



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

Joint Hearing Assembly Water, Parks and Wildlife and Senate Natural Resources and Water

Room 4202, State Capitol
Sacramento, California

February 20, 2013

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
(Report 2012-121.1 February 2013)

Statement by

**ELAINE M. HOWLE, CPA
California State Auditor**



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

BACKGROUND

The State's General Fund, various bond funds, and several other funds—such as the State Parks and Recreation Fund and the Off-Highway Vehicle Trust Fund—provide the Department of Parks and Recreation with funding to manage more than 270 park properties, which include state beaches, historic parks, recreational areas, historic homes, and off-highway vehicle parks. As the governor's chief fiscal policy adviser, the Department of Finance directs the efforts of preparing the annual governor's budget while the State Controller's Office compiles the State's financial statements—both agencies report fund balance information in annual reports based on department-prepared reports.

KEY FINDINGS

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

In nearly all of 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 for both the State Parks and Recreation Fund (parks fund) and the Off-Highway Vehicle Trust Fund (off-highway vehicle fund). In most years, 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). 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.

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. All departments are required to make certain that prior-year information included in budget documents submitted to Finance for the governor's budget agrees with the financial information in their year-end financial reports submitted to the State Controller for the budgetary report.



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

As early as April 1999, Finance informed the department that differences existed between the amounts reported in the governor's budget and the State Controller's budgetary report. Three e-mails from Finance from 1999, 2002, and 2003, stated that the State Controller's review revealed differences between the fund balances in the State Controller's budgetary report and those shown in the governor's budget for fiscal years 1997–98, 2000–01 and 2001–02.

Despite the fact that individuals at various levels within the department had knowledge of these reporting differences, the budget office continued to consistently underreport the fund balance for the parks fund to Finance. In fact, the understatements reported to Finance averaged more than \$22 million per year over the past 12 years.

The department's current budget officer stated that high-level management was 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.

Furthermore, because of its increased reliance on park fund revenues, the department decided 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.

Additionally, over the last 20 years, the department has almost always reported fund balances to Finance for its off-highway vehicle fund that differed from the balances reported to the State Controller. Unlike the parks fund, the differences were sometimes overstatements and other times understatements. The differences ranged from a \$35 million overstatement in fiscal year 2005–06 to the most recent \$33.5 million understatement reported in fiscal year 2010–11, which is discussed in more detail later.

This practice of underreporting or, in some cases, overreporting fund balances is inconsistent with statewide policies that require the department to report accurate amounts to Finance consistent with its year-end financial statements.

The consequence of this misreporting is that the Legislature and the governor did not have accurate financial information when making budgetary decisions concerning the department.



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

RECENT CORRECTIVE ACTION

Recent changes that Finance and the Controller have made should provide much greater public confidence in the financial information that is reported as part of the budget process.

Finance recently implemented several changes to the budget development process including the following: establishing an enhanced process for departments and Finance to reconcile fund condition statements with departments' year-end financial statements, and requiring department directors or their designee to certify under penalty of perjury that the prior-year information provided to Finance is accurate, reconciles between budget and accounting records, and is consistent with information provided to the State Controller.

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. The adjustments—\$33.5 million for the off-highway fund and \$20.4 million for the parks fund—correct the beginning fund balances for fiscal year 2011–12.

By adjusting the fund balances for fiscal year 2011–12, the department is now providing accurate information in the 2013 Governor's Budget that is used to present the estimated and proposed budget amounts for fiscal years 2012–13 and 2013–14, respectively.

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

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.

During the preparation of the January 2012 Governor's Budget, the department used its year-end financial statements for fiscal year 2010–11 and correctly reported the transfer amounts—totaling \$117.5 million—to the off-highway vehicle fund.



However, in December 2011 Finance notified the department's budget officer that it was reducing the amount of the transfers by \$55 million because the July 2010 law resulted in an unintended increase in deposits to the off-highway vehicle fund. As a result, the governor's budget published in 2012 listed transfers of \$62.6 million rather than \$117.5 million and resulted in the fund balance being understated by \$33.5 million when compared to what was reported to the State Controller—which contributed to the criticism that the department was hiding money.

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. In addition, to correct the unintended consequences of the July 2010 law, Finance proposed legislation that would redirect the additional funds received by the off-highway vehicle fund.

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 that is less than the amount necessary to fully operate the 2010 level of 278 park units of the state park system.

That law also requires the department to select the units to be closed based solely on 11 factors, including statewide significance, visitation rates, fiscal strength, ability to physically close the park, existing partnerships, infrastructure, and land use restrictions.



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

In response to the proposed reduction in its funding, the management team at that time—which included the department’s director, the former acting chief deputy director, the former deputy director of administration, and the deputy director of park operations—decided to identify parks for closure rather than reduce park services further.

In May 2011 the department announced its planned park closures and the factors considered in its methodology; however, documentation to demonstrate its park closure selection process—two draft spreadsheets—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.

Without detailed and documented analyses that correspond to the decisions made, the department cannot demonstrate that it followed its process nor can it defend its park closure decisions.

Furthermore, the department has not determined a baseline amount for fully operating its 278 parks at the 2010 level. Therefore, 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.

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.

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, 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

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. The three types of agreements—donation, operating, and concession, collectively known as partnership agreements—provide the department with a variety of assistance.

However, the department does not budget or track expenditures at the park level and used outdated and incomplete cost data to estimate operating costs for its parks, making it difficult to measure the impact of its recent efforts to keep parks open.

The cost estimates are incomplete because, according to the department's methodology, the estimates do not include any allocation of indirect or headquarters costs. In addition, the cost estimates are outdated because they are based on cost estimates derived in 2002 and district expenditures for fiscal year 2007–08.

More recently, the department began asking its districts to provide an estimate of the operating costs for each park with a partnership agreement. 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 or to determine the true cost of operating each park in the system.



RECOMMENDATIONS TO THE DEPARTMENT OF PARKS AND RECREATION

Improving Budgeting Practices

- 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 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.
- 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.



Making Better Decisions Regarding Park Service Operations and Park Closures

- 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.
- 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.



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

RECOMMENDATIONS TO THE DEPARTMENT OF FINANCE

Improving the Accuracy of the Governor's Budget

- 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.
- 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.

Excerpt From Table 3 Attached



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

Excerpt from Table 3, California State Auditor's Report 2012-121.1
February 2013

**Comparison of Ending Fund Balance Amounts Reported to the Department of Finance and the State Controller's Office
Fiscal Years 2009–10 Through 2011–12
(In Thousands)**

Fund 0263— Off-Highway Vehicle Trust Fund	2011-12*	2010-11	2009-10
State Controller's Office (State Controller) ending fund balance	\$258,449	\$210,868	\$161,558
Encumbrances†	54,963	44,413	40,617
Deferred payroll†	1,482	1,412	1,068
Adjusted State Controller ending fund balance	202,004	165,043	119,873
Governor's budget ending fund balance	202,004	131,551	140,453
Variance from the State Controller	0	(33,492)	20,580
Fund 0392— State Parks and Recreation Fund	2011-12*	2010-11	2009-10
State Controller ending fund balance	\$91,695	\$77,895	\$49,855
Encumbrances†	25,868	18,593	8,024
Deferred payroll†	7,614	7,192	5,082
Adjusted State Controller ending fund balance	58,213	52,110	36,749
Governor's budget ending fund balance	58,213	31,732	16,406
Variance from the State Controller	0	(20,378)	(20,343)

Sources: The State Controller's *Budgetary/Legal Basis Annual Report* and governor's budgets.

* 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.