

Summary of 9-27-12 interview of Rusty Areias

Interview and summary by Thomas M. Patton, Deputy Attorney General

In February 1999, then-Governor Davis appointed Rusty Areias Director of the Department of Parks and Recreation. Areias had served as a state legislator and as Chair of the California Coastal Commission. Areias left the director position some three years later, in early 2003, to run for State Senate. (Rusty Areias transcript (RAtr), pp. 2-4.)

During Areias's tenure at Parks, long-time employee Mary Wright was appointed chief deputy director, and Denzil Verardo was deputy director of administrative services. Areias met weekly or bi-weekly with Verardo to discuss financial matters. Areias was previously acquainted with Verardo, as Verardo's wife had worked in Areias's Salinas office when Areias served in the State Assembly. (RAtr, pp. 5-7.)

Areias recalled that Verardo would bring other financial staff to executive meetings in preparation for legislative budget hearings. Such staff included Tom Domich, chief of financial management within the administrative services division, and budget officer Becky Brown. Areias had less frequent interactions with accounting officer Freda Luan-Dun. (RAtr, pp. 7-9.)

Areias also met frequently with Ruth Coleman, then deputy director of legislation. Areias recalled that Coleman had significant budget experience since she had worked at the Legislative Analyst's Office and also for the State Senate's budget director, Mike Thompson. Coleman would be involved in budget strategy discussions and help prepare for legislative presentations. Areias hired Coleman into the legislative deputy director position at former Off-Highway Division Chief Dave Widell's recommendation. (RAtr, pp. 9-10, 31-32.)

Areias was shown a Department of Finance spreadsheet, attached hereto as Exhibit A, which reveals discrepancies in the State Parks and Recreation Fund (SPRF) fund balances as reported to the Controller's Office versus the Department of Finance (DOF). Exhibit A indicates that a relatively small discrepancy existed in 1993 (the earliest date for which the DOF elected in its spreadsheet to provide comparative data), and the disparity grew significantly from 1997 to 2003. Areias stated that none of his staff, including Coleman, Verardo, Domich, Brown, or

Luan-Dun, ever mentioned a problem reconciling the SPRF fund balances reported to the Controller and to Finance. Areias indicated the news stories about such discrepancies were a complete surprise to him. (RAtr, pp. 11-12.)

Areias was well aware that news reports indicated the disparities began 12 years ago, in 2000, when Areias was director. Areias contacted reporters who advised that such information came out during an agency press conference. Areias then obtained a balance report from the Department of Finance which showed that a growing disparity existed in 1998, which Areias pointed out was during the Wilson administration and pre-dated Areias's appointment. Areias expressed concern as to why the media reported that the discrepancy began 12 years ago when Finance records indicate it began earlier than 2000.¹ (RAtr, pp. 13-14.)

Areias advised that he has spoken with former chief deputy Mary Wright, former deputy director of operations Dick Troy, and former administrative services deputy director Denzil Verardo. Each of them indicated to Areias that they were completely surprised by the news reports and had no knowledge about any fund reporting disparities. (RAtr, p. 14.)

Areias has also spoken with former operations deputy directors Ted Jackson and Tony Perez, who disclaimed any specific knowledge about undisclosed funds. Perez did indicate to Areias that it was his belief that former chief deputy director Michael Harris and former director Ruth Coleman were aware there were "additional monies" available. (RAtr, pp. 22-23.) Specifically, Perez informed Areias that he recalled being in executive meetings where the topic of surplus funds was discussed. (RAtr, p. 25.) Areias could not recall what specifically Jackson might have said about any financial discrepancies. Areias did recall that Jackson had called to

¹ An historical balance report prepared by the Department of Finance and initially provided to this investigator on July 26, 2012, and evidently also provided to Areias, covered fiscal years ending 1998 through 2011. A subsequent balance report prepared by Finance provided September 7, 2012, covered additional fiscal years going back to 1993, and that report is attached hereto as Exhibit A. The data demonstrates that the disparity in fund balance reports concerning the SPRF was \$6,379,000 as of June 30, 1997, and grew dramatically until the disparity peaked at \$29,184,000 as of June 30, 2003. The suggestion that the disparity was confined to a 12-year period dating back to 2000 appears based on a July 20, 2012 press release issued by the Natural Resources Agency which stated that "preliminary investigation" indicated "for at least 12 years" the Parks Department underreported tens of millions of dollars to the Department of Finance.

let Areias know Jackson had left his position as operations director and was interested in being considered for appointment as director. (RAtr, 26.)

Areias further advised he could not fathom why monies would have gone undisclosed to Finance. He recalled that during his time at Parks, the Department was awash in funds due to the issuance of two parks bonds, and the infusion of some \$156 million in other funds, for capital improvement and deferred maintenance work.² (RAtr, pp. 15 and 30.) Areias noted that the situation after he departed was reportedly much different. Based on information he obtained from Perez, Areias stated he was aware that after his tenure the Governor and Finance Department would periodically inform the Department that cuts to its budget were proposed, and Parks would respond by saying, “Okay, we will have to close 20, or 30, or 40 parks, maybe 70 parks.” Areias observed that when push came to shove, no Governor had ever had the political courage to be the first to close parks for budget reasons. However, when Governor Brown assumed office and proposed a reduction in the Department’s budget, the Department’s bluff was called and the Department was directed to go ahead and prepare a reduction plan that included park closures. (RAtr, pp. 22-24.)

Areias advised that he has not spoken with either Coleman or Harris. Areias has spoken with Kirk Sturm, a former Hearst Castle superintendent whose interview is included in this investigation, and with Dave Van Cleve, a former superintendent of the state’s largest park, Anza Borrego Desert State Park in eastern San Diego County. Neither Sturm nor Van Cleve provided Areias with any enlightening information, although Van Cleve had informed Areias that he too aspired to be Parks director. (RAtr, pp. 26-29.)

Mr. Areias was again asked at the conclusion of the interview whether anyone had ever advised him about disparities in fund balance reports concerning either the SPRF or the Off-Highway Vehicle fund, and Areias stated that they had not. (RAtr, pp. 31-32.)

² The Parks Department’s website notes that: “In 2000, California voters approved a general obligation bond to address several key resources needs. The bond, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000, known as Proposition 12, allocated \$1.364 billion to California State Parks with \$519 million for additions and improvements to the State Park System. (The remaining \$845 million is for local park grants.)” (See http://www.parks.ca.gov/?page_id=24975.)