

The State Controller is responsible for compiling the State's financial statements. Specifically, the division of accounting and reporting at the State Controller is responsible for reporting the financial position of the State, and it prepares the State Controller's budgetary report, which presents the financial position of each fund as of the end of the most recent fiscal year. Specifically, for each state fund the budgetary report shows balance sheets and statements of operations that provide the fund balance at the end of the fiscal year and the changes to the fund balance during the fiscal year, respectively. The accounting and reporting division compiles this budgetary report based on year-end financial reports submitted by the departments that are responsible for operating the funds. State law requires the

State Controller to submit the budgetary report to the governor, and also requires that the budgetary report be prepared on the same basis as the applicable governor's budget and Budget Act.

The *State Administrative Manual* requires departments to reconcile their accounts monthly with accounts maintained separately by the State Controller. These reconciliations are required so that errors are disclosed as they occur and so that departments can correct the errors before preparing financial reports. They also help ensure the accuracy of the departments' financial reports. According to the *State Administrative Manual*, the State Controller provides a monthly *Agency Reconciliation Report* to departments to assist them when reconciling their respective account balances.

The State Controller provides guidance to departments to ensure accurate financial reporting through several mechanisms. Specifically, the State Controller has developed a *Year-End Financial Reports Procedure Manual* to assist departments in understanding and preparing their year-end financial reports. This manual includes information on reporting requirements, due dates, State Controller contact information, and step-by-step instructions for developing the reports that departments must submit. According to the state government reporting bureau chief (bureau chief), the State Controller also shares all new reporting requirements with Finance to be included in the state accounting system's procedures manual as well as any year-end training classes. Additionally, she stated that the State Controller holds an annual open house and encourages department staff to attend. The open house is for departments to review their financial statements with State Controller staff who are available to answer questions. She stated that handouts are created to inform the departments about upcoming requirements for the new fiscal year.

The State Controller has established and performs various checks on departments' financial statements to ensure that it produces the most accurate and complete consolidated financial statements. The bureau chief identified numerous tools to track various aspects of the reporting process. For example, she explained that the State Controller uses a reporting system that employs information from its accounting system and information from departments. The reporting system verifies that accruals and adjustment entries are balanced and contain established coding. As another example, the State Controller completes a checklist to ensure that final financial condition statements are accurate and reasonable—such as ensuring that the beginning fund balance agrees with the prior-year ending fund balance and that accounting balances are appropriately classified.

## Potential Park Closures

In May 2011 the department announced its plan to close certain parks to achieve budget reductions in its General Fund appropriation. Specifically, the proposed governor's budget for fiscal year 2011–12 reduced the department's General Fund budget by \$11 million and indicated additional future reductions that will produce ongoing savings to the General Fund totaling \$22 million. In its May 2011 press release, the department stated that, to achieve this \$22 million reduction to its funding, it planned to close up to 70 of its 278 parks by July 2012.

State law allows the department to enter into various agreements, including operating, concession, and donation agreements, collectively known as partnership agreements. For example, state law authorizes the department to contract with any agency of the United States; with any city, county, district, or other public agency; or with any combination thereof for the care, maintenance, administration, and control of lands within the state park system. Beginning on January 1, 2012, state law authorizes the department, through 2018, to enter into an operating agreement with a qualified nonprofit organization for the development, improvement, restoration, care, maintenance, administration, or operation of all or a portion of a state park or parks. Under this law, the department may enter into an operating agreement that involves the operation of all of a park only to the extent that the agreement would enable the department to avoid closure of a park. State law also authorizes the department to enter into contracts with various types of entities for the construction, maintenance, and operation of concessions within units of the state park system. In addition, state law authorizes the department to receive and accept gifts, donations, contributions, or bequests of money for the state park system.

According to its 2010–11 *Concessions Annual Report*—the most recent version available—the department entered into an additional 29 new or renewed concession contracts and operating agreements in fiscal year 2010–11, ending the year with a total of 193 concession contracts and 54 operating agreements. Donation agreements were not summarized in the report. These contracts and agreements reduce the department's costs of operating parks by providing funding through donations, rental payments, or revenues generated at the parks or, in the case of operating agreements, by allowing the department to turn over all or part of the financial and operational responsibilities of a park to an operating partner.

In its announcement of the planned closure of up to 70 specific parks, the department also announced that it planned to seek additional partnership agreements in an effort to keep as many of those parks open as possible. In early July 2012, the department issued a press release announcing that 69 of the 70 parks previously marked for closure would remain open to the public for the near term.

Later in July 2012 it was reported in the media that the department was not disclosing all of its available funds, resulting in the perception that it was hiding funds at the same time that it was announcing the need to close parks. In September 2012 the governor signed a bill, which took effect immediately, preventing the department from closing any parks through fiscal year 2013–14 and appropriating \$20.5 million for the department to match financial contributions of donors, to fund parks at risk of closure, and to pay for ongoing audits and investigations.

### Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor (state auditor) to conduct an audit of the department's oversight and management of the state park system and its personnel, program, and budgeting practices. Specifically, the audit committee directed us to address the objectives listed in Table 1. We are conducting the audit in two phases and have included the methodology for the objectives completed in phase 1 and discussed in this report. The methodology for the remaining five objectives will be addressed and detailed in the phase 2 report, which we plan to issue later this year.

**Table 1**  
**Audit Objectives and the Methods Used to Address Them**

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, and other background materials applicable to the state park system and state budgeting and accounting requirements.
2	Determine the current number of vacant positions for the Department of Parks and Recreation (department). Further, determine the amount budgeted for these vacant positions.	This objective will be addressed in the phase 2 report.
3	Review and assess the department's process for monitoring staffing decisions. Determine whether improvements in the process are necessary to ensure that management is aware of significant staffing decisions.	This objective will be addressed in the phase 2 report.
4	For any vacation buyouts that occurred at the department in the most recent three-year period, determine the following: <ul style="list-style-type: none"> <li>a. The number and dollar amount of the vacation buyouts.</li> <li>b. The source of funds used for the vacation buyouts.</li> <li>c. The extent to which programs were affected by the vacation buyouts.</li> <li>d. The legal or regulatory authority the department cited to support the vacation buyouts.</li> <li>e. Whether any internal controls were breached to perform the vacation buyouts.</li> <li>f. Whether any additional controls should be implemented to ensure that only properly authorized vacation buyouts occur in the future.</li> </ul>	This objective will be addressed in the phase 2 report.

AUDIT OBJECTIVE	METHOD
<p>5 For the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund), perform the following for the most recent three-year period:</p> <ol style="list-style-type: none"> <li>Identify the statutory purposes for which the revenue in each fund is to be expended.</li> <li>Identify the revenue sources for each fund.</li> <li>Identify any reserve balances and the accounts in which the reserve balances are held.</li> <li>Determine the period of time over which the reserve amounts grew and whether the reserve balances were accurately reported to the Department of Finance (Finance) and the Legislature during that time period. If this information was not accurately reported to Finance and the Legislature, determine the reasons.</li> <li>Determine the methods used by the department, Finance, and the State Controller's Office (State Controller) to ensure the accuracy of financial data in their respective reports.</li> <li>Review and assess whether Finance and the State Controller provide any oversight to the department to ensure the accurate reporting of financial data.</li> <li>Determine whether the department should take any corrective action to eliminate any deficiencies in the methods it uses to report accurate financial data to Finance and the State Controller. Provide recommendations for any other measures to ensure the accurate reporting of financial information by the department.</li> </ol>	<p>For the parks fund and the off-highway vehicle fund we performed the following:</p> <ul style="list-style-type: none"> <li>Obtained and reviewed the descriptions from the <i>Manual of State Funds</i>.</li> <li>Using the <i>Manual of State Funds</i>, we identified any purposes for which expenditures from the funds could be made.</li> <li>Reviewed relevant state law to determine the laws that created each fund, the laws that provide a source of money for each fund, and the laws that specify allowable uses for the money in each fund.</li> <li>Reviewed financial statements and other financial records necessary to identify the revenue sources of each fund for the most recent three-year period.</li> <li>Interviewed department staff to verify our understanding of the revenue sources for each fund.</li> <li>Reviewed the <i>State Administrative Manual</i> and the <i>Uniform Codes Manual</i> to gain an understanding of the structure of the general ledger accounts and to identify the various types of accounts.</li> <li>Compared the fund balances as shown in the State Controller's <i>Budgetary/Legal Basis Annual Report</i> (budgetary report) and the annual governor's budgets for fiscal years 1992–93 through 2011–12.</li> <li>For fiscal years 2009–10 through 2011–12, we compared the department's financial records used to report beginning fund balance, prior-year adjustments, revenues, transfers, expenditures, and ending fund balances to the State Controller for budgetary reports with financial records used to report to Finance for the governor's budgets.</li> <li>Interviewed department staff regarding differences identified in reporting.</li> <li>Using the State Controller's budgetary reports and the department's year-end financial statements, we reconciled revenues, expenditures, and fund balances for the most recent three-year period.</li> <li>Interviewed staff at the department, Finance, and the State Controller regarding their methods to verify the accuracy of financial data in their respective reports.</li> <li>Reviewed internal workplans, checklists, and other documentation relevant to the methods identified by the department, Finance, and the State Controller to ensure the accuracy of financial data in their respective reports.</li> <li>Interviewed staff at Finance and the State Controller regarding any oversight provided to the department to ensure accurate reporting of financial data.</li> <li>Reviewed manuals, procedures, budget letters, and training materials to identify oversight provided to the department for reporting financial data.</li> </ul>
<p>6 Determine the status of any cost-reduction or revenue-enhancing measures, such as operational agreements, donations, and concessions, that have been or are being negotiated by the department in an effort to keep park units open. Determine the total amount of these cost-reduction or revenue-enhancing measures and their impact on the operations of the department, including its park unit closure plan.</p>	<p>Identified and selected seven of 63 agreements related to parks slated for closure. Reviewed each selected agreement to gain an understanding of the nature of the agreement, the type of assistance or funding provided to the department through the agreement, and the impact of that assistance.</p> <p>Review each selected agreement to determine the services and revenues generated and the amount of any cost savings for the park unit.</p> <p>For each park associated with a selected agreement, we performed the following:</p> <ul style="list-style-type: none"> <li>Reviewed the methodology the department used to calculate the estimated operating cost of the park.</li> <li>Interviewed the department's district staff to determine whether other operating cost estimates exist.</li> <li>Compared the department's estimated operating cost to district cost estimates to determine significant variances.</li> <li>Interviewed department management to determine what other cost-reduction or revenue-enhancing measures are being implemented to keep park units open.</li> </ul>

AUDIT OBJECTIVE	METHOD
7 Review and assess the process the department uses to track the budget of each park unit. Determine whether the department should take any corrective action to ensure the accounting and reporting of funds and eliminate any deficiencies in the methods it uses to track those funds.	The department confirmed that it does not budget or track expenditures by park unit. During phase 2, we plan to review the department's process for budgeting its park operations.
8 Review and assess any other issues that are significant to the department's oversight and management of the state park system.	We did not identify any other significant issues related to this phase of the audit.

Sources: The California State Auditor's analysis of Joint Legislative Audit Committee audit request number 2012-121, planning documents, and analysis of information and documentation identified in the table column titled *Method*.

### Assessment of Data Reliability

In performing this audit, we relied upon electronic data files extracted from the information system identified in Table 2. The U.S. Government Accountability Office, whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed information that is used to support findings, conclusions, or recommendations. Table 2 shows the results of this analysis.

**Table 2**  
Methods to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHODS AND RESULTS	CONCLUSION
State Controller's Office (State Controller) Budgetary/Legal Basis system.  Data related to the Department of Parks and Recreation (department) for the period July 1, 2011, through June 30, 2012.	Determine the total amount of revenues for the department's State Parks and Recreation Fund and the Off-Highway Vehicle Trust Fund during fiscal year 2011-12.	<ul style="list-style-type: none"> <li>To test the accuracy of the State Controller's centralized accounting Budgetary/Legal Basis system data, we selected a sample of 29 revenue transactions from the department's redundant set of accounting records stored in the California State Accounting and Reporting System (CALSTARS). CALSTARS is the official accounting system of the department and is reconciled to the centralized accounts maintained by the State Controller. We tested CALSTARS to ensure that key data elements matched source documentation. This testing did not note any errors in the accuracy of the key data fields tested.</li> <li>To test the completeness of the State Controller's Budgetary/Legal Basis system, we compared fund totals from CALSTARS to the State Controller's Budgetary/Legal Basis system. No material exceptions were noted.</li> </ul>	Sufficiently reliable for the purposes of this audit.

Source: California State Auditor's analysis of data obtained from the State Controller.

## Audit Results

### **The Department Has Inadequate Policies and Procedures for Its Budgetary Reporting**

For the last 20 years, the Department of Parks and Recreation (department) has reported a different fund balance in the governor's budget than it reported in its year-end financial statements nearly every year for the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund). In most cases, the fund balance amounts it reported to the Department of Finance (Finance) were less than those reported to the State Controller's Office (State Controller). Although there is documentation indicating that the department has known for years that it was reporting the fund balances differently, neither current department staff nor the documentation we reviewed had a clear explanation for what originally caused the differences or why the issue was never resolved.

In our review of the three most recent fiscal years ending June 30, 2012, we noted some differences in the reporting of fiscal year activity that exacerbate the ongoing fund balance differences. For example, for fiscal year 2010–11, although the department reported amounts for the governor's budget for the off-highway vehicle fund that were consistent with its year-end financial reports, Finance made a \$55 million adjustment based on proposed legislation. This adjustment significantly reduced the fund balance for the off-highway vehicle fund. Additionally, we noted some differences in the reporting of expenditures and prior-year adjustments that continue to add to the differences in fund balance reporting.

### ***Fund Balance Differences Between the Governor's Budget and the State Controller's Annual Budgetary Report Existed for Years***

Over the past two decades the department has continually reported different fund balance amounts to Finance for budgetary reporting than it reported to the State Controller for both the parks fund and the off-highway vehicle fund. As described in the Introduction, Finance is responsible for compiling the governor's proposed budget, which includes information showing changes in the fund balance and is published in January each year. The State Controller also reports fund balance and changes in the fund balance in its *Budgetary/Legal Basis Annual Report* (budgetary report), which it has issued between April and May for the three most recent fiscal years. Although the governor's budget and the State Controller's budgetary report are issued at different times during the year, both reports show fund balance with revenues, prior-year adjustments, transfers, and expenditures for the fiscal year most recently ended.

***The department cannot demonstrate that it took any action until the fall of 2012 to correct the differences in reporting to the two control agencies, even though these differences have existed for years.***

According to the *State Administrative Manual*, it is important that fund balance, revenue, expenditure, and other accounting data included in the prior-year presentation of the governor's budget agree in amount and classification with similar data published in the State Controller's budgetary report. Therefore, departments are required to make certain that data included in budget schedules submitted to Finance for the governor's budget are identical to the data in their year-end financial reports submitted to the State Controller for the budgetary report. Exceptions may be made when the department believes substantial adjustments are necessary and Finance budget staff agree in advance of departmental submission of budget documents. Further, Finance instructs the department, as the administering organization for the parks fund and the off-highway vehicle fund, to use its year-end financial statements as the basis for preparing the budget documents for the governor's budget.

Despite these requirements, the department cannot demonstrate that it took any action until the fall of 2012 to correct the differences in reporting to these two control agencies, even though these differences have existed for years. As shown in Table 3 on pages 24 and 25, our comparison of the ending fund balances reported in the governor's budget with the ending fund balances reported in the State Controller's budgetary report over the last 20 years shows that both funds were almost always reported differently. When amounts reported in the governor's budget are incorrect and do not agree with amounts reported by the State Controller, it can create confusion for the public and decision makers regarding the actual balance in each of these two funds the department administers. Specifically, the fund balance differences contributed to a negative public perception that the department was hiding money. In addition, the Legislature and the governor were not aware of the correct fund balances when making budgetary decisions.

When these fund reporting discrepancies at the department were discovered and made public, Finance performed a fund-by-fund review of the more than 500 special funds to identify the extent of the differences in fund balance reporting. It published the results of this review in early August 2012. According to Finance, as part of its review, it identified normal differences in the ending fund balances reported to it and the State Controller. To get an accurate comparison, Finance accounted for these differences. Specifically, it reduced the State Controller's ending fund balance by the amount of encumbrances. For budgetary reporting purposes, expenditures are charged to appropriations—*or encumbered*—when commitments for goods and services are incurred. However, for financial reporting purposes, expenditures are reported when the related goods and services are received. Finance also reduced

the State Controller's ending fund balance by deferred state payroll costs. Beginning in January 2010, state law generally requires that payments to employees through the Uniform State Payroll System for payroll paid on June 30 each year be charged to the following fiscal year.

Correspondence we reviewed in the department's accounting and budget files show that Finance informed the department that differences existed between the amounts reported in the governor's budget and the State Controller's budgetary report as early as April 1999. However, neither current staff nor documentation we reviewed in the department's accounting and budget files had an explanation for what originally caused the differences or why the issue was never resolved. Specifically, the most recent information we reviewed was two e-mails from Finance in the department's accounting office files from 2002 and 2003 stating that a State Controller review at that time revealed many differences between corresponding prior-year fund balances in the State Controller's budgetary report and those shown in the governor's budget. The e-mails included an attachment consisting of the State Controller's review that listed, by agency and fund, the differences in ending fund balances between the two reports for fiscal years 2000-01 and 2001-02. These differences agreed with the differences we identify in Table 3 for both the off-highway vehicle fund and the parks fund. As shown in the table, in fiscal year 2000-01 the balance for the off-highway vehicle fund that the department reported to Finance and that appeared in the governor's budget was understated by roughly \$11.6 million, while the balance for the parks fund was understated by approximately \$22.8 million. The next fiscal year, the reported balance for the off-highway vehicle fund that appeared in the governor's budget exactly matched the balance reported to the State Controller, while the reported balance for the parks fund in the governor's budget was about \$26.8 million less than the balance reported to the State Controller. These reporting differences have recently increased in magnitude for one of the funds. The fund balances for fiscal year 2010-11 in the governor's budget were understated by \$33.5 million for the off-highway vehicle fund and by \$20.4 million for the parks fund.

*The fund balances for fiscal year 2010-11 in the governor's budget were understated by \$33.5 million for the off-highway vehicle fund and by \$20.4 million for the parks fund.*

**Table 3****Comparison of Ending Fund Balance Amounts Reported to the Department of Finance and the State Controller's Office  
Fiscal Years 1992–93 Through 2011–12  
(In Thousands)**

Fund 0263— Off-Highway Vehicle Trust Fund	FISCAL YEARS REVIEWED			2008–09	2007–08	2006–07	2005–06	2004–05	2003–04	2002–03
	2011–12*	2010–11	2009–10							
State Controller's Office (State Controller) ending fund balance	\$258,449	\$210,868	\$161,558	\$166,005	\$187,776	\$122,862	\$102,264	\$114,696	\$110,920	\$107,674
Encumbrances†	54,963	44,413	40,617	31,731	40,786	37,353	44,100	31,917	29,369	35,678
Deferred payroll†	1,482	1,412	1,068	0	0	0	0	0	0	0
<b>Adjusted State Controller ending fund balance</b>	<b>202,004</b>	<b>165,043</b>	<b>119,873</b>	<b>134,274</b>	<b>146,990</b>	<b>85,509</b>	<b>58,164</b>	<b>82,779</b>	<b>81,551</b>	<b>71,996</b>
Governor's budget ending fund balance	202,004	131,551	140,453	128,671	146,596	116,802	93,309	81,702	79,873	72,007
Variance from the State Controller	0	(33,492)	20,580	(5,603)	(394)	31,293‡	35,145‡	(1,077)	(1,678)	11

Fund 0392— State Parks and Recreation Fund	FISCAL YEARS REVIEWED			2008–09	2007–08	2006–07	2005–06	2004–05	2003–04	2002–03
	2011–12*	2010–11	2009–10							
State Controller ending fund balance	\$91,695	\$77,895	\$49,855	\$37,206	\$34,767	\$39,532	\$34,645	\$39,095	\$45,054	\$41,738
Encumbrances†	25,868	18,593	8,024	10,635	10,560	13,588	8,026	6,821	7,348	5,733
Deferred payroll†	7,614	7,192	5,082	0	0	0	0	0	0	0
<b>Adjusted State Controller ending fund balance</b>	<b>58,213</b>	<b>52,110</b>	<b>36,749</b>	<b>26,571</b>	<b>24,207</b>	<b>25,944</b>	<b>26,619</b>	<b>32,274</b>	<b>37,706</b>	<b>36,005</b>
Governor's budget ending fund balance	58,213	31,732	16,406	7,649	4,250	5,726	5,030	8,345	11,012	6,821
Variance from the State Controller	0	(20,378)	(20,343)	(18,922)	(19,957)	(20,218)	(21,589)	(23,929)	(26,694)	(29,184)

Sources: The State Controller's *Budgetary/Legal Basis Annual Report* for fiscal years ending June 30, 1993, through June 30, 2011, and governor's budgets for fiscal years 1994–95 through 2013–14.

\* State Controller amounts are draft as of January 2013.

† In its August 3 Special Fund Balance Reconciliation, the Department of Finance (Finance) identifies two adjustments that must be made in order to accurately compare fund balance totals reported by the State Controller with amounts reported by Finance in the governor's budget. Specifically, according to Finance, the State Controller's ending fund balance must be reduced by encumbrances—which represent goods that are ordered but not received by the end of a fiscal year—and deferred state payroll costs—a budgetary solution that defers state payroll costs across two fiscal years.

‡ Based on a limited review we performed of governor's budgets and the State Controller's budgetary reports, a significant portion of these variances may have been the result of timing differences in recording transfers from the Conservation and Enforcement Services Account, as required in the 2005 and 2006 budget acts.

Despite its knowledge of reporting differences at various levels within the department, the budget office continued to underreport to Finance the fund balance for the parks fund. We discussed the e-mails related to fiscal year 2000–01 and 2001–02 with the current accounting administrator, who received them from Finance before she became the

	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
	\$97,439	\$88,323	\$77,213	\$61,056	\$46,832	\$38,327	\$38,891	\$29,862	\$23,420	\$33,963
	21,016	19,391	4,657	5,911	1,669	2,146	1,963	1,869	4,304	16,508
	0	0	0	0	0	0	0	0	0	0
	76,423	68,932	72,556	55,145	45,163	36,181	36,928	27,993	19,116	17,455
	76,423	57,381	45,927	32,610	21,274	20,180	17,036	15,163	16,450	14,359
	0	(11,551)	(26,629)	(22,535)	(23,889)	(16,001)	(19,892)	(12,830)	(2,666)	(3,096)

	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
	\$51,403	\$47,239	\$26,913	\$30,729	\$15,521	\$15,743	\$14,876	\$13,074	\$13,642	\$12,654
	3,121	5,378	5,055	14,651	4,476	6,439	7,182	10,792	6,644	1,510
	0	0	0	0	0	0	0	0	0	0
	48,282	41,861	21,858	16,078	11,045	9,304	7,694	2,282	6,998	11,144
	21,457	19,096	1,909	2,204	1,682	2,925	2,151	388	2,777	6,576
	(26,825)	(22,765)	(19,949)	(13,874)	(9,363)	(6,379)	(5,543)	(1,894)	(4,221)	(4,568)

administrator. She explained that the department did not receive any similar notifications after 2003, as we discuss later in this section. We also spoke with the former acting chief deputy director of the department, who stated that he began working at the department in 2003 as the deputy director of administration. He explained that

when he started at the department he was told by the budget officer at the time that the fund condition amount reported to Finance for the parks fund differed from the State Controller's cash balance due to an error made several years earlier that understated the amount reported to Finance. As a result, the department was reporting different fund balance amounts to Finance and the State Controller for the parks fund. According to the current accounting administrator, approximately one year after becoming aware of the reporting differences in 2002, she was directed by the accounting administrator at the time to begin preparing fund condition statements for the parks fund and the off-highway vehicle fund and provide them to the budget office, in the hope that it would report the correct amounts to Finance. However, she stated that the budget office continued to report amounts it prepared rather than the amounts in the fund condition statements the accounting office prepared. Further, she explained that over approximately the next six years, three different budget officers, including the current one, came to her with concerns about the differences in reporting. Each time, she explained to the budget officer that the accounting office was aware of the reporting differences and that the budget officer needed to explain this information to his or her supervisor in order to resolve the issue.

***High-level management of the department directed the department's current budget officer to continue underreporting to Finance the fund balance for the parks fund.***

High-level management including the former deputy director of administration and the former acting chief deputy of the department directed the department's current budget officer to continue underreporting to Finance the fund balance for the parks fund. The current budget officer stated that she noticed a difference in reporting when she first started working at the department in February 2011. She explained that she discussed the issue with the former deputy director of administration and the former acting chief deputy director. She further explained that they both told her not to change anything in the way the budget office was reporting, as they were concerned that if the department reported the funds accurately in accordance with the State Controller's records, the department's General Fund appropriation could be reduced.

According to the former acting chief deputy director, over the years the department's General Fund appropriation had declined, requiring the department to rely more on the parks fund and its volatile revenue stream. His understanding was that because of this reliance on the parks fund revenues, the department made a decision prior to his arrival to continue underreporting the fund balance of the parks fund to Finance so the department would be able to use that cash if revenues were not sufficient to fully fund appropriations in the future. When we asked him why he allowed the underreporting to continue and did not make a correction to report the additional cash to Finance, he stated that he had accepted the department's decision made prior to his arrival and agreed that the cash would be used in future years when the parks fund revenues were not sufficient

to fully fund appropriations. Unfortunately, his acceptance of the department's rationalization to continue underreporting its parks fund balance to Finance is inconsistent with statewide policies requiring the department to accurately report amounts to Finance consistent with its year-end financial statements. Moreover, the department would need to acknowledge that the additional fund balance exists and have an available appropriation in order to spend the funds.

We also followed up with Finance to understand why it discontinued its efforts to provide information about differences in reporting. According to an October 2006 e-mail located by the current chief of Finance's fiscal systems and consulting unit, Finance stopped providing the notifications to departments regarding differences in their fund balance reporting because the State Controller was unable to provide Finance a file containing the departments' reported fund balances. When we spoke with the chief of the State Controller's state government reporting bureau about why the State Controller discontinued providing the file containing the fund balances, she stated that the information needed by Finance to compare its budget amounts to the State Controller's records has been published in the budgetary report for years, and that although it is not published in time for Finance's current budget process, it shows the trend of funds that had fund balance variances from the governor's budget. Additionally, she stated that even when current information was provided to Finance for years before 2003, including for the department, variances were either not investigated or were not corrected in the budget process.

As discussed previously, when the department's discrepancies in reporting were identified and publicly reported, Finance conducted a fund-by-fund review of fund balances for the State's more than 500 special funds. Most recently, Finance and the State Controller adopted a joint policy in August 2012 to provide Finance with preliminary and final reports for special funds with fund condition statements in the governor's budget. This policy states that the State Controller agrees to provide Finance with preliminary special fund balances in mid to late October and a final list of special fund balances in mid-March. Finance confirmed that the State Controller provided the preliminary fund balances for special funds beginning in late October 2012.

During our review of the three most recent fiscal years, we found that the revenues and expenditures reported each year to Finance for the parks fund agreed with the revenues and expenditures reported to the State Controller in the year-end financial reports. However, as we discuss later in this report, we identified a few differences in the reporting of expenditures for the off-highway vehicle fund and several differences in the amounts of prior-year adjustments for both the parks fund and the off-highway vehicle

*The department's rationalization to continue underreporting its parks fund balance to Finance is inconsistent with statewide policies requiring the department to accurately report amounts to Finance consistent with its year-end financial statements.*

*The budget portion of the department's administration manual has not been updated since 1997, and its procedures are broad and do not provide specific guidance for preparing budget schedules.*

fund over the past three fiscal years. These differences provide examples of the types of issues that led to ongoing differences in reporting that, over time, likely contributed to the continual reporting of different fund balance amounts for these two funds.

In addition, although the department's budget office does not have written procedures for preparing prior-year adjustments, fund condition statements, and revenue budget schedules, the current budget officer is developing such procedures. The budget office does have some written procedures for preparing expenditure budget schedules; however, they are incomplete. According to the budget officer, the expenditure procedures have been in place since September 2011. The budget portion of the department's administration manual has not been updated since 1997, and its procedures are broad and do not provide specific guidance for preparing budget schedules. The budget officer is currently updating the manual and developing policies and procedures to ensure that amounts reported to Finance agree with the department's year-end statements. The deputy director of administration<sup>8</sup> expects these new procedures to be implemented by May 2013. In addition to the department's development of detailed procedures to guide the budget office staff in compiling and reporting accurate information to Finance for the annual budget, we believe it is important for the department's executive management to monitor the budget process closely to prevent any future variance from the established policies and procedures designed to ensure accurate reporting.

To address the ongoing differences in fund balance reporting for the parks fund and the off-highway vehicle fund, the department submitted two adjustments to Finance in the fall of 2012. Specifically, for the off-highway vehicle fund, the department submitted to Finance a one-time adjustment to correct its June 30, 2011, fund balance. The adjustment of \$33.5 million was made to the prior-year adjustment line item and corrects the beginning fund balance reported for fiscal year 2011–12. In addition, the department submitted a similar one-time adjustment to Finance to correct its June 30, 2011, fund balance for the parks fund. That adjustment, totaling \$20.4 million, was made to the prior-year adjustment line item and corrects the beginning fund balance for fiscal year 2011–12. However, we are concerned with the department's lack of policies and procedures to ensure that it reports the same information to both Finance and the State Controller. If the department does not ensure that staff use its

<sup>8</sup> Although the deputy director of administration started working at that position in January 2012, in November 2012 he was appointed to the position of chief deputy director. Throughout this report we refer to him as the deputy director of administration, which was his title during most of our fieldwork.

year-end financial reports when reporting to Finance, it may create future fund balance differences that are carried forward from year to year, requiring the department to again restate or adjust its beginning fund balance in the governor's budget. Additionally, inaccurate or inconsistent fund balance information causes a lack of reliable information on which decision makers can base their decisions.

***A Lack of Policies and Procedures and a Significant Adjustment Made by Finance Contributed to the Reporting Differences in the Off-Highway Vehicle Fund and to Criticism That the Department Was Hiding Money***

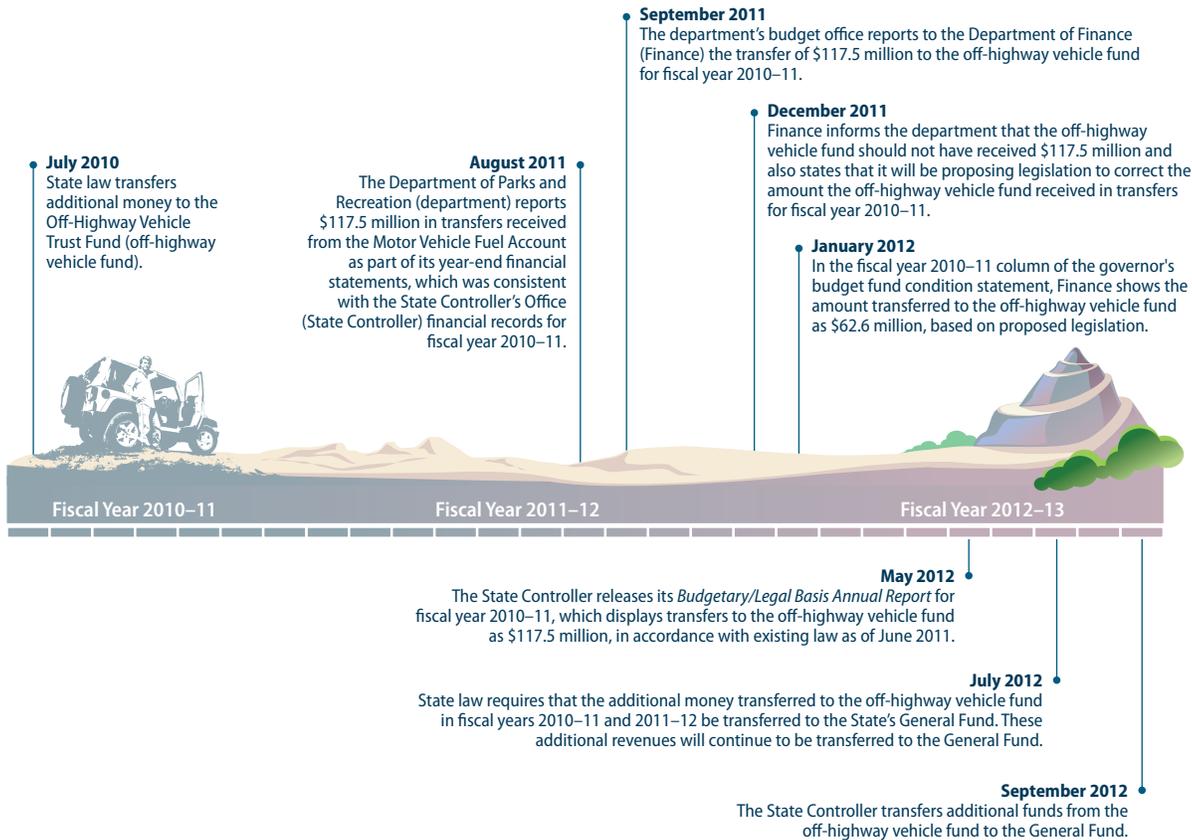
During the preparation of the January 2012 Governor's Budget, the department correctly used its year-end financial statements for fiscal year 2010–11 to report transfer amounts to the off-highway vehicle fund. However, when we compared the transfer amounts presented in the January 2012 Governor's Budget, we noted that they did not agree with the department's year-end financial statements. Specifically, we noted that Finance had reduced the transfer amounts to the off-highway vehicle fund by nearly \$55 million—a significant adjustment. This reduction contributed to the department's ending fund balance for the off-highway vehicle fund in the governor's budget being understated by more than \$33 million<sup>9</sup> compared to the State Controller's budgetary report, as was shown previously in Table 3 on pages 24 and 25.

As discussed in the Introduction, the off-highway vehicle fund receives a significant portion of its revenue through transfers from the Motor Vehicle Fuel Account (fuel account) related to motor vehicle fuel taxes. From July 1, 2010, to June 30, 2012, state law required a monthly transfer of certain new motor vehicle fuel tax revenues from the fuel account to the off-highway vehicle fund. As a result, in August 2011 the department correctly reported the transfer amounts—totaling \$117.5 million—to the off-highway vehicle fund in its fiscal year 2010–11 year-end financial reports to the State Controller. As shown in Figure 4 on the following page, in September 2011 the department also correctly reported the total transfer amounts of \$117.5 million to Finance. However, in December 2011 Finance notified the department's budget officer via e-mail that it was reducing the amount of the transfers based on proposed legislation. As a result, the January 2012 Governor's Budget listed transfers of \$62.6 million—nearly \$55 million less than the amount the department initially reported to Finance.

***The January 2012 Governor's Budget listed transfers of \$62.6 million—nearly \$55 million less than the amount the department initially reported to Finance.***

<sup>9</sup> Before including the effect of the \$55 million reduction, the department's ending fund balance for the off-highway vehicle fund in the governor's budget would have been overstated by more than \$20 million compared to the ending fund balance reported in the State Controller's budgetary report.

**Figure 4**  
Reporting by the Department of Parks and Recreation, Department of Finance, and State Controller's Office  
Related to Transfers to the Off-Highway Vehicle Trust Fund



Sources: Revenue and Taxation Code, sections 7360-7361.1 and 8352.6, and documents from the department, Finance, the State Controller, and the Web site of the Governor's Office.

According to one of Finance's principal program budget analysts (principal analyst), Finance made the adjustment to the off-highway vehicle fund in an effort to avoid misleading the Legislature and any other stakeholders consulting the fund condition statement. Specifically, he stated that Finance reduced the amount transferred to the off-highway vehicle fund by \$55 million because the July 2010 change in law resulted in an unintended increase in deposits to the off-highway vehicle fund. However, this adjustment in the governor's budget contributed to a major understatement of the fund balance because the amount of the transfers did not accurately reflect the department's or the State Controller's accounting records as of June 30, 2011, the end of the fiscal year. Specifically, the State Controller made transfers totaling \$117.5 million from the fuel account to the off-highway vehicle fund in accordance with existing law as of June 2011.

Finance proposed legislation that would redirect the additional funds received by the off-highway vehicle fund. However, the legislation was not approved at the time that Finance reduced the amount of the transfers. In fact, the proposed legislation did not become law<sup>10</sup> until June 2012—well after fiscal year 2010–11 ended and two years after the original July 2010 tax law became effective. In addition, Finance originally proposed moving the additional funds to the Transportation Tax Fund, but the legislation that was eventually enacted requires that the additional funds be transferred to the General Fund.

A principal analyst at Finance agreed that the way the transfer was presented could have been perceived as misleading if viewed in isolation. He stated that Finance handles pending bills that may have an effect on fund condition statements on a case-by-case basis and that there are no specific guidelines for how it should treat funds that could potentially be influenced by pending legislation. He also stated that this is the only instance that he is aware of in which Finance made a major adjustment to the prior-year actual amount, which in turn created a large discrepancy between the department's accounting records and what was reported in the fund condition statement. According to the chief of Finance's fiscal systems and consulting unit, Finance will consider implementing a policy to ensure that, in the future, when a decision is made to reflect the effect of pending legislation in a prior-year fund condition statement, the related adjustments would be made explicit and obvious. He also stated that at this time Finance has not determined if and when such a policy will be implemented, since it would require discussion and agreement by management.

*A principal analyst at Finance agreed that the way the transfer was presented could have been perceived as misleading if viewed in isolation.*

When we discussed our concerns with the department's budget officer, she explained that she noticed that the off-highway vehicle fund had received a transfer that was nearly double the amount it should have received. She further stated that she discussed the issue with the former deputy director of administration and that they ultimately decided that the department was comfortable with Finance adjusting the transfer amount, since the adjustment was supported by proposed legislation to move the unintended funds out of the off-highway vehicle fund.

When Finance made the adjustment, causing the amounts transferred to the off-highway vehicle fund in the fund condition statement of the governor's budget to no longer agree with the department's records, we would have expected the department to advocate for the accuracy of the numbers it originally reported

<sup>10</sup> Chapters 22 and 32, Statutes of 2012, became effective immediately in June 2012, as they were related to the Budget Act of 2012.

to Finance and to document that advocacy. At a minimum we would have expected to see this significant of a change escalated within the department to ensure that its highest levels of management were informed of the change and the effect the change would have on the fund balance. Although the budget officer stated that she informed the former deputy director of administration of this issue, she did not document those discussions, and the department has no policies or procedures in place for instances in which Finance wants to adjust the department's fund condition statement. As a result of the department's lack of policies and procedures regarding proposed changes by Finance to its fund condition statements, the department received criticism and created a negative public perception that it was hiding money. The deputy director of administration and the budget officer both agree that the department needs to develop policies and procedures to handle such changes proposed by Finance.

***The Expenditures and Prior-Year Adjustments Reported in the Governor's Budget Were Not Always Based on the Department's Year-End Financial Reports***

As discussed in the Introduction, Finance instructs administering departments to report financial information in their budget documents that is consistent with their year-end financial reports. Therefore, fund balances listed in the prior-year column of the governor's budget should agree with the information departments submit to the State Controller for the fiscal year just ended. However, our review of the three most recent fiscal years found that these amounts did not always agree. Specifically, we noted a few differences in the reporting of expenditures for the off-highway vehicle fund. For example, in one of its fiscal year 2009–10 budget schedules, the department reported to Finance an expenditure of \$2.1 million for improvements to an off-highway motor vehicle park, and included a note that a contract had been awarded in January 2010. However, the corresponding item in the fiscal year 2009–10 financial reports to the State Controller indicated only \$769,000 in expenditures, resulting in a \$1.3 million difference in the expenditures reported to Finance for the off-highway vehicle fund. Furthermore, during our review of the corresponding documentation and discussion with Finance, we found that the total construction costs associated with the project should have been reported to Finance and the State Controller as \$1.4 million rather than \$2.1 million.

At the time of these reporting errors, the current budget officer was not yet working at the department, and therefore we followed up with Finance to obtain additional information regarding how these errors could have occurred. In one of its annual budget letters,

Finance states that departments must show construction dollars for capital outlay projects as being expended in the year the contract was or is expected to be awarded, including all associated costs necessary to complete the project. According to a principal analyst at Finance, the department incorrectly reported the expenditure amount of \$2.1 million, rather than \$1.4 million, and the error was not caught by Finance, but because the analyst reviewed this information almost two years ago, he was unable to recall specifically why he did not catch this mistake at that time.

According to the principal analyst, there are resources the capital outlay unit relies on—including the *State Administrative Manual*, budget letters, and the *Budget Analyst Guide* on Finance's Web site—which include information staff can refer to when reviewing documentation submitted by departments. However, he explained that there are currently no written desk procedures that cover the process of reviewing capital outlay expenditures reported by departments. He stated that capital outlay staff are verbally instructed to review the contract award and other relevant documentation on file to ensure that departments are submitting the correct information. Based on our review of this issue, we believe that, if the analyst reviewed the contract award, he should have caught the error. Furthermore, the principal analyst explained that the supervisor reviewing the analyst's work is likely to review the budget schedules and year-end financial statements submitted by the department, but the supervisor usually would not review the contract award. We would expect Finance to have a process in place, such as a checklist, to ensure that its staff follow procedures.

We also followed up with the department's accounting office to understand why only \$769,000 of the \$1.4 million in construction costs was included as an expenditure. The accounting administrator explained that she had some concerns with encumbering certain costs and that doing so would not be in compliance with the State Controller's instructions for year-end reporting purposes. Specifically, the State Controller requires encumbrances—goods that are ordered but not received by the end of a fiscal year—to be associated with a specific vendor type. She further explained that when contracts are awarded, there can be costs associated with the project that are estimates, and the department does not know at the time exactly how that money will be spent. However, when we followed up with the chief of Finance's fiscal systems and consulting unit, he stated that the accounting department should have encumbered all of the costs necessary to complete the project in order to be consistent with how the costs are budgeted. He also stated that the accounting and budget offices should work together to ensure that they are consistent in the amount of estimated expenditures they encumber. In addition, he stated that the department should use approved cost estimates and supporting

*The department's prior-year adjustment amount in the governor's budget for fiscal year 2009–10 was \$30.6 million for the off-highway vehicle fund, compared to \$2.9 million reported in the State Controller's budgetary report.*

documentation to determine the type of costs and type of vendor (private, state, or other government) that will likely be used. This difference in expenditure reporting by the department's accounting office to the State Controller and the budget office to Finance provides an example of how a difference in reporting contributes to differences in fund balance amounts.

Additionally, during our review of the most recent three fiscal years, we noted that the prior-year adjustment amounts reported in the governor's budgets did not agree with the amounts reported in the State Controller's budgetary reports for both the parks fund and the off-highway vehicle fund. For example, the department's prior-year adjustment amount in the governor's budget for fiscal year 2009–10 was \$30.6 million for the off-highway vehicle fund, compared to \$2.9 million reported in the State Controller's budgetary report. Also, for the parks fund the department's prior-year adjustment amount reported in the governor's budget was \$1,000 for fiscal year 2009–10, compared to \$1.5 million reported in the State Controller's budgetary report for the same year. As mentioned earlier, the current budget officer was not yet with the department at the time these adjustments were reported, so she could not comment on the differences. Furthermore, except for fiscal year 2011–12, the department was unable to provide us with supporting documentation showing how it arrived at the prior-year adjustment amounts it submitted to Finance for the two funds that were the focus of this audit.

The differences in reporting between the State Controller's budgetary report and the fund condition statement in the governor's budget—regardless of amount—accumulate over time and may have contributed to the growing difference in the fund balances reported. As Table 3 on pages 24 and 25 shows, the department's budget office has continually been reporting fund balance amounts to Finance that do not agree with the amounts reported to the State Controller. The department's deputy director of administration acknowledged that the budget office does not have written procedures for preparing prior-year adjustment amounts that it submits to Finance. However, he indicated that the department expects to have such procedures implemented by May 2013.

### **The Department's Announcement of a Plan to Close Certain Parks May Have Been Premature**

The January 2011 Governor's Budget included a proposed reduction in the department's fiscal year 2011–12 General Fund appropriation and indicated that the decrease would result in partially or fully closing some parks and reducing expenditures at

the department's headquarters. In March 2011 a new state law went into effect that requires the department to achieve any required budget reductions by closing, partially closing, or reducing services at selected parks. The law specifies that *required budget reductions* means the amount of funds appropriated in the annual Budget Act to the department is less than the amount necessary to fully operate the 2010 level of 278 park units of the state park system. Our legal counsel interprets this law as meaning the difference between the amount of funds appropriated each year to the department in the annual Budget Act and the amount necessary for the department to fully operate the 278 park units of the state park system at the 2010 level. That law also requires the department to select the units to be closed based solely on the 11 factors shown in the text box. One of the 11 factors that the department is required to consider in its selection of parks to close is the estimated *net savings*<sup>11</sup> from closing each park, to maximize savings to the state park system.

In response to the proposed reduction in its funding, the department decided to identify parks for closure rather than reduce park services further. According to the department's former acting chief deputy director, Finance verbally informed the department in late 2010, before the January 2011 Governor's Budget, that it would be reducing the department's General Fund appropriation by \$22 million and asked the department to propose a plan to achieve savings to offset the budget reduction. He stated that to the best of his recollection, the management team at that time—which included the department's director, himself, the former deputy director of administration, and the deputy director of park operations—were involved in the decision to close parks rather than reduce services to implement the General Fund reduction. The management team believed that reducing park operations further would not be the best option, because park services were already operating at minimum levels, and felt that park closures provided a better long-term solution. He stated that he was not aware of any formal documentation regarding this decision, but that the decision was consistent with

**Factors the Department of Parks and Recreation Must Consider When Selecting Parks for Closure, Partial Closure, or Reduced Services to Achieve Required Budget Reductions**

1. The relative statewide significance of each park unit, preserving, to the extent possible, parks identified in the Department of Parks and Recreation's (department) documents including "Outstanding and Representative Parks," "California State History Plan," and "California State Parks Survey of 1928."
2. The rate of visitation to each unit, to minimize impacts to visitation in the state park system.
3. The estimated net savings from closing each unit, to maximize savings to the state park system.
4. The feasibility of physically closing each unit.
5. The existence of, or potential for, partnerships that can help support each unit, including concessions and both for-profit and nonprofit partners.
6. Significant operational efficiencies to be gained from closing a unit based on its proximity to other closed units, where the units typically share staff and other operating resources.
7. Significant and costly infrastructure deficiencies affecting key systems at each unit so that continued operation of the unit is less cost-effective relative to other units.
8. Recent or funded infrastructure investments at a unit.
9. Necessary but unfunded capital investments at a unit.
10. Deed restrictions and grant requirements applicable to each unit.
11. The extent to which there are substantial dedicated funds for the support of the unit that are not appropriated from the General Fund.

Source: California Public Resources Code, Section 5007.

Note: "Required budget reductions" means the amount of funds appropriated in the annual Budget Act to the department is less than the amount necessary to fully operate the 2010 level of 278 park units of the state park system.

<sup>11</sup> Under this law, *net savings* means the estimated costs of operation for the park less the park's projected revenues and the costs of maintaining the park after it is closed.

previous decisions developed in relation to earlier General Fund reduction proposals made during the previous administration. He stated that he verbally communicated to Finance the department's decision that it would close parks rather than reduce services, but that it would be able to achieve a reduction of only \$11 million in fiscal year 2011–12 and that it would achieve the remaining reductions in the following fiscal year, to arrive at the total \$22 million General Fund reduction.

The former acting chief deputy director also explained that a working team consisting of district superintendents and park operations management identified the factors used to select parks for closure. He confirmed that the list of 70 specific parks selected for closure, and the criteria used to select them, were developed before the March 2011 state law specifying the factors that the department must consider when selecting parks for closure to achieve required budget reductions. He stated that the department provided a document to the Governor's Office, which included an attachment that identified the list of potential park closures and requested flexibility in the parks that the department selected for closure. Further, he stated that, given the short time frame involved, the department knew more work needed to be done to ensure that it could close the parks it had selected. For example, he stated that the department would need to ensure that there were no deed restrictions or grant funding restrictions on the selected parks that would prevent the department from closing them.

In May 2011 the department announced its planned park closures and the factors considered in its methodology—including statewide significance, visitation rates, fiscal strength, ability to physically close the park, existing partnerships, infrastructure, and land use restrictions. When we asked for documentation to demonstrate its park closure selection process, the department's deputy director of administration—who started in January 2012—provided us with two draft spreadsheets that he located dated February 7, 2011, and May 17, 2011. Although the spreadsheets indicate that the department performed some analysis to identify the 70 parks it ultimately selected for closure, this limited documentation did not allow us to determine the completeness of its analysis or to evaluate the reasonableness of its selection of the specific parks chosen for closure. For example, the spreadsheets contain no explanations for the ratings assigned to the parks, and although the spreadsheets include estimated operating costs for many of the parks, many other estimates were left blank. We noted that the department's written methodology generally addressed most of the factors the department was ultimately required to consider under state law and that the spreadsheets included corresponding columns or notes indicating some consideration of those factors. This makes sense, given that the former acting chief deputy director indicated that

***Although the department performed some analysis to identify the 70 parks it selected for closure, the documentation was limited.***

the criteria the department used in making its selection of parks for closure were the basis for the new legislation. However, the spreadsheets we were provided were drafts and the department did not provide any specific corresponding written analysis of the information on the spreadsheets.

The deputy director of administration also provided an undated summary document he located that describes at a high level how the department selected the parks to close. The document identifies criteria the department used in making its decisions and provides some general information about the process. Specifically, the document states that the decision process started at the lowest levels, with recommendations flowing up from the field district superintendents to headquarters. It also states that the process began well before the budget bill passed. The document indicates that the decisions as to which parks to close were made based on parks that had the least revenue and attendance and the highest costs to operate, the degree to which a unit could be closed and still recognize savings, local management issues, and the overlap of staffing for other units. However, the document does not name any specific parks or reference any corresponding analysis contained in the spreadsheets just discussed. Without detailed and documented analyses that correspond with the decisions made, the department cannot demonstrate that it followed its process and it would be difficult to defend its park closure decisions.

Because the March 2011 legislation requires the department to achieve any required budget reductions based on the amount necessary to fully operate its 278 parks at the 2010 level, we would have expected the department to have determined that amount, as well as the difference between that amount and the amount appropriated in the fiscal year 2011–12 and 2012–13 budget acts. However, according to the deputy director of administration, the department has not determined a baseline amount for fully operating its 278 parks at the 2010 level. As a result, the department's May 2011 announcement that it would have to close up to 70 specific parks to achieve a \$22 million General Fund reduction by fiscal year 2012–13 may have been premature, as it had not yet calculated the amount to use as its baseline for the 2010 level and compared this baseline to its appropriation to determine whether the results created a condition that would trigger required park service reductions or closures as described in the March 2011 legislation.

In addition to the department's lack of analysis regarding its 2010 level of funding, we are concerned about the cost estimates the department used to determine the *net savings* from each park closure. *Net savings*, for park closure purposes, is defined in state law as the estimated operating costs less both projected revenues and costs to maintain the park after it is closed. As we described

*Without detailed and documented analyses that correspond with the decisions made, the department cannot demonstrate that it followed its process and it would be difficult to defend its park closure decisions.*

*The department used outdated and incomplete cost estimates for its parks. Therefore, any factors involving these cost estimates that the department considered in selecting parks for closure were not accurate.*

earlier, factors used to identify parks for closure included low revenues and high operating costs. However, as we discuss in the next section, the department used outdated and incomplete cost estimates for its parks. As a result, any factors involving these cost estimates that the department considered in selecting parks for closure were not accurate.

A new state law that took effect in September 2012 put the park closure plan on hold. Specifically, Public Resources Code, Section 541.5, prevents the department from closing any parks through fiscal year 2013–14 and provides \$20.5 million to the department from the parks fund for fiscal years 2012–13 and 2013–14. This law also requires the department to use \$10 million of the funding to match, dollar for dollar, all financial contributions received from donors pursuant to agreements for fiscal years 2012–13 and 2013–14. Additionally, the law requires the department to direct another \$10 million to parks that remain at risk of closure and to use the final \$500,000 to pay for ongoing audits and investigations as directed by the Joint Legislative Audit Committee, the Office of the Attorney General, Finance, or another state agency. Although the department is restricted from closing parks during this and the next fiscal year, it is possible that the department will face funding challenges in the future. Therefore, we believe it is important for the department to determine the amount it will use as a measure of fully operating its 278 parks at the 2010 level, so that it can use this calculation if it must reduce services or close parks in the future to achieve any required budget reductions.

### **The Impact of the Department's Efforts to Keep Parks Open Is Difficult to Measure Because Its Estimates of Operating Costs Are Outdated and Incomplete**

Because of the proposed budget reductions in January 2011 and the new park closure legislation in March 2011, we expected to see that, as part of its analysis for closing parks or reducing park services, the department would have identified the amount necessary to fully operate each park at the 2010 level. Moreover, because the law requires the department to determine the amount of net savings from park closures, we expected the department to have determined these net savings based on recent calculations of the cost to operate each park. However, according to the deputy director of administration, the department does not budget or track expenditures at the park level. This deputy director referred us to a single-page document, dated January 2012, that described the department's methodology for estimating the operating costs of each park. He explained that the department's former acting chief deputy director and a team of district superintendents from park operations developed the original

cost estimates for the 70 parks marked for closure that it announced in May 2011, but the former acting chief deputy director did not document the methodology they used until January 2012.

According to the methodology, the department does not directly allocate budget resources at the individual park level, in part because the department no longer assigns staff to individual parks but instead assigns staff to sectors—multiple-park groupings within districts. The methodology states that the estimate of direct costs is based on two separate components. First, in 2002, district superintendents were asked to estimate the share of their direct district costs associated with each park. The estimated shares were then applied proportionately to the actual district expenditures for fiscal year 2007–08—the latest fiscal year in which district expenditures were unaffected by various one-time and ongoing budget reductions. The methodology also states that updating the 2002 estimates would have required significant effort and expenditure of resources, and the department believed that the costs remained reasonable for estimation purposes. Finally, the methodology states that the estimated park operating costs include direct costs associated with operating each park but do not include indirect costs, such as district costs associated with the park or statewide costs for services to the park—such as accounting, payroll processing, and procurement.

Although the deputy director of administration referred us to the one-page written methodology for calculating the department’s operating cost estimates for its parks and, as described in the previous section, provided spreadsheets that he located indicating the estimated costs of its parks, he was not able to locate any documentation other than the methodology. Therefore, we were not able to review any documentation supporting the department’s cost estimates. Further, the cost estimates are incomplete because, according to the methodology, they do not include any allocation of the parks’ share of indirect district or headquarters costs. Also, the cost estimates for the parks, including those on the closure list, are based on proportional unit shares derived in 2002 and on the costs for fiscal year 2007–08, and are therefore outdated.

As part of its efforts to avoid park service reductions and closures, the department entered into partnership agreements with other public entities and private nonprofit organizations. As described in the Introduction, the three types of agreements—donation, operating, and concession, collectively known as partnership agreements—provide the department with a variety of assistance.<sup>12</sup> In March 2012 the department announced that 11 parks on the closure list would

***The department was not able to provide any documentation supporting its cost estimates.***

<sup>12</sup> The department’s spreadsheet for tracking agreements included a fourth category titled “other agreements/negotiations in progress.”

remain open with the assistance provided by partnership agreements, that partnership negotiations were in progress for another 24 parks, and that it had just begun the process of seeking bids for the operation of 11 additional parks. The remaining 24 parks on the closure list of 70 were not mentioned. We reviewed an updated spreadsheet provided by the department dated September 2012 showing the status of its efforts to secure partnership agreements for the 70 parks marked for closure. The updated spreadsheet shows that the department had 39 signed agreements, had received one-time funds from two donors, and had one agreement pending approval by the Department of General Services. We reviewed selected partnership agreements listed on the department's tracking spreadsheet that were associated with seven parks on the closure list to gain an understanding of the nature of each agreement, the type of assistance or funding provided to the department through the agreement, and the impact of that assistance on planned service reductions or park closures. The results of our review are summarized in Table 4.

More recent estimates of park costs that we obtained from the districts were difficult to compare to the department's outdated estimates because of inconsistencies in the time periods covered. For each of the seven partnership agreements we selected to review, we compared the department's cost estimate to a newer district cost estimate recently made available and found that for six of the seven partnership agreements, the department's older estimates were higher, sometimes by a significant amount. For example, as shown in Table 4, the department estimated the annual operating cost of Morro Strand State Beach (Morro Beach) at \$461,551, while the district's more recent estimated operating cost was \$259,450. According to information provided by the Morro Beach park superintendent, the district's operating cost was developed based on expenditure data for fiscal years 2009–10 and 2010–11. Because the department could not provide any detailed documentation for its estimates, we could not compare them to the newer district estimates and determine the reasons for variances. However, our discussions with district staff about the differences in these estimates produced some general reasons that might explain a portion of the differences. For example, one district park superintendent we spoke with explained that the department may have included the total salary of a particular staff person in the estimated cost for one park, whereas the district may have divided the person's salary among multiple parks. Additionally, according to the department's methodology discussed previously, the estimates from fiscal year 2007–08 were based on actual district expenditures because this was the latest fiscal year in which district expenditures were unaffected by various one-time and ongoing budget reductions, a factor that may help explain why the department's estimates tended to be higher.

**Table 4**  
**Summary of Agreements We Reviewed, Along With the Department of Parks and Recreation’s Original Cost Estimates to Operate the Parks**

PARK NAME	TYPE OF AGREEMENT/DONATION	NATURE OF AGREEMENT/DONATION	REVENUE OR DONATION AMOUNT	EFFECTIVE DATE OF AGREEMENT OR DONATION DATE	DEPARTMENT’S ORIGINAL ESTIMATE*	COMMENTS REGARDING IMPACT OF AGREEMENT
Antelope Valley Indian Museum State Historic Park	Donation	Exclusive use and benefit of Antelope Valley Indian Museum Historic Park.	One-time donation of \$425,000.	3/10/2011	\$186,345	According to the district park superintendent, the donation will allow the park to operate weekends from 11 a.m.–4 p.m. and one day a week for school groups for approximately two and a half years. However, this time period may be shorter or longer depending on the accuracy of the cost estimate to operate the park.
Austin Creek State Recreation Area	Operating	The operator agreed to operate specified portions of the park for 5 years.	The operator retains all revenue generated at the park and shall spend it only for the care, maintenance, operation, administration, improvement, and development of the park.	7/01/2012 through 6/30/2017	\$55,978	Although the agreement states that the operator will provide services for public use and enjoyment, according to data that a district park specialist provided, the Department of Parks and Recreation (department) will continue to incur nearly \$40,000 in monthly operating costs at the park with the operating agreement in place.
Garrapata State Park	Other agreements/negotiations in progress	According to the district park superintendent, a local agency and a private nonprofit have agreed to provide volunteers and funding for the disposal of trash from the park and for the maintenance of restrooms. <sup>†</sup>	The district park superintendent estimates the cost of the services provided is \$6,000.	7/01/2012 through 6/30/2013	\$113,524	The department’s cost estimate of \$113,524 exceeds the district park superintendent’s estimate by more than \$100,000. According to the district park superintendent, the department’s estimate may include the estimated personnel cost to respond to calls at Garrapata State Park, but he said that the park district does not budget any personnel costs to this park.
Morro Strand State Beach	Other agreements/negotiations in progress	According to the district park superintendent, the park received three proposals for operating agreements, but none were accepted and the park continues to run on its annual budget allocation.	NA	NA	\$461,551	The district park superintendent estimates the cost to operate Morro Strand State Beach at \$259,450, about \$200,000 less than the department’s cost estimate.

continued on next page ...

PARK NAME	TYPE OF AGREEMENT/DONATION	NATURE OF AGREEMENT/DONATION	REVENUE OR DONATION AMOUNT	EFFECTIVE DATE OF AGREEMENT OR DONATION DATE	DEPARTMENT'S ORIGINAL ESTIMATE*	COMMENTS REGARDING IMPACT OF AGREEMENT
Tule Elk State Natural Reserve	Other agreements/negotiations in progress	The agreement supersedes an existing agreement with a local agency to include a donation of three annual payments of \$175,000, which the department is to use to operate, maintain, improve, and administer the park. In addition, the local agency is allowed to use the park for surface water delivery and groundwater discharge operations in years that the water supply is high.	\$525,000 (\$175,000 annually for three years) plus a lump sum of \$300,000 received in 2009.	7/06/2012 through 7/06/2042	\$209,803	According to the district park superintendent, while the agreement provides a benefit to the park and the elk that inhabit the park, it also saves the district a minor amount of costs associated with pumping water. Additionally, the agreement provides the district with annual revenues for three years that would cover a significant portion of the department's original cost estimate, depending on the accuracy of that estimate.
William B. Ide Adobe State Historical Park	Donation	The donation agreement states that the department will receive an annual donation for a three-year term to maintain and operate the park.	\$216,000 (\$72,000 annually)	8/03/2012 through 6/30/2015	\$127,110	According to a district administrative officer, the park has one full-time interpreter that must be present to meet the goal of the park. She added that the donation will cover the annual salary of that interpreter and other park costs. Although the donation supports the full-time interpreter at the park, the donor agreed to provide funding only until June 30, 2015.
Woodson Bridge State Recreation Area	Concession	Five-year term to develop, equip, operate, and maintain the campground and day use facilities of the park.	The greater of \$3,025 or 8.01 percent of the annual gross receipts. With approval of the department, the concessionaire is to use these funds for the maintenance and improvement of the facility.	9/01/2012 through 9/01/2017	\$269,705	Although the agreement states that the concessionaire will operate the campground and day use facilities of the park, a district administrative officer estimates the department will still incur limited operating expenses of nearly \$23,000 per year.

Sources: Agreements with various entities associated with seven parks, the department's August 2012 and September 2012 summary spreadsheets tracking donations and other agreements to operate state parks on the closure list, and department staff.

NA = Not applicable.

\* The department's original cost estimates are based on direct cost information for fiscal year 2007-08 and the estimated share of each park's costs using a 2002 study.

† According to the department's northern field division chief, the district park superintendent will be working to develop a memorandum of understanding to memorialize the commitments of the local agency and private nonprofit that are providing services to assist in keeping Garrapata State Park open to the public.

As shown in Table 4, our review of the partnership agreements found that any assistance or funds provided by donors, operators, or concessionaires improves the department's ability to maintain at least some level of services at the parks. Recently, in August 2012, the department began asking its districts to provide an estimate of the operating costs for each park with a partnership agreement. According to the e-mail sent to district park superintendents requesting the new estimates, the department sent districts a spreadsheet to complete when providing their estimates to capture information in a consistent manner. Although these estimates are more current and are designed to be more consistent than the department's original estimates, they do not represent the total costs of operating the parks. The new cost estimates reflect the costs to operate individual parks for fiscal year 2012-13 after cost savings from partnership agreements. Furthermore, the estimates are incomplete because the department specifically instructed district park superintendents to exclude district overhead from their cost estimates and sometimes adjusted the district estimates by eliminating certain costs. Without updated and complete estimates of the costs to operate each park, it is difficult to accurately measure the impact of partnership agreements.

### **Recommendations**

To ensure that it reports consistent amounts to Finance and the State Controller, the department's budget office should develop and implement detailed procedures that describe how to use the year-end financial statements to report prior-year accounting information to Finance. These procedures should include steps to ensure that the ending fund balances reported in the most recent governor's budget and the State Controller's budgetary report agree, and that the subsequent year's beginning fund balances in the governor's budget do not carry forward any differences.

The department's executive management should monitor the budget process closely to prevent any future variances from established policies and procedures designed to ensure accurate reporting.

To ensure transparency and accurate reporting, in those instances when Finance believes it is necessary to adjust amounts that departments have reported for presentation in the governor's budget, causing them to be different from the amounts reported to the State Controller, Finance should develop a policy and procedures to fully disclose the need for the adjustments it makes, including a reconciliation to the amounts reported by the State Controller.

To ensure that any significant changes affecting fund balances proposed by Finance for presentation in the governor's budget are presented accurately and transparently, the department should develop procedures to require higher-level review and approval of such changes by its chief deputy director, director, and potentially the secretary for the Natural Resources Agency. The department should identify levels of significance for the proposed changes in fund balances that would trigger seeking these higher-level approvals.

To ensure accurate reporting of expenditures and prior-year adjustment amounts to Finance for the governor's budget, the department's budget office should continue its planned efforts to establish policies and procedures. These procedures should include specific steps to identify, investigate, resolve, and document differences in reporting by the budget and accounting offices.

Finance should establish a documented process for ensuring that its staff demonstrate that they have verified that departments completed budget documents correctly. For example, Finance could establish a checklist that its staff complete to communicate that they followed specified procedures to ensure the accuracy of amounts reported by departments.

To ensure that it adheres to the statutory requirement to reduce services or close parks to achieve any required budget reductions in the future, the department should determine the amount necessary to fully operate its 278 parks at the 2010 level. Moreover, the department should document its calculations and ensure that they include all costs associated with the operation of parks in 2010.

To address the possibility of any future park service reductions or closures, the department should develop a detailed process for evaluating the criteria that it must consider in selecting parks for reduced services or park closures. To ensure transparency to the public and to demonstrate that it followed its process, the department should also document the details of its analyses that support its selection of parks for reduced services or closures.

To assure the Legislature and the public that future proposed park service reductions and closures are appropriate to achieve any required budget reduction, the department should develop individual park operating costs and update these costs periodically. These individual park costs should include all direct and indirect costs associated with operating the park, and the aggregated costs of all the individual parks should correspond with the related fiscal year's actual expenditures needed to operate the department's park system. Additionally, when proposing park service reductions or closures in the future, the department should compare the most

recent cost estimates to the amount the department determines is necessary to fully operate its 278 parks at the 2010 level to determine the actual amount of the reductions or closures needed.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: February 14, 2013

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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*(Agency comments provided as text only.)*

Department of Parks and Recreation  
P.O. Box 942896  
Sacramento, CA 94296-0001

January 22, 2013

Ms. Elaine M. Howle, CPA\*  
State Auditor  
California State Auditor  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

RE: Department of Parks and Recreation Response to Audit Findings 2012-121.1

Dear Ms. Howle:

The Department of Parks and Recreation (the Department) submits the following in response to the January 15, 2013 letter from the California State Auditor (CSA) regarding the Department of Parks and Recreation's budget process and procedures.

The report asserts on pages 42 through 44 that Parks did not sustain an \$11 million cut between fiscal years 2010-11 and 2011-12. This is incorrect and fundamentally misleading because it does not take into account the real and actual fiscal impact of employee furloughs and other Department of Finance adjustments. ①

In fiscal year 2010-11, the General Fund appropriation was \$133 million. That amount was then reduced through Department of Finance adjustments. The largest adjustment was \$9.5 million in furloughs. Those furloughs ended in 2011-12. As a result, the General Fund appropriation for 2011-12 reflected the additional \$9.5 million fund for those salaries previously reduced due to furloughs. This was not an increase in the Department's 2011-12 budget. Parks appropriately calculated the necessary budget reduction. The fact remains that the Department was faced with substantial reductions in appropriations between the 2010-11 and 2011-12 fiscal years. ② ③

As to the remainder of the report, Parks has no concerns and intends to implement the recommendations as stated below.

#### **FINDING 1, 2, 3, 4 –**

##### *Recommendations by BSA*

The Department's budget office should develop and implement detailed procedures that describe how to use the year-end statements to report prior-year accounting information to Finance. These procedures should include steps to ensure that the ending fund balances reported in the most recent governor's budget and the State Controller's budgetary report agree, and that the subsequent year's beginning fund balance in the governor's budget does not carry forward any differences.

\* California State Auditor's comments appear on page 51.

Ms. Elaine M. Howle, CPA  
January 22, 2013  
Page 2

The Department's current executive management should monitor the budget process closely to prevent any future variances from established policies and procedures designed to ensure accurate reporting.

The Department should develop procedures to require higher-level review and approval of such changes by its Chief Deputy Director, Director, and potentially the office of the California Secretary for Natural Resources. The Department should identify levels of significance for the proposed changes in fund balances that would trigger seeking this higher-level approval.

The Department's budget office should continue its planned efforts to establish policies and procedures. These procedures should include specific steps to identify, investigate, resolve, and document differences in reporting by the budget and accounting offices.

**Response – Parks concurs with these recommendations. Parks' new executive staff has tasked the budget office with developing the recommended procedures and policies that will be implemented this fiscal year. The budget office is currently undertaking these tasks. Additionally, the Budget Officer now provides monthly budget briefings to Executive Staff, including the Director, and will provide regular status updates on the budget development to Executive and Senior Management for approval.**

#### **FINDING 5, 6 –**

##### *Recommendations*

The Department should determine the amount necessary to fully operate its 278 parks at the 2010 level. Moreover, the department should document its calculations and ensure it includes all costs associated with the operation of parks in 2010.

The Department should develop a detailed process for evaluating the criteria that it must consider in selecting parks for reduced services or park closures. To ensure transparency to the public, and to demonstrate that it followed its process, the department should also document the details of its analysis that support its selection of parks for reduced services or closures.

The Department should develop individual park operating costs and update these periodically. These individual park costs should include all direct and indirect costs associated with operating the park, and the aggregated costs of all the individual parks should correspond with the related fiscal year's actual funding. Additionally, when proposing park service reductions or closures in the future, the department should compare the most recent cost estimates to the amount the department determines is necessary to fully operate its 278 parks at the 2010 level to determine the actual amount of the reduction or closure needed.

Ms. Elaine M. Howle, CPA  
January 22, 2013  
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Response – Parks concurs with these recommendations. The budget office will work with Park Operations to examine and, if viable, develop a “zero-based budget” to ensure we have a clear picture of all costs associated with managing the Park system as well as the individual park units. Budget and Executive staff for Parks have held initial meetings with the Department of Finance to discuss this change in its budgeting process. This change would assist in developing a process to evaluate criteria if necessary to reduce services or close parks. The zero based budget will also provide accurate individual park operating costs.

Sincerely,

*(Signed by: Aaron S. Robertson)*

Aaron S. Robertson  
Chief Deputy Director

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## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE DEPARTMENT OF PARKS AND RECREATION

To provide clarity and perspective, we are commenting on the Department of Parks and Recreation's (department) response to our audit. The numbers below correspond to the numbers we have placed in the margin of the department's response.

While preparing our draft audit report for publication, page numbers shifted. Therefore, the page numbers that the department cites in its response do not correspond to the page numbers in our final report.

①

Based on further discussions held with the secretary for the Natural Resources Agency and officials from the Department of Finance, we modified our text.

②

The department's statement that it appropriately calculated the necessary budget reduction is incorrect. As we state on page 37, the department has not determined the baseline amount to fully operate its 278 parks at the 2010 level. Without calculating this baseline and comparing it to its appropriation, the department had not yet determined whether the results created a condition that would trigger required park service reductions or closures as described in the March 2011 legislation. Therefore, the department's announcement may have been premature.

③

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*(Agency comments provided as text only.)*

Department of Finance  
State Capitol, Room 1145  
Sacramento, CA 95814

January 23, 2013

Ms. Elaine M. Howle, CPA  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to respond to the Bureau of State Audits (BSA) draft report no. 2012-121.1. As part of this review, your staff evaluated the methods used by the Department of Finance (Finance), including the oversight it provides to departments, to ensure the accurate reporting of financial data in the Governor's Budget.

We agree that the procedures used for the reporting of special fund financial information needed improvement. As described below, prior to the completion of your audit, we implemented a number of steps to improve the accuracy of the Governor's Budget. Regarding your report specifically, we agree with the report's recommendations to 1) develop policy and procedures to disclose adjustments to past year amounts reported to Finance that result in differences with the amounts reported to the State Controller's Office (SCO), and 2) establish a documented verification process to help ensure the accuracy of budget documents completed by departments.

The changes implemented for the fall 2012 budget development process included the following:

- Established an enhanced process for departments and Finance to reconcile fund condition statements with departments' year-end financial statements and the SCO's preliminary fund balances.
- Entered into a memorandum of understanding with the SCO to collaborate in the reconciliation process.
- Developed a new form department directors, or their designee, are required to submit to certify that the past/prior year data provided to Finance is accurate, reconciles between budget and accounting records, and is consistent with information provided to SCO.
- Issued a Budget Letter to remind departments of their responsibilities when reporting past/prior year financial data in budget documents, and to provide instructions on the new certification form.
- Developed new worksheets for departments to calculate prior year adjustment amounts to be reported in fund condition statements.
- Provided training to departments and Finance staff on the enhanced reconciliation process, including the use of the new forms and worksheets.
- Started an evaluation process to further improve the accuracy and efficiency of the process for next fiscal year.

Ms. Elaine M. Howle, CPA  
January 23, 2013  
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If you have any questions, please contact Kevin Fujitani of the Fiscal Systems and Consulting Unit at (916) 445-0211, extension 2805.

Sincerely,

*(Signed by: Todd Jerue)*

TODD JERUE  
Chief Operating Officer

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Little Hoover Commission  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press