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TRANSCRIPTION OF RECORDED INTERVIEW

OF

Arthur Lee

September 26, 2012  
Sacramento, California

Investigation of Department of Parks  
and Recreation - Financial Irregularities

Interviewed by: Thomas M. Patton  
Deputy Attorney General  
Office of the Attorney General  
State of California

Transcribed by: Penina Wolicki  
eScribers, Inc.  
October 4, 2012  
New York, New York

(SA201210710)

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ARTHUR LEE

1 MR. PATTON: And it is 9:03 a.m.,  
2 Wednesday, September 26, 2012. Thomas M.  
3 Patton, Deputy Attorney General speaking.  
4 This is Agent Michael Madsen (ph.) with the  
5 Department of Justice. And you, sir, are?

6 MR. LEE: I am Arthur Lee. I am the  
7 Chief of Audits for State Parks.

8 MR. PATTON: And you've been Chief  
9 of Audits for how long?

10 MR. LEE: Approximately three years.  
11 I started at State Parks in May of 2009.

12 MR. PATTON: Okay. As an auditor?

13 MR. LEE: Yes. I started as Chief  
14 of Audits.

15 MR. PATTON: Okay. And as I  
16 indicated just before we went on the record,  
17 we wanted to ask you if you had ever, during  
18 your three years here, had occasion to do  
19 audits relating to the finance documents that  
20 Parks administration sends over to the  
21 Department of Finance and the reports they  
22 send to the controller's office?

23 MR. LEE: Okay. We, in internal  
24 audits, look at the internal operations of the  
25 Department, to make sure things are recorded

1 properly, such as income and revenue at the  
2 districts.

3 MR. PATTON: Um-hum.

4 MR. LEE: So, in essence, that feeds  
5 into what gets reported to controllers and the  
6 control accounts in the accounting records.  
7 We don't actually look at each individual  
8 report, but we look at how things --  
9 activities happen through the internal control  
10 process.

11 As far as which -- Department of  
12 Finance; those are, as I understand it, budget  
13 documents. And we do not review the budget  
14 documents. Budget documents tend to be  
15 documents used to forecast what will happen in  
16 the next year. In essence, you cannot audit a  
17 forecast, because no one has the crystal ball  
18 to say this will or will not happen.

19 MR. PATTON: Okay. So I think  
20 that's the short effective answer, is that  
21 you've -- you audit -- and I think fairly  
22 routinely, then --

23 MR. LEE: Yes, we audit fairly  
24 routinely --

25 MR. PATTON: Revenues? The

1 reporting of revenues?

2 MR. LEE: Well, we audit the  
3 internal control activities of the Department.  
4 We do a -- internal control audits at all the  
5 different districts. We try to do it on a  
6 three-year cycle, because there's like twenty  
7 some-odd districts, and we can't quite meet  
8 the cycle because of staffing. But in  
9 essence, we try to hit all the districts we're  
10 looking at, because the main issue is cash.

11 There's a huge amount of cash  
12 collected at the districts. And it's control  
13 over cash, because that's a high-risk area.

14 MR. PATTON: Um-hum.

15 MR. LEE: And we look at how that's  
16 done; how it's recorded; to make sure it's  
17 deposited properly, accounted for, et cetera,  
18 et cetera, and sent to the appropriate  
19 accounts. That's one of the big things, as  
20 well as all of the other different activities  
21 of the districts' personnel, contracting, and  
22 you know, a number of other things there.

23 MR. PATTON: Okay. And since, as  
24 you say, budgeting is a forecasting project --

25 MR. LEE: Um-hum.

1 MR. PATTON: -- that's not something  
2 that's really amenable to auditing.

3 MR. LEE: Well, it's not something  
4 amenable to auditing, because auditing, in the  
5 sense of what is -- what is auditing, in terms  
6 of professional standards? You're supposed to  
7 be a third-party person or an independent  
8 person providing a verification or an opinion  
9 as to something that's fairly presented  
10 according to some standard.

11 Well, I can't tell you the budget  
12 documents' information are presented to  
13 standard, because there's different methods  
14 and approaches. There's not any specific  
15 method. In essence, there's no way to, in  
16 essence, provide an opinion that a forecast  
17 will happen or not.

18 MR. PATTON: Um-hum.

19 MR. LEE: And that's kind of the  
20 layperson kind of believes that, you know,  
21 audits will tell you everything and  
22 everything's fine. Which is not truly what an  
23 audit is.

24 In fact, I think if you look at  
25 professional auditing standards, they will say

1 you cannot audit a forecast, because you  
2 cannot project and perceive what the future  
3 will be.

4 MR. PATTON: Now, I assume you're  
5 aware at this point that the issue regarding  
6 the disparity in fund condition reporting  
7 is -- it's fairly simple in terms of the  
8 number input into the budget report as being  
9 the fund condition at the end of the prior  
10 fiscal year was not in accord with the year-  
11 end balance statement provided to the  
12 controller's office. You are aware of that?

13 MR. LEE: Correct.

14 MR. PATTON: So now, going forward,  
15 has that been expa -- has your audit function  
16 been expanded to take a look at these numbers  
17 that will go into the budget reports?

18 MR. LEE: Not at this time. No.

19 MR. PATTON: Okay.

20 MR. LEE: But my understanding is  
21 finance and controllers are now reconciling  
22 their numbers, which apparently they were not  
23 doing for certain special fund accounts.

24 MR. PATTON: Yeah.

25 MR. LEE: And my underst -- because

1 the controller's office basically has the --  
2 the official accounting records.

3 MR. PATTON: Um-hum.

4 MR. LEE: All right? So they're the  
5 financial statement and the final control  
6 accounts for the State.

7 MR. PATTON: Right.

8 MR. LEE: Finance builds the budget.  
9 I guess it was always assumed that they used  
10 the official number. Apparently they didn't.  
11 I don't know why. But the two -- they should  
12 be able to reconcile the two and say well,  
13 here's your starting point. It should match  
14 what's in the official accounting record.

15 MR. PATTON: So your understanding  
16 is that going forward, that reviewing the two  
17 numbers and reconciling, confirming that the  
18 reports are consistent, will happen at both  
19 the controller's office level and at the  
20 Department of Finance?

21 MR. LEE: That's my understanding,  
22 is finance is actually doing something to  
23 reconcile those numbers to make sure that  
24 there's a consistency in what's there, or if  
25 there is a difference, there's a valid reason

1 why.

2 MR. PATTON: In fact, I think there  
3 was a bill just signed into law, AB-1874, I  
4 think it was?

5 MR. LEE: Yeah. Part of that is  
6 I -- just like everyone else, that's what's in  
7 the press. Finance says we're going to start  
8 looking at it. I think they know that they  
9 are culpable, to a certain extent, of not  
10 reconciling, because they do that for other  
11 accounts, but apparently not for certain  
12 general fund accounts. One is the State Park  
13 Fund and the Off-Highway Motor Vehicle Fund.

14 MR. PATTON: Okay. Have you looked  
15 at the off-Highway Vehicle Fund at all to try  
16 make heads or tails out of the numbers that  
17 have been reported there?

18 MR. LEE: No, I have not looked at  
19 that at all.

20 MR. PATTON: Okay. Have you been  
21 doing any examination of the SPRF fund?

22 MR. LEE: In terms of?

23 MR. PATTON: Trying to figure out  
24 what -- trying to assist -- I think there's an  
25 effort to try to figure out at what point in



ARTHUR LEE

1 time did the number being reported to finance  
2 in the SPRF fund start to diverge from what  
3 was reported to the controller, and why did  
4 that happen?

5 MR. LEE: Yeah. We're not doing  
6 anything in that regard.

7 MR. PATTON: Okay.

8 MR. LEE: I do know yourself is  
9 doing some type of investigation as well as  
10 the Department of Finance --

11 MR. PATTON: Okay.

12 MR. LEE: -- and the Bureau of State  
13 Audits is also doing something.

14 MR. PATTON: Okay.

15 MR. LEE: So you basically have  
16 three other entities kind of looking at  
17 that --

18 MR. PATTON: Yeah.

19 MR. LEE: -- at this point.

20 MR. PATTON: Yeah. Okay. I just  
21 wondered if you were involved in that also at  
22 all.

23 MR. LEE: The only thing I've done  
24 is kind of act like a point of contact and  
25 liaison to set up the Bureau of State Audits'

1 entrance and start of the audits with some of  
2 the entities. But I haven't done much beyond  
3 that.

4 MR. PATTON: Okay. Okay, I  
5 appreciate it. I think that's all we have for  
6 you. And we're going to go off the record  
7 at --

8 THE REPORTER: 9:11 a.m.

9 MR. PATTON: Thanks.

10 (Off the record at 9:11 a.m.)

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TRANSCRIBER'S CERTIFICATE  
Arthur Lee interview on 9-26-12

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  )  ss.  
COUNTY OF SACRAMENTO        )

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submitted by Heidi Webb at the California  
Department of Justice, in Sacramento,  
California.

          I have subscribed this certificate  
at New York, New York, this 4th day of  
October, 2012.

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Penina Wolicki  
eScribers, Inc.

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[1 - hum]

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[income - terms]

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[thanks - york]

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