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TRANSCRIPTION OF RECORDED INTERVIEW

OF

Manuel Lopez

September 28, 2012

Sacramento, California

Investigation of Department of Parks &  
Recreation - Financial Irregularities

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

Transcribed by: David Rutt,  
eScribers, Inc.  
October 4, 2012  
New York, New York

(SA201210710)

--o0o--

1 MR. MATTSON: It is 9:52.

2 MR. PATTON: All right. It is 9:52  
3 a.m., September 28, 2012, Friday. This is  
4 Thomas M. Patton speaking. With me is Michael  
5 Mattson. He's an agent with our Department of  
6 Justice. I'm a Deputy Attorney General. And  
7 we are in Granite Bay at the home of --

8 MR. LOPEZ: Manuel Lopez.

9 MR. PATTON: And if you would, do us  
10 a favor and just give us a background about  
11 your State employment history, when you  
12 started and the various places you worked and  
13 positions you held.

14 MR. LOPEZ: I'll do my best to  
15 remember. I think I started roughly as a  
16 permanent employee June of 1990 as Account  
17 Clerk 2 at the Department of Education. Prior  
18 to that, I was a student assistant with the  
19 Employment Development Department. Did a  
20 number of years at Education, had a promotion  
21 or two there.

22 MR. PATTON: I'm sorry. You said  
23 you started at Department of Education?

24 MR. LOPEZ: Correct.

25 MR. PATTON: Okay.

1 MR. LOPEZ: In their Accounting  
2 Department.

3 MR. PATTON: Got it. You got  
4 promoted when?

5 MR. LOPEZ: A couple years after  
6 being there.

7 MR. PATTON: Okay.

8 MR. LOPEZ: Might be a year and a  
9 half, two years or so.

10 MR. PATTON: Around '92 promoted in  
11 Department of Ed?

12 MR. LOPEZ: Yeah.

13 MR. PATTON: To?

14 MR. LOPEZ: I believe it was a  
15 Senior Account Clerk.

16 MR. PATTON: Okay.

17 MR. LOPEZ: And at the same time,  
18 while I was at Department of Ed, I was also in  
19 the process of getting my degree from  
20 California State University Sacramento.

21 MR. PATTON: In?

22 MR. LOPEZ: Economics.

23 MR. PATTON: Okay.

24 MR. LOPEZ: So I had a -- believe I  
25 had an AA in Accountancy from Sierra College.

1 MR. PATTON: Okay.

2 MR. LOPEZ: And an AA -- and a BA in  
3 Economics from Sacramento State.

4 MR. PATTON: Okay.

5 MR. LOPEZ: Upon graduation, several  
6 months after that, I --

7 MR. PATTON: When was that?

8 MR. LOPEZ: I think --

9 MR. PATTON: Graduation from Sac  
10 State, right?

11 MR. LOPEZ: Yeah. I'm trying to  
12 think. There was -- I graduated, I want to  
13 say, like, '95. I went through the  
14 ceremonies, and after I had gone through, I  
15 hadn't gotten my diploma, so I called to  
16 figure out what was going on, and I was  
17 missing one class --

18 MR. PATTON: Um-hum.

19 MR. LOPEZ: -- and I had to go back  
20 and take that one class.

21 MR. PATTON: Um-hum.

22 MR. LOPEZ: And so I believe it  
23 was -- the diploma was issued in '98, if I'm  
24 not mistaken.

25 MR. PATTON: Okay. But you had

1 essentially finished all --

2 MR. LOPEZ: Yeah.

3 MR. PATTON: -- but that one unit by  
4 when? '95 or '6, you say?

5 MR. LOPEZ: I want to say, like, '95  
6 or so.

7 MR. PATTON: Okay. Good. Okay. So  
8 you're promoted to Senior Account Clerk at Ed.

9 MR. LOPEZ: Yeah. And then from  
10 there, I went to Department of  
11 Transportation --

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: -- as an accountant  
14 trainee.

15 MR. PATTON: When was that?

16 MR. LOPEZ: That was, I want to say,  
17 '95 or '6. I can't be sure on the dates.

18 MR. PATTON: Okay. Close enough.

19 MR. LOPEZ: Yeah.

20 MR. PATTON: Went to Caltrans as  
21 what?

22 MR. LOPEZ: Accountant trainee.

23 MR. PATTON: Okay.

24 MR. LOPEZ: And then I was promoted  
25 to -- there I was promoted to a Senior

1 Accounting Officer.

2 MR. PATTON: Um-hum.

3 MR. LOPEZ: From there, I went to --

4 MR. PATTON: Do you remember when  
5 you got promoted?

6 MR. LOPEZ: Several years after that  
7 to, I want to say --

8 MR. PATTON: '98 or '9 maybe?

9 MR. LOPEZ: Yeah.

10 MR. PATTON: Okay. To what?

11 MR. LOPEZ: To a Senior Accounting  
12 Officer.

13 MR. PATTON: Okay.

14 MR. LOPEZ: And then from there, I  
15 went to Department of Motor Vehicles where I  
16 was promoted to an Associate Accounting  
17 Analyst.

18 MR. PATTON: Um-hum. Do you  
19 remember what year that was?

20 MR. LOPEZ: Maybe around 2000 or so.

21 MR. PATTON: Okay.

22 MR. LOPEZ: Six months into that  
23 position, I was offered a position to work  
24 for -- as Special Assistant to the Deputy  
25 Director for Administration.

1 MR. PATTON: In?

2 MR. LOPEZ: In Department of Motor  
3 Vehicles.

4 MR. PATTON: Okay.

5 MR. LOPEZ: So within six months, in  
6 order to take --

7 MR. PATTON: Assistant to Deputy  
8 Director --

9 MR. LOPEZ: Yes.

10 MR. PATTON: -- of Administration?

11 MR. LOPEZ: Correct.

12 MR. PATTON: Okay.

13 MR. LOPEZ: And I did basically all  
14 the budget work for the Administrative  
15 Division. I took a demotion in order to do  
16 that --

17 MR. PATTON: Um-hum.

18 MR. LOPEZ: -- for experience.

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: So I did that for about  
21 six months.

22 MR. PATTON: Okay.

23 MR. LOPEZ: So I spent about a year  
24 at Department of Motor Vehicles. From there,  
25 within that year period, I was promoted to a

1 Staff Services Manager 1 in the budget office  
2 at Caltrans.

3 MR. PATTON: Okay. So after a year  
4 at DMV, you then go back to Caltrans as a  
5 Staff Services Manager 1?

6 MR. LOPEZ: Correct, within their  
7 budget office.

8 MR. PATTON: After that year. Okay.  
9 Go, go ahead.

10 MR. LOPEZ: And then I think I spent  
11 about, I want to say, two years in the budget  
12 office. I transferred --

13 MR. PATTON: So your Staff Services  
14 Manager 1 was in the budget office?

15 MR. LOPEZ: Correct.

16 MR. PATTON: And you were doing  
17 budgets there?

18 MR. LOPEZ: Yes. I was manager over  
19 the capital outlay and local assistance budget  
20 process, so for basically all the major  
21 projects.

22 MR. PATTON: Okay. And you went  
23 back to Caltrans in, I assume, around '01?

24 MR. LOPEZ: Yeah, that's probably  
25 correct.

1 MR. PATTON: Okay. So a couple  
2 years as SSM1 manager of cap outlay local  
3 assistance?

4 MR. LOPEZ: Um-hum.

5 MR. PATTON: Okay.

6 MR. LOPEZ: And then I basically  
7 went to one of the divisions; it was Division  
8 of Planning.

9 MR. PATTON: Was this around '03  
10 then maybe?

11 MR. LOPEZ: About maybe '02-'03 --  
12 yeah, somewhere around '02-'03.

13 MR. PATTON: '02 or '3, you go to  
14 the Division of Planning?

15 MR. LOPEZ: Yes.

16 MR. PATTON: At Caltrans?

17 MR. LOPEZ: As a -- I managed --  
18 basically a resource manager which is, in  
19 effect, Administrative Officer for that  
20 division, do everything from budgets to  
21 managing the clerical pool to contract  
22 administration, that type of stuff.

23 MR. PATTON: It's a wider scope of  
24 duties.

25 MR. LOPEZ: Yep.

1 MR. PATTON: Okay.

2 MR. LOPEZ: Hopefully, it's a way to  
3 build my marketability and my experience base.

4 MR. PATTON: Um-hum.

5 MR. LOPEZ: And then did about a  
6 year there and then was promoted to a Staff  
7 Services Manager 2.

8 MR. PATTON: At Caltrans?

9 MR. LOPEZ: At Caltrans budget  
10 office, so went back to budgets. And there, I  
11 managed --

12 MR. PATTON: So that would have been  
13 around '04?

14 MR. LOPEZ: Yeah. You know, if  
15 necessary, I can (indiscernible - simultaneous  
16 speaking).

17 MR. PATTON: It's okay. I just want  
18 to -- I'm just trying to get it approximately.  
19 So around '04 you become promoted to SSM2.

20 MR. LOPEZ: Correct.

21 MR. PATTON: And you -- did that  
22 take you out of the Division of Planning then?

23 MR. LOPEZ: Yes.

24 MR. PATTON: Went back to where? Or  
25 went to where?

1 MR. LOPEZ: Went to -- back to the  
2 Division of Budgets within Caltrans.

3 MR. PATTON: So that's in Central --

4 MR. LOPEZ: Headquarters, yes.

5 MR. PATTON: -- the budgets for the  
6 whole thing --

7 MR. LOPEZ: Yeah, for the whole  
8 department.

9 MR. PATTON: -- Caltrans Central  
10 Administration?

11 MR. LOPEZ: Correct.

12 MR. PATTON: Back to Budgets for  
13 Caltrans. Okay.

14 MR. LOPEZ: And there, I managed --

15 MR. PATTON: Did that make you the  
16 Budget Officer then --

17 MR. LOPEZ: No.

18 MR. PATTON: -- for the entire  
19 department? No.

20 MR. LOPEZ: No. That's a pretty  
21 large budget office there. I managed  
22 basically the unit that I had previously  
23 managed as a Staff 1.

24 MR. PATTON: Um-hum.

25 MR. LOPEZ: I managed that plus I

1 took on the capital outlay support program  
2 which is basically the major program within  
3 that department which did all the staff work  
4 for -- and engineering work for major  
5 projects.

6 MR. PATTON: Um-hum. Okay. So  
7 around '04, you become an SSM2.

8 MR. LOPEZ: Yep, and I was there for  
9 several years. I won the Sustained Superior  
10 Accomplishment Award for automating the budget  
11 process and creating a budget model that  
12 allowed you to basically key in various  
13 program levels and generate a cash flow on  
14 that to see how much basically program we can  
15 afford in any given year. And so I won an  
16 award for that.

17 MR. PATTON: Wow. For automated  
18 budget programming.

19 MR. LOPEZ: Um-hum.

20 MR. PATTON: Wow. Okay.

21 MR. LOPEZ: And then from there --  
22 did several years there, and I took a lateral  
23 over to California State Parks which I want to  
24 say is around April of 2005.

25 MR. PATTON: So took a lateral in

1 April '05 as an SSM2 to Parks.

2 MR. LOPEZ: Correct.

3 MR. PATTON: Okay.

4 MR. LOPEZ: Within about --

5 MR. PATTON: I'm sorry. April what?

6 MR. LOPEZ: 2005, I believe.

7 MR. PATTON: Okay.

8 MR. LOPEZ: Sorry if the dates are  
9 wrong.

10 MR. PATTON: That's all right.

11 State Parks as an SSM2 doing budget work, I  
12 assume.

13 MR. LOPEZ: I was the Budget Officer  
14 for the department.

15 MR. PATTON: Oh, okay.

16 MR. LOPEZ: So basically what that  
17 did was it gave me much more expanded level of  
18 responsibility and duties.

19 MR. PATTON: Yeah, yeah. So you go  
20 to Parks in '05.

21 MR. LOPEZ: Um-hum. And from there,  
22 I was there for about -- I want to say six  
23 months or so, and then I was promoted to a  
24 Staff Services Manager 3.

25 MR. PATTON: Okay. Still the Budget

1 Officer --

2 MR. LOPEZ: Still the Budget  
3 Officer.

4 MR. PATTON: -- but at a higher pay  
5 grade now.

6 MR. LOPEZ: Correct.

7 MR. PATTON: Okay.

8 MR. LOPEZ: And then from there I  
9 did -- during my tenure as Budget Officer, I  
10 did about three months as -- on an out-of-  
11 class assignment as Assistant Deputy Director  
12 for Administration.

13 MR. PATTON: Okay.

14 MR. LOPEZ: And then --

15 MR. PATTON: And who hired you over  
16 there to be the Budget Officer?

17 MR. LOPEZ: That would be Rob  
18 Boriskin --

19 MR. PATTON: Okay.

20 MR. LOPEZ: -- and Michael Harris.

21 MR. PATTON: Got it.

22 MR. LOPEZ: And then I think there  
23 was -- I think I had two separate interviews,  
24 if I'm not mistaken, and then I had to meet  
25 Park Ops Deputy Director.

1 MR. PATTON: So you became -- you  
2 said for a period of time, about three months,  
3 you worked out of class as the Assistant Admin  
4 Services Director --

5 MR. LOPEZ: Yeah.

6 MR. PATTON: -- as well as doing the  
7 duties of the Budget Officer?

8 MR. LOPEZ: Yeah. Well, what I  
9 tried to do is -- when I was hired there, we  
10 had just come off of a Budget Officer that  
11 basically did all the work and pretty much  
12 managed the budget all herself, and so --

13 MR. PATTON: And that was?

14 MR. LOPEZ: Becky Brown.

15 MR. PATTON: Okay.

16 MR. LOPEZ: A very knowledgeable  
17 lady relative to the budget process.

18 MR. PATTON: That was the person  
19 whose position you took over there?

20 MR. LOPEZ: Correct.

21 MR. PATTON: Did you ever talk with  
22 her? Did you meet her?

23 MR. LOPEZ: Yes, I did.

24 MR. PATTON: Okay.

25 MR. LOPEZ: Upon -- she briefed me

1 basically upon my arrival. But what -- the  
2 people that hired me, Michael Harris, what  
3 they were looking for was a change in  
4 management style for the budget office. What  
5 we had is basically before was all roads led  
6 to Becky for the development of the budget.  
7 What I was charged with was developing sort of  
8 a sustainable staffing system there that --  
9 not the process of building a budget was  
10 dependent upon just one individual, that I was  
11 charged with building a bench that everybody  
12 knew what the overall process of building a  
13 budget was and were able to effectively  
14 contribute to it as opposed to just giving one  
15 duty and said basically generate this chart  
16 for me, I'll take it and then key it into the  
17 budget so --

18 MR. PATTON: So is it your  
19 understanding that in the prior -- under the  
20 prior construct, Becky was the only one then  
21 that really --

22 MR. LOPEZ: Understood it.

23 MR. PATTON: -- and was able to put  
24 the budget together?

25 MR. LOPEZ: Oh, yeah. She was very

1 effective with that.

2 MR. PATTON: But people under her  
3 would work on various components?

4 MR. LOPEZ: Yeah.

5 MR. PATTON: But she was the only  
6 one that had the knowledge of how to put it  
7 all together?

8 MR. LOPEZ: Correct.

9 MR. PATTON: Okay.

10 MR. LOPEZ: And so --

11 MR. PATTON: Did just -- let me skip  
12 forward just with this question just for a  
13 second. Did she ever tell you about --

14 MR. LOPEZ: Yes.

15 MR. PATTON: -- the disparity in the  
16 fund condition statement to Finance regarding  
17 SPRF?

18 MR. LOPEZ: Yes, regarding SPRF, not  
19 regarding the OHV.

20 MR. PATTON: She only told you about  
21 SPRF?

22 MR. LOPEZ: That's correct.

23 MR. PATTON: When did she tell you  
24 about that?

25 MR. LOPEZ: Basically the first

1 month I arrived.

2 MR. PATTON: How long did the two of  
3 you work together, because she was leaving and  
4 you were --

5 MR. LOPEZ: Yeah.

6 MR. PATTON: -- coming in to take  
7 that over, right?

8 MR. LOPEZ: Yeah. You know, she  
9 came in basically a few days a week and just  
10 helped me out a little bit.

11 MR. PATTON: Um-hum.

12 MR. LOPEZ: She was basically on her  
13 way to retirement. And I didn't meet with her  
14 a whole lot, but she did brief me on that.  
15 And the reason why she briefed me, she said  
16 management was aware of those -- of that  
17 discrepancy, but the finance analyst that was  
18 there had just been -- basically, I think he  
19 was -- he took a position as the Assembly  
20 Republican fiscal consultant.

21 MR. PATTON: The finance analyst is  
22 from where?

23 MR. LOPEZ: From --

24 MR. PATTON: From the Department of  
25 Finance?

1 MR. LOPEZ: Correct.

2 MR. PATTON: The finance analyst  
3 that she's been working with in budget  
4 preparations?

5 MR. LOPEZ: Yeah. So you  
6 basically --

7 MR. PATTON: Do you remember who  
8 that was?

9 MR. LOPEZ: Yeah. That was Chris  
10 Holtz.

11 MR. PATTON: Okay.

12 MR. LOPEZ: Christopher Holtz.

13 MR. PATTON: Okay.

14 MR. LOPEZ: And I believe he's still  
15 the Assembly fiscal consultant. And the way  
16 it was explained to me is that there was an  
17 accounting error that was made. There was a  
18 projection of an expenditure that was supposed  
19 to occur that never occurred. She never gave  
20 me a bunch of detail on it. She just gave me  
21 basically here's why that money was there, was  
22 that there was an accounting error that was  
23 made or a projection for an expenditure, that  
24 expenditure never materialized.

25 And typically, the process is when

1 that happens you make a prior year adjustment  
2 in your budget to account for that expenditure  
3 not occurring. That prior year adjustment  
4 never happened. And so what you had was  
5 basically in your cash balance --

6 MR. MATTSON: Is there a reason why  
7 it never happened? Do you know?

8 MR. LOPEZ: I think it was just  
9 oversight, to be honest with you.

10 MR. PATTON: Well, did she indicate  
11 what the expenditure was --

12 MR. LOPEZ: No.

13 MR. PATTON: -- the projected  
14 expenditure?

15 MR. LOPEZ: She never told me  
16 what --

17 MR. PATTON: She indicate when it  
18 was projected?

19 MR. LOPEZ: It was probably at least  
20 three or four years before she retired.

21 MR. PATTON: Now, you're aware that  
22 the -- well, did she indicate how much of a  
23 discrepancy there was?

24 MR. LOPEZ: Yeah, it was  
25 approximately twenty million.

1 MR. PATTON: So that's a pretty big  
2 projected expenditure, right?

3 MR. LOPEZ: Yeah.

4 MR. PATTON: But she never  
5 identified what that related to?

6 MR. LOPEZ: No.

7 MR. PATTON: Okay.

8 MR. LOPEZ: All she said it was an  
9 expenditure that was supposed to occur that  
10 never happened, and it was never corrected in  
11 the budgetary document.

12 MR. PATTON: You mentioned something  
13 about -- so prior year adjustment, you  
14 mentioned.

15 MR. LOPEZ: Yeah. So when I first  
16 came on board and I was briefed of this, she  
17 did advise me that management was aware of the  
18 issue, but given the magnitude of it, I felt  
19 it was important, and especially being new,  
20 that I talk to my boss, Rob Boriskin and  
21 Michael Harris, and I offered -- I believe it  
22 was in the '05-'06 -- fiscal year 2005-2006  
23 budget development cycle.

24 MR. PATTON: Wait. Let's -- before  
25 you go do -- I'm sorry to interrupt you.

1 MR. LOPEZ: Sure.

2 MR. PATTON: Before you go to that  
3 part --

4 MR. LOPEZ: Um-hum.

5 MR. PATTON: -- of you discussing  
6 what Boriskin and others -- tell me, who did  
7 she -- who did Becky Brown indicate she had  
8 informed above you?

9 MR. LOPEZ: She just basically said  
10 management was aware.

11 MR. PATTON: Okay. Okay. Sorry for  
12 the interruption.

13 MR. LOPEZ: Oh, no, no worries.

14 MR. PATTON: So she said management  
15 was aware.

16 MR. LOPEZ: Um-hum.

17 MR. PATTON: And as I understand it,  
18 she told you this projection error --

19 MR. LOPEZ: Yeah.

20 MR. PATTON: Well, the projection  
21 that didn't occur was never corrected in the  
22 prior year adjustment component.

23 MR. LOPEZ: Correct.

24 MR. PATTON: Okay.

25 MR. LOPEZ: And the reason I'm --

1 you know, she said, well, I just want to give  
2 you a heads-up because Chris Holtz is now on  
3 the budget side in the Assembly, and if he  
4 raises this issue, I want you to be prepared  
5 for it.

6 MR. PATTON: So did she tell you  
7 Chris Holtz was aware also?

8 MR. LOPEZ: Well, he was the finance  
9 analyst at the time this occurred, so he  
10 should have had some knowledge of it because  
11 he was involved in that whole process of  
12 building the budget --

13 MR. PATTON: Yeah.

14 MR. LOPEZ: -- on the finance side.

15 MR. PATTON: Right.

16 MR. LOPEZ: So --

17 MR. PATTON: But she never  
18 specifically indicated he's aware that the  
19 finance documents don't reflect accurately the  
20 balance and the Controller document?

21 MR. LOPEZ: No. What -- she  
22 basically said, if he realizes there's a  
23 mistake --

24 MR. PATTON: Okay.

25 MR. LOPEZ: So --

1           MR. PATTON:   Okay.   To what?   If  
2 Chris Holtz --

3           MR. LOPEZ:   Realizes that this had  
4 not been accounted for --

5           MR. PATTON:   Yeah.   Then what?

6           MR. LOPEZ:   Then just be prepared.

7           MR. PATTON:   Be prepared.

8           MR. LOPEZ:   Yeah.

9           MR. PATTON:   All right.   Okay.   And  
10 then you -- so you come in and is -- who's  
11 your next in command?   Who's the person you  
12 direct the report to?

13           MR. LOPEZ:   Rob and Michael.

14           MR. PATTON:   Rob is the -- Rob  
15 Boriskin is the assistant?

16           MR. LOPEZ:   Assistant Deputy, and  
17 then Michael --

18           MR. PATTON:   For Admin Services?

19           MR. LOPEZ:   Correct.

20           MR. PATTON:   And then --

21           MR. LOPEZ:   Michael is the -- was  
22 the Admin Deputy.

23           MR. PATTON:   Okay.   Michael Harris.

24           MR. LOPEZ:   Yes.

25           MR. PATTON:   Okay.   And I

1 interrupted you. You were going to tell me  
2 about going to them.

3 MR. LOPEZ: Yeah. Because, you  
4 know, Michael was basically -- he had come  
5 from the legislature as a fiscal consultant.  
6 Both Michael and Ruth were highly experienced  
7 in the budget development process. And so  
8 Michael was very involved in the budgets, and  
9 so when I briefed Rob, I also briefed Michael  
10 on the budget process. So the two of them --  
11 whenever we were talking budget development,  
12 they were always in the room together.

13 MR. PATTON: Okay.

14 MR. LOPEZ: And so when I said, hey,  
15 I was advised by Becky these funds are here,  
16 it's a pretty easy correction, we can just do  
17 a prior year adjustment and --

18 MR. PATTON: This is with both of  
19 them present?

20 MR. LOPEZ: Correct.

21 MR. PATTON: Okay.

22 MR. LOPEZ: And Michael --

23 MR. PATTON: How soon is this  
24 conversation after you start? You say Becky  
25 told you within a month or so?

1 MR. LOPEZ: Yeah, but roughly April.

2 MR. PATTON: Well, you came in in  
3 April '05, you said.

4 MR. LOPEZ: Yeah.

5 MR. PATTON: So Becky tells you  
6 within a month, April or May --

7 MR. LOPEZ: Correct.

8 MR. PATTON: -- and so you're having  
9 this discussion like immediately thereafter?

10 MR. LOPEZ: Yeah.

11 MR. PATTON: Okay.

12 MR. LOPEZ: Yeah. Because I come in  
13 right as fiscal year is closing or starting to  
14 close.

15 MR. PATTON: Yeah.

16 MR. LOPEZ: I got -- when I started  
17 working there, I got really sick, and  
18 unfortunately, I kept working to the point  
19 where I ended up having double pneumonia. So  
20 I ended up being off for almost a month  
21 recovering from pneumonia.

22 MR. PATTON: Right there in the  
23 spring of '04?

24 MR. LOPEZ: Right at the --  
25 basically at June roughly --

1 MR. PATTON: Of '05?

2 MR. LOPEZ: -- of '05.

3 MR. PATTON: Okay.

4 MR. LOPEZ: And so when I came back,  
5 we were basically in the throws of the budget  
6 development cycle.

7 MR. PATTON: Had you -- at the time  
8 you went out sick, had you already briefed  
9 Boriskin and Harris?

10 MR. LOPEZ: Yeah, before that.

11 MR. PATTON: Okay.

12 MR. LOPEZ: Yeah, because as soon as  
13 she told me, I'm like, wow, that twenty  
14 million dollar --

15 MR. PATTON: Okay. So I derailed  
16 you on reciting the substance of that  
17 conversation. You said you went and you  
18 talk -- so now I've got it as probably about  
19 May of '05, right after you learned from  
20 Becky.

21 MR. LOPEZ: Correct.

22 MR. PATTON: You go to Boriskin and  
23 Harris, and what do you tell them?

24 MR. LOPEZ: You know, I was advised  
25 that there was basically a discrepancy in the

1 fund balance, it's a fairly easy correction  
2 to make, we can just do a correction in the  
3 prior year adjustment line within the fund  
4 condition --

5 MR. PATTON: Um-hum.

6 MR. LOPEZ: -- correct for it, and  
7 we're good. That didn't go --

8 MR. PATTON: And did you tell them  
9 how much you understood there to be?

10 MR. LOPEZ: Yeah, there was  
11 approximately twenty million.

12 MR. PATTON: Okay. And when you say  
13 "a discrepancy", you identified the  
14 discrepancy as between the balance reflected  
15 in the budget documents and --

16 MR. LOPEZ: The cash balance.

17 MR. PATTON: Reflected in what?

18 MR. LOPEZ: Yeah. In the cash  
19 balance in Controller's reports.

20 MR. PATTON: There you go.

21 MR. LOPEZ: Yeah.

22 MR. PATTON: Okay. And you say it  
23 could be -- this twenty million dollar  
24 discrepancy, pretty easy to correct?

25 MR. LOPEZ: Oh, absolutely.

1 MR. PATTON: Okay.

2 MR. LOPEZ: It's just a prior year  
3 adjustment line. It happens all the time.

4 So, for instance, let's say you have  
5 a contract at the end of the year that you've  
6 encumbered for, let's say, a million dollars.  
7 Okay, you're going to go out and hire a  
8 consultant for something, so you have this  
9 contract. When you close your books, that  
10 contract is shown as an expenditure. However,  
11 let's say you never actually engaged that  
12 consultant, you have to correct for that in  
13 the budget because the fund balance in your  
14 budget shows that you've expended a million  
15 dollars. In reality, you haven't. So by the  
16 third year of that budget, you're making an  
17 adjustment on your prior year adjustment line  
18 to correct for that encumbrance.

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: It's pretty standard  
21 accounting budgetary adjustment process, and  
22 it's fairly easy to make. So I offered to do  
23 it that first year, and A, they didn't like  
24 the idea of a twenty million dollar  
25 adjustment. They were --

1 MR. PATTON: Because that's pretty  
2 sizable.

3 MR. LOPEZ: Pretty sizable and would  
4 call into question why it had been sitting  
5 there so long. That was the first --

6 MR. PATTON: Had you identified at  
7 that point how long it had been sitting there?

8 MR. LOPEZ: No.

9 MR. PATTON: Okay.

10 MR. LOPEZ: No, I hadn't. I just  
11 knew it was there, and so when I told, they  
12 said, well, you know, they're going to --

13 MR. PATTON: And as far as duration,  
14 you only knew based on Becky Brown's verbal  
15 report that it --

16 MR. LOPEZ: Correct.

17 MR. PATTON: What did she tell you  
18 in terms of how long it had been there?

19 MR. LOPEZ: She just made -- you  
20 know, been there a few years. I want to say,  
21 given what she had indicated, you know,  
22 typically a three-year period is how long  
23 those things would traditionally sit on the  
24 books.

25 MR. PATTON: Um-hum.

1 MR. LOPEZ: So it had to be around  
2 three or four years probably prior to that --

3 MR. PATTON: Okay.

4 MR. LOPEZ: -- because by the third  
5 year, you should be making an adjustment for  
6 it.

7 MR. PATTON: Okay.

8 MR. LOPEZ: And I thought, you know,  
9 it is what it is.

10 MR. PATTON: Um-hum.

11 MR. LOPEZ: If there's a  
12 discrepancy, you fix it.

13 MR. PATTON: Okay.

14 MR. LOPEZ: But what the fear was  
15 that, A, would shine a negative light on the  
16 department, and B, it would basically open it  
17 up for potential budget cuts, or a reduction  
18 to the General Fund and an increase in the  
19 State Parks and Recreation Fund, because  
20 typically those two funds are fungible, and so  
21 you adjust one, you can adjust the other to  
22 keep your budget fairly consistent --

23 MR. PATTON: Um-hum.

24 MR. LOPEZ: -- but what was  
25 happening is, and this happened over a period

1 of time, is the General Fund started being cut  
2 more and more and more, and we became more and  
3 more reliant upon revenue generation. So as  
4 we became more reliant upon revenue  
5 generation, the risk of a deficiency grew  
6 because if you didn't meet your revenue  
7 targets, you're going to be in the hole. And  
8 so the idea was if you don't meet your revenue  
9 targets, you have the cash balance there to  
10 basically backfill behind your undercollection  
11 of revenues. So it was intended to be a  
12 safety net for our increased reliance upon  
13 revenue generation and --

14 MR. PATTON: But tell me this --  
15 well, go ahead, finish your thought.

16 MR. LOPEZ: And the other piece of  
17 it was they did not want that to be swept  
18 because they wanted -- and my -- this is my  
19 sense, is that they wanted it be used for the  
20 betterment of the park system as a whole.

21 MR. PATTON: Okay. First question  
22 about this is who specifically -- you're  
23 meeting with Boriskin and Harris --

24 MR. LOPEZ: Um-hum.

25 MR. PATTON: -- you're being told

1 it's pretty sizable, we're not really wanting  
2 to put ourselves up to scrutiny for why we've  
3 got a twenty million dollar error that we  
4 haven't corrected for some time now.

5 MR. LOPEZ: Um-hum.

6 MR. PATTON: It also opens us to  
7 some General Fund cuts. Who specifically is  
8 making this determination not to correct it?

9 MR. LOPEZ: That was Michael Harris.

10 MR. PATTON: Okay. Is Boriskin  
11 saying anything?

12 MR. LOPEZ: Boriskin is listening.

13 MR. PATTON: He's not making the  
14 call?

15 MR. LOPEZ: He's not making the  
16 call.

17 MR. PATTON: Harris is.

18 MR. LOPEZ: Harris is.

19 MR. PATTON: Okay. And then you  
20 articulated that it represents a safety net in  
21 case revenues don't reach projection.

22 MR. LOPEZ: Um-hum.

23 MR. PATTON: Plus if it's -- if  
24 the correction is made and it's reflected,  
25 there's -- the legislature could come in and

1 just sweep those funds.

2 MR. LOPEZ: Um-hum. So --

3 MR. PATTON: Go ahead.

4 MR. LOPEZ: -- during that point, so  
5 then I offered an alternative solution which  
6 was to gradually adjust the balance to correct  
7 for that.

8 MR. PATTON: Okay. Let me ask you a  
9 couple more questions before we get to that.

10 MR. LOPEZ: Okay.

11 MR. PATTON: Who -- now, these  
12 are -- the monies that have not been disclosed  
13 in the finance report for several years, this  
14 twenty million, I understand these are in the  
15 SPRF fund --

16 MR. LOPEZ: Yeah.

17 MR. PATTON: -- but they're not --  
18 they're just not reflected in the budget  
19 documents --

20 MR. LOPEZ: Um-hum.

21 MR. PATTON: -- but it is money --  
22 it's reflected in the Controller's --

23 MR. LOPEZ: Correct.

24 MR. PATTON: -- finance report --

25 MR. LOPEZ: Yeah.

1 MR. PATTON: -- budget report, so  
2 they are SPRF dollars.

3 MR. LOPEZ: Yes, they are.

4 MR. PATTON: And I guess I get  
5 confused on the notion that someone can come  
6 in and sweep -- take SPRF dollars because this  
7 is a special fund, and my mind tells me they  
8 can't be used for other purposes.

9 MR. LOPEZ: Well, what they can be  
10 used for is basically reducing the amount of  
11 General Fund being used on the budget would  
12 then free that General Fund up for other uses.

13 MR. PATTON: All right. So the  
14 sweep, what's going to really get swept is,  
15 if there's going to be an equal amount of  
16 dollars -- it's an equal amount; it's not --

17 MR. LOPEZ: Correct.

18 MR. PATTON: -- that twenty million.

19 MR. LOPEZ: Yeah.

20 MR. PATTON: It's going to be twenty  
21 million out of General Fund.

22 MR. LOPEZ: Yeah.

23 MR. PATTON: Okay. That's why I got  
24 a little confused.

25 MR. LOPEZ: So I had this same

1 conversation back in, I want to say, the  
2 2008-2009 budget development cycle when I was  
3 the Admin Deputy, and we were taking a  
4 fourteen million dollar cut in the General  
5 Fund under the Schwarzenegger administration.

6 MR. PATTON: You had the same  
7 conversation about this twenty million?

8 MR. LOPEZ: Same -- yeah, but this  
9 time with Michael Harris, Tony -- no, it was  
10 Ted Jackson, I believe --

11 MR. PATTON: Okay.

12 MR. LOPEZ: -- who was the Deputy  
13 Director for Park Operations. Keep in mind,  
14 from the cultural perspective in that  
15 organization, Park Operations was the lead  
16 organization.

17 MR. PATTON: Sure.

18 MR. LOPEZ: And you didn't build a  
19 budget without involving Park Operations in  
20 that. So when we were discussing that  
21 fourteen million dollar cut, I basically said,  
22 hey, we can use this money to offset that.  
23 And what I was told was, are you crazy,  
24 instead of a fourteen million dollar cut, it's  
25 going to be a thirty-four million dollar cut

1 because they'll just take that additional  
2 twenty million out and free it up for General  
3 Fund purposes, and then --

4 MR. PATTON: Who said that?

5 MR. LOPEZ: I want to say that was a  
6 global -- everybody basically agreed with  
7 that.

8 MR. PATTON: Well, you just  
9 identified a meeting in '08 or '09 where the  
10 subject comes up again when you're facing a  
11 fourteen million dollar cut, and you  
12 identified Harris and Ted Jackson are in the  
13 meeting.

14 MR. LOPEZ: Yeah. And I was there,  
15 and I want to say Ruth was there too. I'm  
16 trying to --

17 MR. PATTON: But you're not sure?

18 MR. LOPEZ: Not sure, but I believe  
19 she --

20 MR. PATTON: But you know -- go  
21 ahead.

22 MR. LOPEZ: But I believe she was  
23 there.

24 MR. PATTON: Okay. But you know --  
25 you recall specifically that Harris and

1 Jackson are there?

2 MR. LOPEZ: Absolutely.

3 MR. PATTON: Maybe Ruth.

4 MR. LOPEZ: Uh-huh.

5 MR. PATTON: Anybody else possibly?

6 MR. LOPEZ: No.

7 MR. PATTON: So it's either the  
8 three or four of you?

9 MR. LOPEZ: Yeah.

10 MR. PATTON: Who then makes the  
11 comment that could -- that means we're looking  
12 at a thirty-four million dollar cut?

13 MR. LOPEZ: I think that was Harris  
14 that raised that, and everybody sort of  
15 agreed.

16 MR. PATTON: Okay.

17 MR. LOPEZ: And at the same time we  
18 were taking this fourteen million dollar cut,  
19 the administration had proposed this  
20 firefighting ranger budget change proposal  
21 which -- when you look at it, you're taking a  
22 fourteen million dollar cut to your budget,  
23 and at the same time, you're asking for more  
24 rangers to basically come out and provide --  
25 the vision was that they would be basically

1 boots on the ground to identify potential for  
2 fires ahead of time because we just, I  
3 believe, came off the Angora Hills fire.

4 MR. PATTON: Um-hum.

5 MR. LOPEZ: And so this was sort of  
6 a proactive way, according to Administration,  
7 of addressing that particular issue. And so  
8 nobody in the department really supported that  
9 proposal.

10 MR. PATTON: I'm sorry. I missed  
11 what the proposal was.

12 MR. LOPEZ: It was called  
13 firefighting ranger proposal.

14 MR. PATTON: And it was to get more  
15 money for firefighters?

16 MR. LOPEZ: No, to get more money  
17 for rangers --

18 MR. PATTON: Okay.

19 MR. LOPEZ: -- to put -- to be sort  
20 of a proactive, boots-on-the-ground, eyes open  
21 to see if there's any potential for fires or  
22 anything starting --

23 MR. PATTON: Okay.

24 MR. LOPEZ: -- you get a quicker  
25 initial response to a fire.

1 MR. MATTSON: Like a fire watch.

2 MR. LOPEZ: Fire watch, yeah, but  
3 park rangers.

4 MR. PATTON: So the proposal was to  
5 advocate for some more General Fund dollars  
6 for fire prevention?

7 MR. LOPEZ: Yeah. And the executive  
8 team did not agree that that was a wise use of  
9 the resources and did not really lead to the  
10 betterment of the department. You have to --  
11 let me put this in context for you.

12 MR. PATTON: Yeah.

13 MR. LOPEZ: Because our organization  
14 at the time -- we have a culture that says the  
15 decisions that we make need to be basically  
16 sustainable decisions for the seventh  
17 generation; it's this document that we have  
18 that basically is the tenants behind each of  
19 our management decisions, which is -- I think  
20 it's an Iroquois philosophy that says every  
21 decision you make needs to think about the  
22 outcome seven generations from now.

23 MR. PATTON: Um-hum.

24 MR. LOPEZ: And so when we're  
25 looking at that, everything had to be about

1 the betterment of the park system itself. And  
2 that, I think, was sort of the rationale  
3 behind why we didn't --

4 MR. PATTON: Disclose?

5 MR. LOPEZ: -- disclose this.

6 MR. PATTON: Okay. I'm familiar  
7 with the concept. I worked for the Chief  
8 Justice in Nevada. His comment was that a  
9 politician worries about the next election; a  
10 statesman worries about the next generation.

11 MR. LOPEZ: Correct.

12 MR. PATTON: So you're talking about  
13 seven generations.

14 MR. LOPEZ: Yeah.

15 MR. PATTON: So we need more  
16 statesmen.

17 MR. LOPEZ: Yeah.

18 MR. PATTON: Let me go back to  
19 something.

20 MR. LOPEZ: Okay.

21 MR. PATTON: And then after I ask  
22 this question, I'm trying to understand why  
23 you got on the subject of the proposal to add  
24 more rangers, but I think it just ties into  
25 we're trying to preserve dollars as best we

1 can.

2 MR. LOPEZ: That's exactly why,  
3 yeah.

4 MR. PATTON: Okay. You indicated  
5 that the -- in the discussion early on in '05  
6 with Boriskin and Harris, Harris indicates  
7 disclosing the money at this point will put us  
8 in a negative light, it puts our General Fund  
9 at risk for more cuts.

10 MR. LOPEZ: Um-hum.

11 MR. PATTON: We don't want them  
12 sweeping money out of our General Fund when  
13 they see that we've got twenty more million.

14 MR. LOPEZ: Correct, you know.

15 MR. PATTON: What about -- you  
16 mentioned something about a safety net, a  
17 representative safety net in case projected  
18 revenues didn't meet expectations.

19 MR. LOPEZ: Correct.

20 MR. PATTON: How does this secreted  
21 money, undisclosed money, how does it work,  
22 what's the plan to actually use it then as a  
23 safety net?

24 MR. LOPEZ: Because it's a cash  
25 balance. I mean, you have --

1 MR. PATTON: But it's not been --  
2 since it's not disclosed, it's not -- there's  
3 no appropriation to spend it.

4 MR. LOPEZ: Well, I disagree. It  
5 had been disclosed. It had been disclosed on  
6 the Controller's report.

7 MR. PATTON: Right, right, right. I  
8 misspoke.

9 MR. LOPEZ: Yeah.

10 MR. PATTON: Since Finance is not  
11 aware of it and it's not been made part of the  
12 budget and the appropriation, how are you able  
13 to spend any of it?

14 MR. LOPEZ: Because it's cash on  
15 hand.

16 MR. PATTON: Um-hum.

17 MR. LOPEZ: So if you have an  
18 appropriation from the legislature --

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: -- which is what our  
21 general -- our SPRF appropriation was --

22 MR. PATTON: Um-hum.

23 MR. LOPEZ: -- if you didn't -- on  
24 an annual basis, if you didn't bring in enough  
25 cash to cover that appropriation, let's say we

1 were at zero, we were right on one -- one for  
2 one in the budget for SPRF, and if you didn't  
3 bring in the amount that you had appropriated,  
4 you would be in a deficit situation.

5 MR. PATTON: Right.

6 MR. LOPEZ: You would have to go  
7 back and ask for cash to backfill for --

8 MR. PATTON: Sure.

9 MR. LOPEZ: -- that revenue that was  
10 lost.

11 MR. PATTON: Yeah.

12 MR. LOPEZ: So because you had the  
13 cash in the State Parks and Recreation Fund --

14 MR. PATTON: Um-hum.

15 MR. LOPEZ: -- you were able to use  
16 that cash to backfill any revenue that was not  
17 collected in that given year.

18 MR. PATTON: Got it. Okay. Let me  
19 follow up on that. Let's say hypothetically  
20 you've got a hundred million dollar  
21 appropriation --

22 MR. LOPEZ: Um-hum.

23 MR. PATTON: -- you projected  
24 revenues in SPRF of a hundred million. You  
25 get appropriated a hundred million spending

1 authority. Your revenues turn out to be  
2 ninety million. You got a ten million dollar  
3 deficit.

4 MR. LOPEZ: Um-hum.

5 MR. PATTON: You've got twenty  
6 million in the bank. You're saying, okay, got  
7 cash in the bank, you've got authority to  
8 spend up to a hundred million, so you can  
9 spend it.

10 MR. LOPEZ: Yeah.

11 MR. PATTON: Now, the problem I have  
12 is --

13 MR. LOPEZ: Um-hum.

14 MR. PATTON: -- you're also having  
15 to make a record of the revenue amounts  
16 received, and so if you're only showing  
17 ninety million in revenue and they're not  
18 aware you -- they're not aware at Finance,  
19 Controller knows you've got that --

20 MR. LOPEZ: Um-hum.

21 MR. PATTON: -- cash, but Finance  
22 doesn't, how are you -- how do you bring it  
23 in?

24 MR. LOPEZ: Prior year adjustment  
25 line on the fund condition statement.

1 MR. PATTON: Oh. So then you  
2 correct the prior year adjustment?

3 MR. LOPEZ: Yep.

4 MR. PATTON: And you -- and then you  
5 basically say we see that we'd made an error  
6 previously, we ask --

7 MR. LOPEZ: Um-hum.

8 MR. PATTON: -- and we actually had  
9 more money than we realized.

10 MR. LOPEZ: Yep.

11 MR. PATTON: Okay.

12 MR. LOPEZ: And so --

13 MR. PATTON: So we're just  
14 correcting an error?

15 MR. LOPEZ: Correcting an error.

16 MR. PATTON: Oh, okay. Kind of a  
17 fiction but -- only because you did know it  
18 was there.

19 MR. LOPEZ: Yeah, exactly.

20 MR. PATTON: Yeah.

21 MR. LOPEZ: Yeah. But in --

22 MR. PATTON: But in theory, having  
23 started out as an error some number of years  
24 before --

25 MR. LOPEZ: Um-hum.

1 MR. PATTON: -- now we're just  
2 correcting that error.

3 MR. LOPEZ: Correct.

4 MR. PATTON: Okay. And what -- so  
5 what did you think about that as a safety net  
6 plan? Seems kind of clever.

7 MR. LOPEZ: Made sense.

8 MR. PATTON: Yeah.

9 MR. LOPEZ: And I have to put it in  
10 context of where I came from before at  
11 Caltrans.

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: There was a time when we  
14 were transitioning the budget process from a  
15 modified accrual basis, which is the State's  
16 basic accounting processes, a modified accrual  
17 basis of accounting --

18 MR. PATTON: Um-hum.

19 MR. LOPEZ: -- which means you  
20 record your obligations when they're made and  
21 you record revenue when it's earned. What we  
22 were doing at Caltrans was basically  
23 transitioning to a cash basis because let's  
24 say a major construction process, hundred  
25 million dollar project. If you basically say,

1 I've got a hundred million dollars tied up on  
2 a project, you're encumbering that. You're  
3 only probably going to spend twenty percent of  
4 that maybe, if you're lucky, in the very first  
5 year.

6 MR. PATTON: Um-hum.

7 MR. LOPEZ: You've got basically  
8 eighty million dollars tied up that's not been  
9 utilized.

10 MR. PATTON: Um-hum.

11 MR. LOPEZ: So --

12 MR. PATTON: Under a modified  
13 accrual concept --

14 MR. LOPEZ: Under a modified --

15 MR. PATTON: -- which you described  
16 as reflecting obligations when made.

17 MR. LOPEZ: Correct.

18 MR. PATTON: And what was the other  
19 (indiscernible)?

20 MR. LOPEZ: Revenues when earned.

21 MR. PATTON: Revenues when earned.  
22 So not necessarily when received.

23 MR. LOPEZ: When collected.

24 MR. PATTON: Not necessarily when  
25 received. The cash basis would be revenues

1 when received.

2 MR. LOPEZ: Yes.

3 MR. PATTON: So you may, under  
4 modified accrual, reflect revenues earlier --

5 MR. LOPEZ: Correct.

6 MR. PATTON: -- because you have now  
7 the right to receive, but haven't  
8 (indiscernible - dog barking). And same thing  
9 with expenditures. When committed, would you  
10 say or obligation --

11 MR. LOPEZ: When committed.

12 MR. PATTON: Obligations when  
13 incurred --

14 MR. LOPEZ: Correct. So --

15 MR. PATTON: -- as opposed to actual  
16 expenditures made.

17 MR. LOPEZ: Correct.

18 MR. PATTON: Okay. I just want to  
19 make sure --

20 MR. LOPEZ: Yeah.

21 MR. PATTON: -- I understand the  
22 difference between modified accrual and cash.

23 MR. LOPEZ: So what Caltrans was  
24 getting -- I mean, we were getting beat up  
25 pretty good by the California Transportation

1 Commission because we were having basically a  
2 billion-nine in the bank --

3 MR. PATTON: Yeah.

4 MR. LOPEZ: -- and they're saying  
5 why isn't this being spent, you know, we've  
6 got projects that need to be delivered --

7 MR. PATTON: Yeah.

8 MR. LOPEZ: -- we've got to move  
9 forward.

10 MR. PATTON: Okay.

11 MR. LOPEZ: So what we did is we  
12 transitioned from basically a modified accrual  
13 approach to a hybrid model for the budget --

14 MR. PATTON: Um-hum.

15 MR. LOPEZ: -- process, which was  
16 some expenditures were being reported as  
17 modified accrual, some were being reported as  
18 cash. Our accountants were -- didn't want any  
19 part of that. And so I had to call a meeting  
20 between Cindy McKim --

21 MR. PATTON: Your accountants in  
22 Parks --

23 MR. LOPEZ: No, at Caltrans.

24 MR. PATTON: Oh, okay.

25 MR. LOPEZ: At Caltrans. They were

1 not happy with this change because it wasn't  
2 an accurate reflection of what's going in the  
3 Controller's report; there was going to be a  
4 discrepancy --

5 MR. PATTON: Yeah.

6 MR. LOPEZ: -- between the State  
7 Highway Account Fund balance and the  
8 Controllers.

9 MR. PATTON: Because for budgeting  
10 purposes, you got to stick with modified  
11 accrual, right?

12 MR. LOPEZ: No. What was happening  
13 is we were moving away from modified accrual  
14 and moving towards a cash basis --

15 MR. PATTON: Yeah.

16 MR. LOPEZ: -- because we wanted to  
17 utilize that cash. And so that model that I  
18 built --

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: -- took basically a  
21 modified accrual approach and cash flowed it  
22 out.

23 MR. PATTON: Got it.

24 MR. LOPEZ: And so what we were  
25 doing on those major capital projects, we did

1 a cash basis for that. Everything else within  
2 the (indiscernible) was modified accrual.

3 MR. PATTON: Um-hum.

4 MR. LOPEZ: And so the accountants  
5 were very unhappy about that, and they wanted  
6 to meet with Finance to discuss this issue.  
7 And so I had a meeting with Sue Bost at  
8 Department of Finance at the time and Cindy  
9 McKim, myself, and I think my boss at that  
10 time, Dave Saxby, and said, hey, look, our  
11 accountants aren't happy with this, what do we  
12 do, there's going to be a discrepancy between  
13 the two funds. And what I was told by Finance  
14 was the budget is a political document, your  
15 accounting records are accounting records,  
16 it's okay for there to be a discrepancy. So  
17 when I --

18 MR. PATTON: You were told that by  
19 who?

20 MR. LOPEZ: Sue Bost --

21 MR. PATTON: Okay.

22 MR. LOPEZ: -- at Department of  
23 Finance.

24 MR. PATTON: Yeah.

25 MR. LOPEZ: And so I take that sort

1 of mindset with me to Parks that there are  
2 going to be discrepancies between the two  
3 funds, so it didn't necessarily strike me as  
4 inappropriate (indiscernible - simultaneous  
5 speaking).

6 MR. PATTON: Well, as I hear it, I  
7 understand because there are two different  
8 accounting methods, the accrual method is  
9 going to result in a different calculation.

10 MR. LOPEZ: Correct.

11 MR. PATTON: So if that's the method  
12 you're using for preparing budget documents,  
13 obviously that's different than your cash  
14 basis report.

15 MR. LOPEZ: Yeah.

16 MR. PATTON: But by then reconciling  
17 to back out accruals that have not yet  
18 resulted in any expenditure, at some point you  
19 can true them up.

20 MR. LOPEZ: Yeah. It's no different  
21 than your own --

22 MR. PATTON: Sure.

23 MR. LOPEZ: -- personal check  
24 register --

25 MR. PATTON: Sure.

1 MR. LOPEZ: -- that you have.  
2 MR. PATTON: Sure, exactly.  
3 MR. LOPEZ: -- taking into account  
4 unclear checks --  
5 MR. PATTON: Yeah.  
6 MR. LOPEZ: -- or deposits. It's  
7 the same thing.  
8 MR. PATTON: Yeah.  
9 MR. LOPEZ: And so --  
10 MR. PATTON: So basically, she's  
11 saying, you know, this -- the budget -- it can  
12 be presented -- these numbers can be presented  
13 under a variety of methodologies.  
14 MR. LOPEZ: Correct.  
15 MR. PATTON: We're not necessarily  
16 wedded to a particular methodology --  
17 MR. LOPEZ: Yeah.  
18 MR. PATTON: -- as long as the  
19 numbers are correct --  
20 MR. LOPEZ: Um-hum.  
21 MR. PATTON: -- you know, one way or  
22 the other, right?  
23 MR. LOPEZ: Yeah.  
24 MR. PATTON: Yeah.  
25 MR. LOPEZ: The problem is at

1 Caltrans it was hard to get that  
2 reconciliation down because you had hundreds  
3 of projects currently --

4 MR. PATTON: Yeah.

5 MR. LOPEZ: -- under way. It was  
6 huge.

7 MR. PATTON: Yeah. So the  
8 accounting people like the accrual better  
9 because they --

10 MR. LOPEZ: Yeah, it's what we  
11 certify when we do our --

12 MR. PATTON: Yeah, yeah. It's less  
13 complex --

14 MR. LOPEZ: Yes.

15 MR. PATTON: -- because you're able  
16 to just input that obligation when it was  
17 incurred --

18 MR. LOPEZ: Um-hum.

19 MR. PATTON: -- and you don't have  
20 to start piecemealing it --

21 MR. LOPEZ: Yeah.

22 MR. PATTON: -- as payments become  
23 due.

24 MR. LOPEZ: Correct. You're able to  
25 extract that from your accounting system or --

1 MR. PATTON: Yeah.

2 MR. LOPEZ: -- in which you -- when,  
3 under the cash basis, you can't do that.

4 MR. PATTON: Yeah. It's a little  
5 more of a nightmare to do it on a cash basis.

6 MR. LOPEZ: Yeah. It's a lot of  
7 manual intervention into the process --

8 MR. PATTON: Yeah.

9 MR. LOPEZ: -- to actually do it  
10 (indiscernible - dog barking).

11 MR. PATTON: Yeah. That makes  
12 sense. So the accounting folks are like, oh,  
13 and obviously it's going to be a burden on  
14 them to track.

15 MR. LOPEZ: Correct, yeah. And so  
16 they were very unhappy about it. And so  
17 that's where I kind of had that mindset going  
18 into it. And to be honest with you --

19 MR. PATTON: The bottom line mindset  
20 being that how you put together a budget, how  
21 you present -- how you articulate the budget  
22 is, it is in a way -- it's a matter -- it can  
23 be almost a matter of semantics and  
24 expression, cash accrual -- cash basis versus  
25 accrual, and Bost is explaining political

1 document.

2 MR. LOPEZ: Yeah.

3 MR. PATTON: It's not you're wedded  
4 to a particular form of expression.

5 MR. LOPEZ: Exactly.

6 MR. PATTON: Okay.

7 MR. LOPEZ: Exactly.

8 MR. PATTON: That makes sense.

9 MR. LOPEZ: And so -- and to be  
10 honest with you, I took what was told to me as  
11 direction in terms of how I build a budget.

12 MR. PATTON: Took what was told to  
13 you by whom?

14 MR. LOPEZ: By Mr. Harris.

15 MR. PATTON: Yeah.

16 MR. LOPEZ: And I can't confirm that  
17 the Director knew about the availability of  
18 funds at the time when I was the Budget  
19 Officer because my briefings went directly to  
20 Mr. Harris.

21 MR. PATTON: And you're not sure if  
22 she was in that meeting (indiscernible - dog  
23 barking).

24 MR. LOPEZ: Yeah.

25 MR. PATTON: Yeah.

1 MR. LOPEZ: But to be honest with  
2 you, during that time when we were, when I was  
3 the Admin Deputy, it was a very inclusive  
4 process when we were building a budget.

5 MR. PATTON: Okay. So you were  
6 Budget Officer from '05 when you came in, and  
7 then you became -- you got promoted at some  
8 point.

9 MR. LOPEZ: Yeah, roughly two years.

10 MR. PATTON: In '07 maybe?

11 MR. LOPEZ: I think so, roughly  
12 April of '07.

13 MR. PATTON: And what were you --  
14 what was it that led to the promotion?

15 MR. LOPEZ: I thought I was --

16 MR. PATTON: Well, let me ask you  
17 this. Who made the decision to promote you?

18 MR. LOPEZ: That was the Director  
19 and basically the entire executive team. They  
20 were involved in the interview process.

21 MR. PATTON: Okay. And Harris had  
22 been the Admin Services Deputy Director, so  
23 where does he go?

24 MR. LOPEZ: Mr. Harris had a --

25 MR. PATTON: You can speak in

1 general terms. [REDACTED]

3 MR. LOPEZ: Yeah. [REDACTED]

5 MR. PATTON: In '07 was it?

6 MR. LOPEZ: I think it was around

7 '07, [REDACTED]

9 MR. PATTON: Okay.

10 MR. LOPEZ: During that time, Rob  
11 Boriskin took over for a little bit, but the  
12 executive team wasn't pleased with his  
13 performance, brought in --

14 MR. PATTON: Do you know why?

15 MR. LOPEZ: Well, there were  
16 several --

17 (Dog barking)

18 MR. LOPEZ: We were --

19 MR. PATTON: Boriskin took over for  
20 a little while --

21 MR. LOPEZ: Yeah.

22 MR. PATTON: -- and then he left --

23 (Dog barking)

24 MR. PATTON: -- and I'm kind of  
25 wondering if you have any knowledge of the

1 circumstances of his departing, why --

2 MR. LOPEZ: Yeah. Because the  
3 Director and executive team weren't happy with  
4 his performance.

5 MR. PATTON: Okay.

6 MR. LOPEZ: And there were issues  
7 with trying to close the budget. He would not  
8 make the executive decisions needed to close  
9 it because when I first came on to the  
10 department, every year the department was  
11 running --

12 (Dog barking)

13 MR. LOPEZ: -- basically at the  
14 beginning of the close of budget, we were --

15 MR. PATTON: You know, let's do  
16 this. I think if you stood over here and  
17 you're just a little closer, you can give the  
18 dog a little look.

19 MR. LOPEZ: Okay.

20 MR. PATTON: And she may appreciate  
21 your -- no worries. Okay. All right.

22 So they weren't happy with his  
23 performance, problems getting the --

24 MR. LOPEZ: The budget closed at the  
25 end of the fiscal year.

1 MR. PATTON: And why was that?

2 MR. LOPEZ: Well, when I first came  
3 on board as a Budget Officer, the department  
4 every year was basically running about six  
5 million dollars in the hole. And what you do  
6 to that is you basically -- to fix that, you  
7 roll encumbrances.

8 So, for instance, you have six  
9 million dollars' worth of encumbrances on the  
10 books at the end of the year, you can't close  
11 the books like that because you got more  
12 obligations than you actually have budget  
13 authority for. So what you do is you  
14 disencumber that from your current year and  
15 roll those encumbrances over to the next  
16 fiscal year.

17 MR. PATTON: Um-hum.

18 MR. LOPEZ: And so, in effect, what  
19 you were doing was starting out every year six  
20 million dollars in the hole. And so my charge  
21 was to basically fix that process so where we  
22 weren't in the hole every year.

23 MR. PATTON: Okay.

24 MR. LOPEZ: And part of the process  
25 though, in order to get that the first year,

1 is you have to close the budget, and you have  
2 strict time lines to do that. And really,  
3 there's not a lot of ways to fix that other  
4 than rolling encumbrances.

5           And so in this particular instance,  
6 I had taken this to him and said, look, we  
7 need to close the budget, here's my  
8 recommendations on how we close it. And  
9 instead of basically saying yes or no, this is  
10 how we do it, he decided to prepare a -- take  
11 a month and prepare a PowerPoint presentation  
12 for the executive team. He presented it to  
13 the executive team. They didn't make a  
14 decision on it, and he came back, and I said,  
15 well, how are we going to close the budget,  
16 what -- do you have a decision? Well, no, but  
17 I got the issue on the table. I'm like, and  
18 we we've got, you know -- we're less than a  
19 week to close, I need a decision. We spent --  
20 you had a consultant do a PowerPoint  
21 presentation for us and spent a lot of our  
22 time directing away from what we needed to do  
23 to prepare this presentation and didn't get  
24 the decisions that we need to close.

25           And so he had gone on vacation, and

1 I went to Michael, and I said, look, you know,  
2 there's where we at the end of the year,  
3 here's what my recommendations are, what do  
4 you -- what's your decision. He's like, go  
5 ahead and roll the encumbrances for it. So we  
6 were able to close it right then and there.

7 And then when Michael [REDACTED] [REDACTED] [REDACTED]  
8 [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED], he asked  
9 me, you know, hey, I've been hearing a lot of  
10 things about Rob, you know, can you give me --  
11 what's your sense of it. And so I gave him  
12 that particular instance. And he goes, well,  
13 how did you fix it, how did you get Rob to  
14 make the decision. I go, well, to be honest  
15 with you, I didn't, you made the decision.

16 MR. PATTON: Um-hum.

17 MR. LOPEZ: And he's like, oh, okay.  
18 And then as far as I know, they brought Tom  
19 Domich in who was the prior Assistant Deputy  
20 Director for Administration for many, many  
21 years --

22 MR. PATTON: Uh-huh.

23 MR. LOPEZ: -- to try to help him,  
24 to give him -- you know, to mentor him to get  
25 him to where he fit, A, within the culture of

1 the organization, and B, was able to  
2 (indiscernible - simultaneous speaking).

3 MR. PATTON: So this is around '07.  
4 And so --

5 MR. LOPEZ: So we had a whole  
6 succession of Admin Deputies at that point  
7 because when Michael came back from his leave,  
8 Ruth didn't want to put him back in that  
9 position, so we had a couple -- then we had  
10 Keith Demetrak come in for a year.

11 MR. PATTON: Did you -- were you  
12 ever in a meeting or did you ever talk with  
13 Tom Domich directly about this twenty million  
14 dollar discrepancy?

15 MR. LOPEZ: I don't -- you know, I  
16 can't recall. I don't believe so.

17 MR. PATTON: Okay.

18 MR. LOPEZ: And the reason being is  
19 because it's all an issue of timing. If he  
20 wasn't there during the budget development  
21 cycle, it's -- you start roughly in  
22 September --

23 MR. PATTON: Yeah.

24 MR. LOPEZ: -- and you end, like,  
25 mid December is when it basically ends, but

1 your whole process of developing it at that  
2 point is right around there. And I'm not sure  
3 if he was there at the time.

4 MR. PATTON: So you've got to be --  
5 it's when you're -- yeah, it's during that  
6 formal time period --

7 MR. LOPEZ: Correct.

8 MR. PATTON: -- that that issue's  
9 going to come to the forefront again.

10 MR. LOPEZ: Correct.

11 MR. PATTON: Okay.

12 MR. LOPEZ: But even though Tom  
13 was -- and he was only kind of acting, and he  
14 was only there a couple days a week. He  
15 wasn't there on a real -- in my mind --

16 MR. PATTON: Which was when Rob  
17 left?

18 MR. LOPEZ: No, Rob was still there.

19 MR. PATTON: So Rob was still -- oh,  
20 that's right. You said he came in, trying to  
21 help him out.

22 (Dog barking)

23 MR. LOPEZ: Correct.

24 MR. PATTON: Okay.

25 MR. LOPEZ: It might be easier if

1 you close the window there so you can't hear  
2 the dogs. Just slide it down. Thank you.

3 MR. PATTON: Okay. So you're not  
4 sure if Rob -- if Tom Domich was aware?

5 MR. LOPEZ: Yeah.

6 MR. PATTON: You don't -- okay, you  
7 don't know.

8 MR. LOPEZ: I don't know if he was.

9 MR. PATTON: Who first brought it to  
10 your attention? Becky Brown?

11 MR. LOPEZ: Becky Brown did.

12 MR. PATTON: Did you ever talk with  
13 Dorothy Kroll about it?

14 MR. LOPEZ: Oh, yeah. Dorothy had  
15 talked to me numerous times about it.

16 MR. PATTON: You talked with her  
17 back in '05 when you first learned about it?

18 MR. LOPEZ: No, because she wasn't  
19 the Accounting Officer at the time.

20 MR. PATTON: Okay.

21 MR. LOPEZ: That was Freda Luan-Dun.

22 MR. PATTON: Did you talk with Freda  
23 about it?

24 MR. LOPEZ: Yeah, and she basically  
25 said that there was the discrepancy. And what

1 had happened is -- I didn't realize this while  
2 I was the Budget Officer, but when I became  
3 Admin Deputy, the State Controllers issues  
4 basically awards to departments on closing  
5 your budget on time. If you're within a  
6 certain percentage of the two fund balances, I  
7 believe, you get an award for that.

8 MR. PATTON: Um-hum.

9 MR. LOPEZ: And when I was Deputy,  
10 awards would come to the Director from the  
11 State Controller's Office that basically gave  
12 us awards for a majority of the funds that we  
13 managed. We had a very, very effective  
14 accounting team, and they did a very good job  
15 in terms of meeting deadlines, in terms of  
16 being within balance.

17 And so when we get these reports --  
18 or awards from the Controller's office, they  
19 went to the Director, they then went to me to  
20 pass on to the accounting office. She always  
21 asked, well, why didn't we get awards for SPRF  
22 or OHV, which was our two major biggest  
23 funds --

24 MR. PATTON: Um-hum.

25 MR. LOPEZ: -- and so at that point,

1 I had to explain to her why there was the  
2 difference between --

3 MR. PATTON: To Dorothy?

4 MR. LOPEZ: No, to --

5 MR. PATTON: Freda?

6 MR. LOPEZ: To Ruth.

7 MR. PATTON: To Ruth?

8 MR. LOPEZ: Yeah. So I explained to  
9 Ruth. And what Dorothy explained to me why we  
10 hadn't gotten those --

11 MR. PATTON: What did you explain to  
12 Ruth?

13 MR. LOPEZ: The fact that why we  
14 didn't get awards for our two major funds that  
15 we manage. We got them for everything else.  
16 We didn't get awards for SPRF or OHV.

17 MR. PATTON: And what did you  
18 explain to her?

19 MR. LOPEZ: That there was a  
20 difference between the fund balance and the  
21 cash balance. And I explained on the OH -- or  
22 the SPRF side, it was the twenty million  
23 dollar error that had been made years back.

24 MR. PATTON: That hadn't been  
25 corrected. You tell her, and it's still there

1 and hasn't been corrected?

2 MR. LOPEZ: Still there, yeah.

3 MR. PATTON: So you were pretty  
4 clear with Ruth as to why --

5 MR. LOPEZ: Yeah. I had that same  
6 conversation regarding why we didn't get  
7 awards five times while I was -- during my  
8 tenure as the Admin Deputy.

9 MR. PATTON: Okay.

10 MR. LOPEZ: Because every year the  
11 Controller sent the award directly to the  
12 Director, and I had to explain.

13 MR. PATTON: What part of the year  
14 would the Controller's office send that award?  
15 Sometime after budgets close?

16 MR. LOPEZ: Yeah. We typically get  
17 all of our financial statements in around  
18 September, so I'm thinking probably November,  
19 December, right around that time, first of the  
20 fiscal -- first of the calendar year, right  
21 around that time.

22 MR. PATTON: And I meant to say  
23 after the fiscal year ends as opposed to when  
24 budgets close, correct?

25 MR. LOPEZ: Yeah, it's after the

1 budget closes which -- and those  
2 (indiscernible - simultaneous speaking).

3 MR. PATTON: Also after the budget  
4 closes.

5 MR. LOPEZ: Yeah.

6 MR. PATTON: When does the budget  
7 close?

8 MR. LOPEZ: The budget closes June  
9 30 of each fiscal year.

10 MR. PATTON: Oh, okay. So it closes  
11 on -- it's the fiscal year.

12 MR. LOPEZ: Yeah, it closes on  
13 the fiscal year, but then you have roughly a  
14 few months to get all of your accounting  
15 documents --

16 MR. PATTON: Uh-huh.

17 MR. LOPEZ: -- prepared and put your  
18 financial statements to go.

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: And so after you submit  
21 your financial statements, the Controller  
22 basically gives you a report card --

23 MR. PATTON: Right.

24 MR. LOPEZ: -- on how you did  
25 relative to meeting time lines, relative to

1 balance discrepancies.

2 MR. PATTON: And all those financial  
3 documents are due by what? December?

4 MR. LOPEZ: Right around September.

5 MR. PATTON: September?

6 MR. LOPEZ: Yeah.

7 MR. PATTON: To Finance?

8 MR. LOPEZ: Yeah. End of August,  
9 early September.

10 MR. PATTON: Okay.

11 MR. LOPEZ: So --

12 MR. PATTON: All right. So every  
13 year when the Controller would issue the  
14 report card and issue awards for being on  
15 target, you were missing awards for SPRF and  
16 OHV?

17 MR. LOPEZ: Two major funds,  
18 correct.

19 MR. PATTON: And the Director would  
20 ask you why?

21 MR. LOPEZ: Absolutely.

22 MR. PATTON: Why would -- would she  
23 ask Michael Harris why or she'd come directly  
24 to you?

25 MR. LOPEZ: Well, she would come

1 directly to me because at that point in time  
2 that was my responsibility, the accounting  
3 shop.

4 MR. PATTON: Yeah.

5 MR. LOPEZ: So I imagine she may  
6 have had the same conversation with Harris  
7 when he was Admin Deputy.

8 MR. PATTON: When she --

9 MR. LOPEZ: I don't know.

10 MR. PATTON: Now, when she would ask  
11 you this, this would just be in one-on-one  
12 meetings?

13 MR. LOPEZ: Um-hum.

14 MR. PATTON: In whose office?

15 MR. LOPEZ: Her office.

16 MR. PATTON: So I mean, physically  
17 what would happen? She'd call you up and say,  
18 Manuel, I want to see you?

19 MR. LOPEZ: Yeah. I am basically  
20 near the last -- I would have basically  
21 biweekly meetings with her.

22 MR. PATTON: Um-hum.

23 MR. LOPEZ: And then as it got  
24 closer to the next administration, it started  
25 becoming weekly meetings --

1 MR. PATTON: Um-hum.

2 MR. LOPEZ: -- because she was  
3 pushing for a couple proposals that she had  
4 that she really wanted to move forward. And  
5 so when she gets this stuff, she would hand  
6 stuff to me and ask questions about it and --

7 MR. PATTON: You would have biweekly  
8 and then weekly one-on-one meetings with her?

9 MR. LOPEZ: With Ruth, absolutely.

10 MR. PATTON: Okay. Why wasn't  
11 Harris involved in those?

12 MR. LOPEZ: Because they weren't --  
13 he wasn't running the Admin shop at that time.

14 MR. PATTON: Yeah, okay.

15 MR. LOPEZ: But even after Harris  
16 left the Admin Deputy position, he was always  
17 intimately involved in the budget development  
18 cycle because that was his expertise --

19 MR. PATTON: Right.

20 MR. LOPEZ: -- regardless of  
21 whether -- when he came back, they created a  
22 position for him which was Deputy Director for  
23 Policy and Strategic Planning. So he did that  
24 for a number of years [REDACTED] [REDACTED] [REDACTED] [REDACTED]  
25 [REDACTED] [REDACTED]. And then when Paul Romero

1 retired, she basically put him as the Chief  
2 Deputy Director on an acting position --

3 MR. PATTON: Um-hum.

4 MR. LOPEZ: -- for a number of  
5 years. So he was always basically the central  
6 figure on the budget development cycle, and  
7 then Ruth would be the one that would testify  
8 in front of the legislature on the budget.  
9 Michael always went to each of the meetings  
10 that we had with control agencies on the  
11 budget. When we met with the legislature, he  
12 was always the spokesperson for the budget  
13 because of his expertise in that area.

14 MR. PATTON: So from your  
15 experience, your opinion is that Ruth was  
16 pretty expert on the department's budget?

17 MR. LOPEZ: Oh, yeah, yeah. She --  
18 I mean, she came from the legislature where  
19 she was heavily involved in the budget process  
20 there, not to the degree that Michael was  
21 there, but Michael always briefed her on  
22 everything that was going on with the budget,  
23 especially when we started taking serious  
24 budget cuts, she was heavily involve in the  
25 decision making on that.

1 MR. PATTON: Was she -- I mean, she  
2 was -- was she or was she not capable of  
3 understanding what a prior year adjustment was  
4 made of?

5 MR. LOPEZ: She's capable of  
6 understanding that --

7 MR. PATTON: Okay.

8 MR. LOPEZ: -- from my opinion,  
9 given her expertise.

10 MR. PATTON: When you -- so when you  
11 would have these discussions with her about  
12 why haven't -- why is the Controller's report  
13 card to us on SPRF -- why are we not getting  
14 an award, you say that you told her -- you've  
15 told her repeatedly that there's a twenty  
16 million dollar discrepancy --

17 MR. LOPEZ: Yeah.

18 MR. PATTON: -- an error --

19 MR. LOPEZ: Um-hum.

20 MR. PATTON: -- in our budget  
21 documents. Did you indicate where in the  
22 budget submittals that error is?

23 MR. LOPEZ: No, just -- it was the  
24 difference between the cash and the  
25 (indiscernible - simultaneous speaking).

1 MR. PATTON: The cash balance.

2 MR. LOPEZ: Yeah.

3 MR. PATTON: Okay.

4 MR. LOPEZ: That was the reason for  
5 it and --

6 MR. PATTON: Did you ever talk with  
7 her about how it can be corrected?

8 MR. LOPEZ: No, because I had that  
9 decision early on with Michael on how I could  
10 go about correcting, but then when -- back in  
11 2008-'9, when we were taking the first  
12 fourteen million dollar cut, the major one, we  
13 talked about it at that point.

14 MR. PATTON: "We" who?

15 MR. LOPEZ: We, the executive team,  
16 about how we could basically utilize that cash  
17 to offset the cut that we were taking in the  
18 General Fund.

19 MR. PATTON: Okay. Walk me through  
20 that meeting. This is the fourteen million  
21 dollar cut --

22 MR. LOPEZ: Yeah.

23 MR. PATTON: -- in '08-'9?

24 MR. LOPEZ: It's the one I referred  
25 to previously.

1           MR. PATTON: That you're not sure if  
2 she was in that meeting?

3           MR. LOPEZ: Not in that particular  
4 meeting, but we had many discussions,  
5 executive team -- you know, you don't have  
6 just one meeting on that issue --

7           MR. PATTON: Right, right.

8           MR. LOPEZ: -- and move on.

9           MR. PATTON: Right.

10          MR. LOPEZ: We had several  
11 discussions. Well, how are we going to take  
12 that kind of cut, where is it going to be  
13 impacting the budget, are we going to take it  
14 out of ongoing maintenance, are we going to  
15 take it out of positions.

16          MR. PATTON: Um-hum.

17          MR. LOPEZ: Every Director, when you  
18 have a major cut like that, is involved in how  
19 you roll those cuts out to the department and  
20 how you communicate it to the field. I mean,  
21 the field were highly --

22          MR. PATTON: So you have a specific  
23 recollection in '08 and '9 when you're  
24 discussing with Harris and Jackson the  
25 fourteen million dollar cut, and you have a

1 specific recollection of Harris saying, we're  
2 not going to bring the twenty million up  
3 because that could result in us getting  
4 hammered thirty-four million.

5 MR. LOPEZ: Thirty-four million,  
6 yeah. And the reason I remember that so  
7 clearly was sort of the emotional sort of  
8 response to that.

9 MR. PATTON: By whom?

10 MR. LOPEZ: I think collectively by  
11 the group.

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: Yeah.

14 MR. PATTON: Describe that. What  
15 was the emotion?

16 MR. LOPEZ: Are you crazy? It's  
17 going to be a thirty-four -- and everyone just  
18 kind of --

19 MR. PATTON: It's the elephant in  
20 the room.

21 MR. LOPEZ: Yeah.

22 MR. PATTON: Can't do it.

23 MR. LOPEZ: Can't do it. Can't do  
24 it.

25 MR. PATTON: So at this point, this

1 is -- it almost sounds like this has become an  
2 incurable illness in the financial documents.

3 MR. LOPEZ: Well, except for how --  
4 this particular budget cycle was how it was  
5 going to be fixed and be able to be utilized  
6 because what was being proposed. And keep in  
7 mind, I left the Deputy position around  
8 October and November of '11. So we were just  
9 starting the budget development process, and  
10 what was being proposed, because we were in  
11 such dire fiscal straits, was basically  
12 focusing more on revenue generation --

13 MR. PATTON: Um-hum.

14 MR. LOPEZ: -- and being more  
15 entrepreneurial in that regard. So what we  
16 were looking for was roughly an -- how do you  
17 want to say it -- a continuous appropriation  
18 of SPRF funds --

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: -- that basically -- the  
21 legislature gives you the ability to send  
22 continuously every year twenty million dollars  
23 without them actually having to go in and give  
24 you an annual appropriation for that money.  
25 So it was a more sort of robust way for us to

1 deal with revenue collection. So I can send a  
2 superintendant out to maximize revenue. If  
3 he's able to maximize revenue, we can spend  
4 that immediately.

5 MR. PATTON: Um-hum. Was that the  
6 amount of continuous appropriation that was  
7 being sought?

8 MR. LOPEZ: It was close; it was  
9 close.

10 MR. PATTON: Not quite twenty?

11 MR. LOPEZ: I think it was --  
12 actually, I think it was twenty, if I'm not  
13 mistaken.

14 MR. PATTON: Okay.

15 MR. LOPEZ: And part --

16 MR. PATTON: Would that have  
17 provided a vehicle to be --

18 MR. LOPEZ: To expend it?

19 MR. PATTON: -- to be able to bring  
20 in some of these undisclosed funds?

21 MR. LOPEZ: Yeah. That was the  
22 vehicle to be able to spend it.

23 MR. PATTON: And tell me how that  
24 was going to work exactly.

25 MR. LOPEZ: Because once you get the

1 appropriation --

2 MR. PATTON: Uh-huh.

3 MR. LOPEZ: -- if you've got cash  
4 there to support that --

5 MR. PATTON: Uh-huh.

6 MR. LOPEZ: -- you can spend it.

7 MR. PATTON: Okay. So again, like  
8 we said before, in order -- you just reflect a  
9 correction in the prior year adjustment?

10 MR. LOPEZ: No, no. At that point,  
11 because it's continuously appropriated --

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: -- as long as you have  
14 cash coming in, you have the cash to support  
15 whatever your spend --

16 MR. PATTON: Um-hum.

17 MR. LOPEZ: -- you can spend it.

18 MR. PATTON: But you've got --

19 MR. LOPEZ: Because --

20 MR. PATTON: In order to bring in  
21 additional dollars that haven't been  
22 disclosed, you're going to have to change the  
23 number on something, before we talked about  
24 changing the prior -- making a correction to  
25 the prior year adjustment.

1 MR. LOPEZ: Well, continuous  
2 appropriations are, for the most part, off  
3 budget.

4 MR. PATTON: What does that mean?

5 MR. LOPEZ: That means you don't  
6 have --

7 MR. PATTON: You don't have to  
8 report it.

9 MR. LOPEZ: Yeah, you don't have --  
10 you don't build it on an annual basis like you  
11 do with your traditional incremental-based  
12 budgeting process.

13 MR. PATTON: Um-hum. But you're  
14 going to have to report the revenue at some  
15 point, right?

16 MR. LOPEZ: Um-hum.

17 MR. PATTON: So I guess I'm just  
18 trying to figure out where do we -- what do we  
19 have, what number do we have to change to be  
20 able to bring in some previously undisclosed  
21 dollars? We change the revenue figure, right?

22 MR. LOPEZ: Well, what the mechanism  
23 was doing was providing you a vehicle to --  
24 giving you an appropriation --

25 MR. PATTON: Um-hum.

1 MR. LOPEZ: -- for those -- that  
2 twenty million dollars. So what you could do  
3 is to show --

4 MR. PATTON: Provided you --

5 MR. LOPEZ: Yeah, you show --

6 MR. PATTON: -- realize that  
7 revenue.

8 MR. LOPEZ: Well, you show the  
9 revenue.

10 MR. PATTON: Right. That's what I'm  
11 saying. So this is where we got to show it,  
12 right?

13 MR. LOPEZ: Yeah, but you don't --  
14 what I'm saying is you can basically show the  
15 cash on hand as a revenue.

16 MR. PATTON: Really? Cash that  
17 you -- well, it's -- obviously, it's in your  
18 cash balance. It's in the --

19 MR. LOPEZ: It's in your cash  
20 balance.

21 MR. PATTON: Okay. But you never  
22 disclosed it, that particular twenty million,  
23 and so I guess I'm (indiscernible -  
24 simultaneous speaking).

25 MR. LOPEZ: On the budget -- on the

1 budget document, you hasn't (indiscernible -  
2 simultaneous speaking).

3 MR. PATTON: Right. I'm just  
4 looking for the -- what the trick is to be  
5 able to just --

6 MR. LOPEZ: You show it as revenue.  
7 You show that twenty million as revenue, and  
8 you have your continuous appropriation that  
9 you could use (indiscernible - simultaneous  
10 speaking).

11 MR. PATTON: So that's the trick. I  
12 mean, obviously --

13 MR. LOPEZ: Yes.

14 MR. PATTON: -- we've got to do a  
15 fiction somewhere, right? We've got to show  
16 it as revenue when, in fact, it was money  
17 already sitting there.

18 MR. LOPEZ: Well, yeah.

19 MR. PATTON: Yeah.

20 MR. LOPEZ: It was a -- I mean, in  
21 effect, what you'd be doing is double counting  
22 this revenue to offset the expenditure that  
23 had been posted.

24 MR. PATTON: There you go.

25 MR. LOPEZ: Yeah.

1           MR. PATTON:    So in other -- it's a  
2 revenue fiction is what we're going to  
3 present.

4           MR. LOPEZ:    Yeah.

5           MR. PATTON:    Okay.

6           MR. LOPEZ:    And that revenue fiction  
7 was sort of the offset for the reported  
8 expenditure that never materialized.  So it's  
9 basically --

10          MR. PATTON:    Right, right, right.  
11 It's --

12          MR. LOPEZ:    It's a double -- you  
13 have to have a double accounting system.  So  
14 for every credit you put, you have to have a  
15 debit for it to balance out.

16          MR. PATTON:    Right.

17          MR. LOPEZ:    So what happened is you  
18 had a debit for the twenty million that was  
19 never --

20          MR. PATTON:    Right, that -- actually  
21 that was wrong.

22          MR. LOPEZ:    Exactly, and it was  
23 never adjusted for.

24          MR. PATTON:    Right and --

25          MR. LOPEZ:    So how you adjust it

1 then would be basically reflecting that as  
2 revenue.

3 MR. PATTON: Right. Okay. There's  
4 just two -- it's two ways of accomplishing the  
5 same thing.

6 MR. LOPEZ: Um-hum.

7 MR. PATTON: We didn't actually  
8 spend it, should have when we -- at some point  
9 an error was made, and it didn't get backed  
10 out and reflected in a prior year adjustment.  
11 So there's two ways we could subsequently  
12 correct it. We could either change the prior  
13 year adjustment in another year, bring that  
14 money in --

15 MR. LOPEZ: Um-hum.

16 MR. PATTON: -- or we could double  
17 state, double count revenue or something,  
18 increase our reported revenue --

19 MR. LOPEZ: Yeah.

20 MR. PATTON: -- and theoretically,  
21 cognitively, we could say what we're doing is  
22 we're -- that overstatement or double counting  
23 of revenue is, in effect --

24 MR. LOPEZ: Seed money for your  
25 continuous appropriation.

1 MR. PATTON: Right. And in effect,  
2 it's creating a prior year adjustment --

3 MR. LOPEZ: Yeah.

4 MR. PATTON: -- but on a different  
5 line item --

6 MR. LOPEZ: Correct.

7 MR. PATTON: -- on a revenue.

8 MR. LOPEZ: Yep.

9 MR. PATTON: Right?

10 MR. LOPEZ: Yep.

11 MR. PATTON: Got it.

12 Now, the -- you mentioned there  
13 was -- and I stopped you right when you were  
14 going to talk about back in '05 you first  
15 learned about it.

16 MR. LOPEZ: Um-hum.

17 MR. PATTON: You're in a briefing  
18 with Boriskin and Harris. Harris says -- and  
19 you say this would be easy to correct, and he  
20 says, no, we're not going to do that, it's a  
21 fairly sizable discrepancy, don't want to  
22 bring this to light, plus it puts our General  
23 Fund at risk of a cut, we don't want our  
24 General Fund dollars swept up. And then you  
25 started to say something about an alternative

1 proposal of doing it incrementally.

2 MR. LOPEZ: Yeah.

3 MR. PATTON: Tell me about that.

4 MR. LOPEZ: Roughly doing a --  
5 roughly an annual adjustment to your prior --  
6 your adjustment line of approximately two  
7 million dollar a year, enough to not be --

8 MR. PATTON: A prior adjustment  
9 line?

10 MR. LOPEZ: And a prior adjustment  
11 line, doing that two million is slowly  
12 starting to bring it in balance.

13 MR. PATTON: Yeah.

14 MR. LOPEZ: I mean, it would take  
15 ten years --

16 MR. PATTON: Sure.

17 MR. LOPEZ: -- to do it, but it --

18 (Dog barking)

19 MR. LOPEZ: -- starts reducing  
20 that -- that discrepancy.

21 MR. PATTON: Did you offer that back  
22 in '05 when you --

23 MR. LOPEZ: Yes. And actually they  
24 accepted that.

25 MR. PATTON: Really?

1 MR. LOPEZ: Yeah. The problem is --

2 (Dog barking)

3 MR. LOPEZ: So I did it the first  
4 year.

5 MR. PATTON: Okay.

6 MR. LOPEZ: We did it the first  
7 year.

8 You know what? I'm going to go get  
9 him a bone. Do you mind real quick?

10 MR. PATTON: Sure. No. We'll go on  
11 hold for one second here.

12 (Brief break)

13 MR. PATTON: Okay. So you said --  
14 so we've talked about -- you had -- back in  
15 '05 in the original briefing with Boriskin and  
16 Harris, you had offered as an alternative  
17 doing incremental --

18 MR. LOPEZ: Um-hum.

19 MR. PATTON: -- and you said that --  
20 the discussion was we could do two million a  
21 year --

22 MR. LOPEZ: Yeah, right.

23 MR. PATTON: -- change to the prior  
24 year adjustment each year for ten years.

25 MR. LOPEZ: Correct. Because

1 they -- that, to me, basically addressed their  
2 concern about having this huge balance that  
3 you have to basically try to justify after  
4 however long it was sitting there.

5 MR. PATTON: Right.

6 MR. LOPEZ: So I figured, hey, look,  
7 it will start getting us close to where we  
8 need to be but not get everybody  
9 (indiscernible - simultaneous speaking).

10 MR. PATTON: It wouldn't set off the  
11 alarm bells.

12 MR. LOPEZ: Correct.

13 MR. PATTON: So -- and so what  
14 was -- how was that proposal received?

15 MR. LOPEZ: Michael accepted that.

16 MR. PATTON: Okay.

17 MR. LOPEZ: Yeah.

18 MR. PATTON: And then you started to  
19 say when you got up that you -- so you did do  
20 that for the first year.

21 MR. LOPEZ: I think the first year,  
22 I think, we did that. Then what happened, as  
23 I started moving up --

24 MR. PATTON: Do you remember which  
25 budget cycle that would have been then?

1 If you brought that proposal in about May of  
2 '05 --

3 MR. LOPEZ: I want to say maybe the  
4 '5-'6, I'm thinking.

5 MR. PATTON: Okay. For the next  
6 budget cycle.

7 MR. LOPEZ: For the next -- '6-'7 --

8 MR. PATTON: Yeah.

9 MR. LOPEZ: Excuse me. Maybe  
10 probably '6-'7.

11 MR. PATTON: Okay. Is that the only  
12 time that you were able to do that?

13 MR. LOPEZ: That I personally did  
14 it, yes, because --

15 MR. PATTON: Okay.

16 MR. LOPEZ: -- then I wasn't -- that  
17 that point forward, I wasn't the actual Budget  
18 Officer where I had the ability to have that  
19 hands on.

20 MR. PATTON: Uh-huh. So in '5 or  
21 '6, there was one incremental --

22 MR. LOPEZ: I believe it was.

23 MR. PATTON: -- two million dollar  
24 correction --

25 MR. LOPEZ: Yeah.

1 MR. PATTON: -- in the prior year  
2 adjustment number.

3 MR. LOPEZ: Yeah.

4 MR. PATTON: Okay. And then you  
5 became the Admin Services Director in '07.

6 MR. LOPEZ: And I think I tried to  
7 do it in another one too, if I'm not mistaken,  
8 but I think the finance analyst didn't accept  
9 it for some reason. I can't --

10 MR. PATTON: While you were still  
11 the Budget Officer?

12 MR. LOPEZ: No. I think I had moved  
13 at that -- I moved on at that point, and the  
14 folks that came in behind me -- one gentleman  
15 that was there for -- that was State Ops, he  
16 tried to basically take on that role. He did  
17 a decent job for a while.

18 MR. PATTON: In the budget shop?

19 MR. LOPEZ: Yeah. But, you know --

20 MR. PATTON: Who was that?

21 MR. LOPEZ: -- he didn't have a lot  
22 of experience. That was Jason Summers.

23 MR. PATTON: Yeah.

24 MR. LOPEZ: He didn't have a whole  
25 lot of experience. He had only been there for

1 two years maybe.

2 MR. PATTON: So -- okay. So you're  
3 Admin Services Director, and Jason's the --  
4 he's like the number two, he's --

5 MR. LOPEZ: Yeah. I think this was,  
6 like, right around -- he was doing that when I  
7 was the acting Assistant Deputy for a while.

8 MR. PATTON: Um-hum.

9 MR. LOPEZ: And then shortly after  
10 that, I think within three months or -- three  
11 or four months after that I was promoted to  
12 the Admin Deputy.

13 MR. PATTON: Okay.

14 MR. LOPEZ: And so he did a couple  
15 months after I was promoted there, and then he  
16 moved to a different position.

17 MR. PATTON: Okay. So you  
18 inserted -- or a two million correction was  
19 inserted for another budget year when -- and I  
20 assume at that point Jason -- you're in the  
21 acting Assistant Deputy spot at that time?

22 MR. LOPEZ: I think so, yeah.

23 MR. PATTON: Or else you already  
24 promoted up to Admin Services Director.

25 MR. LOPEZ: Yeah.

1 MR. PATTON: Jason's Budget Op  
2 support, the SSM2, I guess.

3 MR. LOPEZ: No. He was a 1 at the  
4 time --

5 MR. PATTON: A 1.

6 MR. LOPEZ: -- out-of-class  
7 (indiscernible - simultaneous speaking).

8 MR. PATTON: And who's the Budget  
9 Officer when you moved up?

10 MR. LOPEZ: Didn't have one.

11 MR. PATTON: Didn't have one. So  
12 that --

13 MR. LOPEZ: So he was acting for a  
14 while.

15 MR. PATTON: Okay. So he's the  
16 support Ops guy in Budget, and he is acting as  
17 Budget Officer.

18 MR. LOPEZ: Yeah.

19 MR. PATTON: So that's when we  
20 inserted another attempted two million dollar  
21 correction --

22 MR. LOPEZ: (Indiscernible).

23 MR. PATTON: -- and Finance --

24 MR. LOPEZ: Didn't --

25 MR. PATTON: -- rejected it.

1 MR. LOPEZ: Didn't understand it.  
2 And Jason didn't have an accounting background  
3 that could sort of explain it.

4 MR. PATTON: Um-hum. And that's --  
5 so that would have been maybe in '07-'8 or  
6 '08-'9?

7 MR. LOPEZ: No. It was --

8 MR. PATTON: Probably '07-'8 --

9 MR. LOPEZ: Yeah, probably.

10 MR. PATTON: -- because you're  
11 acting -- you're getting moved up in '07.

12 MR. LOPEZ: Yeah.

13 MR. PATTON: Right.

14 MR. LOPEZ: And then the subsequent  
15 Budget Officer did not understand funds  
16 condition statements, although being in the  
17 budget shop for years.

18 MR. PATTON: And that was?

19 MR. LOPEZ: Cheryl Taylor.

20 MR. PATTON: Okay. So then Cheryl  
21 Taylor comes in as the Budget Officer, and you  
22 hired her?

23 MR. LOPEZ: Yeah.

24 MR. PATTON: And you knew her from?

25 MR. LOPEZ: From Caltrans.

1 MR. PATTON: Okay.

2 MR. LOPEZ: She was highly respected  
3 at Caltrans.

4 MR. PATTON: She came in in, I  
5 think, what? '08 maybe?

6 MR. LOPEZ: '08 maybe, yeah.

7 MR. PATTON: Because when you go  
8 into the acting Assistant Admin, the Budget  
9 Officer position 's vacant.

10 MR. LOPEZ: Yeah.

11 MR. PATTON: So probably around '08,  
12 Cheryl comes in.

13 MR. LOPEZ: Yeah. So a few months  
14 after Jason moved to a different position.

15 MR. PATTON: Where did he go?

16 MR. LOPEZ: I went out to add on  
17 that position like twice.

18 MR. PATTON: Uh-huh.

19 MR. LOPEZ: First didn't have any  
20 quality candidates --

21 MR. PATTON: Um-hum.

22 MR. LOPEZ: -- and then had to go  
23 back out again, didn't get many quality  
24 candidates. So I asked Cheryl if she would  
25 apply --

1 MR. PATTON: Um-hum.

2 MR. LOPEZ: -- given her experience  
3 there.

4 MR. PATTON: Um-hum.

5 MR. LOPEZ: The problem is what she  
6 did is she did a lot of budget work at a  
7 program level --

8 MR. PATTON: Um-hum.

9 MR. LOPEZ: -- so she never really  
10 dealt with fund condition statements or  
11 building a budget in its entirety. So she  
12 really didn't understand that process, and so  
13 although I explained -- each subsequent Budget  
14 Officer that I brought on board, I did explain  
15 that twenty million dollars being there --

16 MR. PATTON: Um-hum.

17 MR. LOPEZ: -- in the event that  
18 they were questioned on it that they have --

19 MR. PATTON: So you told Cheryl.

20 MR. LOPEZ: I told Cheryl and I told  
21 Elsie.

22 MR. PATTON: Okay. And Marilyn  
23 Evans-Jones came in and worked under Cheryl as  
24 the Budget Op support?

25 MR. LOPEZ: Yeah.

1 MR. PATTON: And she -- you tell her  
2 also?

3 MR. LOPEZ: I don't know if I told  
4 her. Typically, because the -- I tried to use  
5 the philosophy of, you know, I inform those  
6 below me, and those below them would be  
7 informed.

8 MR. PATTON: Um-hum.

9 MR. LOPEZ: But I had a lot of  
10 problems with both of those individuals  
11 understanding the overall budget process --

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: -- and actually the  
14 annual reporting and allocating of funds.

15 MR. PATTON: Um-hum.

16 MR. LOPEZ: It was -- I don't know.  
17 I think it was just easier for me because I  
18 had an accounting background and --

19 MR. PATTON: Yeah.

20 MR. LOPEZ: -- maybe I had too high  
21 of expectations on those below me.

22 MR. PATTON: So my understanding is  
23 that Taylor and Elsie, you know, respectively,  
24 as they go to work on the budget, they're  
25 informed of this or they see the discrepancy

1 because they look at the accounting --

2 MR. LOPEZ: No. I informed them.

3 MR. PATTON: You tell them?

4 MR. LOPEZ: Yeah, because to be  
5 honest with you, they weren't -- one of  
6 Dorothy Kroll's biggest complaints about those  
7 two was they -- none of them understood the  
8 accounting process nor --

9 MR. PATTON: Uh-huh.

10 MR. LOPEZ: -- Dorothy always  
11 complained that her staff were more  
12 knowledgeable than the budget folks --

13 MR. PATTON: Um-hum.

14 MR. LOPEZ: -- and that her folks  
15 are overworked, they're underworked, and there  
16 was always a sort of divide between the two  
17 shops.

18 MR. PATTON: So is -- so you inform  
19 them of the discrepancy, and in each ensuing  
20 budget submittal where the discrepancy  
21 continues, the budget -- the succeeding Budget  
22 Officers, they're simply then pulling the  
23 year-end -- or they're going with the prior  
24 budget submittals?

25 MR. LOPEZ: Yeah. That's how you

1 typically do it. I mean, you basically get  
2 the prior year -- and that's why it was able  
3 to go undiscovered so long was because each  
4 budget cycle that came out, the past year  
5 actual column, which is what you're reporting  
6 off accounting data --

7 MR. PATTON: Um-hum.

8 MR. LOPEZ: -- that's basically  
9 carried over from the prior year.

10 MR. PATTON: Um-hum.

11 MR. LOPEZ: So you start out with  
12 the ending balance from the prior year, that  
13 goes up on top, and then you make all your  
14 adjustments based upon what your accounting  
15 documents show.

16 MR. PATTON: So they just pulled the  
17 ending balance from the prior year --

18 MR. LOPEZ: Yeah.

19 MR. PATTON: -- and which is  
20 obviously got the discrepancies built into  
21 that --

22 MR. LOPEZ: Yeah.

23 MR. PATTON: -- they plug that into  
24 the next budget documents.

25 MR. LOPEZ: Yeah. So the only place

1 that you can make a correction in the past  
2 year actual column is on the prior year  
3 adjustment line.

4 MR. PATTON: Okay.

5 MR. LOPEZ: It's the only place you  
6 can make it. And it typically has a myriad of  
7 corrections, whether it be -- it's a  
8 combination of both pluses and minuses.

9 MR. PATTON: Uh-huh.

10 MR. LOPEZ: And so, I mean, it's a  
11 fairly complex transaction.

12 MR. PATTON: So the times that you  
13 personally directly discussed this with Ruth  
14 were only those times, you say, at least five  
15 times you mention this each year when the  
16 Controller didn't issue the award for the  
17 budgets being in sync -- for the balance  
18 statements being in sync.

19 MR. LOPEZ: And the other time was  
20 at the -- when we talked about offsetting the  
21 budget cut that we took in '8-'9 --

22 MR. PATTON: The fourteen million.

23 MR. LOPEZ: The fourteen million.  
24 And then from there, I was very clear on what  
25 the executive level's position was --

1 MR. PATTON: Yeah.

2 MR. LOPEZ: -- and that --

3 MR. PATTON: Yeah.

4 MR. LOPEZ: -- to use that to  
5 offset, and it was --

6 MR. PATTON: Well, it sounds like  
7 Mike Harris had articulated that to you.

8 MR. LOPEZ: Yes.

9 MR. PATTON: Did --

10 MR. LOPEZ: And as we started  
11 talking about that, that whole -- the notion  
12 of not using anything or putting yourself up  
13 for greater risk was basically a theme that  
14 underlined all of our subsequent discussions  
15 from that point.

16 MR. PATTON: Well, you did get  
17 approval to do some incremental adjustments,  
18 and one was accomplished.

19 MR. LOPEZ: Um-hum.

20 MR. PATTON: The next one for, I  
21 think it was '07-'8 when Jason was there, that  
22 one didn't get -- go through.

23 MR. LOPEZ: I don't -- no.

24 MR. PATTON: Did you ever talk with  
25 Ruth and let her know that this was a plan?

1 MR. LOPEZ: Yeah, yeah. I mean,  
2 when we -- how do I say that. We get together  
3 and then we would just basically talk about --  
4 in our one-on-one meetings --

5 MR. PATTON: Um-hum.

6 MR. LOPEZ: We would basically have  
7 conversations, conversations about building  
8 the budget, conversations about personnel  
9 issues that were -- we were experiencing. It  
10 was -- what I tried to do was download on her  
11 everything that was going on in my division --

12 MR. PATTON: Um-hum.

13 MR. LOPEZ: -- and budget  
14 development is a component of what --

15 MR. PATTON: Yeah.

16 MR. LOPEZ: -- occurred in my shop.

17 MR. PATTON: Yeah.

18 MR. LOPEZ: So, yeah, I did have  
19 discussions with her. Can't be specific on,  
20 you know, the actual dates and stuff because  
21 we had so many one-on-one meetings, but I  
22 always felt --

23 MR. PATTON: But this particular  
24 topic of this twenty million dollar  
25 longstanding --

1 MR. LOPEZ: Um-hum.

2 MR. PATTON: -- discrepancy, you  
3 tell me Michael Harris did give the go-ahead  
4 to -- not to try to fix it all at once --

5 MR. LOPEZ: Yeah.

6 MR. PATTON: -- but to do some  
7 incremental adjustments. You accomplished  
8 one, and I guess I'm looking for, did you ever  
9 specifically converse with Ruth about, we've  
10 made one such adjustment now that Mike Harris  
11 has --

12 MR. LOPEZ: Yeah.

13 MR. PATTON: -- approved this, we've  
14 made one, we're going forward.

15 MR. LOPEZ: I don't -- I don't  
16 remember.

17 MR. PATTON: Okay.

18 MR. LOPEZ: I don't think I did, to  
19 be honest with you --

20 MR. PATTON: Okay.

21 MR. LOPEZ: -- because at the time I  
22 was the Budget Officer there, and I didn't  
23 have one-on-one conversations with Ruth on  
24 that.

25 MR. PATTON: Yeah.

1           MR. LOPEZ: All conversations, while  
2 I was the Budget Officer, were directly  
3 through Michael.

4           MR. PATTON: I guess my confusion is  
5 that if, when January rolls around and Ruth  
6 asking, why aren't we getting this award from  
7 Controller for our balances being in sync in  
8 SPRF and OHV, you say -- each time you'd say  
9 because we got discrepancies.

10          MR. LOPEZ: Um-hum.

11          MR. PATTON: And you've indicated to  
12 me that with regard to the SPRF, you've been  
13 clear enough that it's a twenty million dollar  
14 discrepancy due to not doing a prior year  
15 adjustment many years ago, twenty years in  
16 undisclosed money.

17          MR. LOPEZ: All I know is what -- in  
18 terms of the duration is what I've read in the  
19 paper.

20          MR. PATTON: Yeah, right. What  
21 I'm -- I'm trying to -- I guess what I'm  
22 trying to get to is you were clear with her  
23 that that discrepancy that's resulting in the  
24 Controller not issuing this award is twenty  
25 million --

1 MR. LOPEZ: Um-hum.

2 MR. PATTON: -- and it's twenty  
3 million of monies we do have but aren't in  
4 your budget documents.

5 MR. LOPEZ: Correct.

6 MR. PATTON: And she knows this?

7 MR. LOPEZ: She -- my impression is  
8 when I brought that forward to her, she's  
9 like, oh, yeah, okay, I understand. So --

10 MR. PATTON: Is it possible that --  
11 see, I guess I'm having a hard time pinning it  
12 down to she's perfectly clearly aware that  
13 this is twenty million in undisclosed funds as  
14 opposed to there's simply errors in our budget  
15 documents and a discrepancy we've never been  
16 able to true these two numbers.

17 MR. LOPEZ: Well, the way I tried to  
18 explain -- because we also had it for OHV.

19 MR. PATTON: Yeah.

20 MR. LOPEZ: And what I tried to  
21 explain to her both discrepancies, the SPRF  
22 was the available twenty million.

23 MR. PATTON: Um-hum.

24 MR. LOPEZ: The OHV was attributable  
25 to basically the fact that we had long-term

1 ongoing appropriations for land acquisitions  
2 and basically issues with the way that loans  
3 from the OHV were incurred.

4 MR. PATTON: See, this is what  
5 I'm -- and let me see if I can restate  
6 because -- and we're going to talk about OHV a  
7 little bit. But my understanding is that with  
8 OHV the tracking and accounting -- reporting  
9 of the numbers is hugely problematic because  
10 there are land acquisitions that did not go  
11 through, there's loans being made and having  
12 to be reported and then maybe not -- didn't  
13 get reported correctly.

14 MR. LOPEZ: Correct.

15 MR. PATTON: There are gas tax  
16 credits going to it, that that account has got  
17 a series of individual issues that have thrown  
18 numbers off.

19 MR. LOPEZ: Absolutely.

20 MR. PATTON: Now, we're going to get  
21 to that in a little bit. That's a different  
22 story than with SPRF where there's twenty  
23 million of undisclosed funds for some untold  
24 number of years.

25 MR. LOPEZ: Yes. It was a very easy

1 explanation for the SPRF --

2 MR. PATTON: Yeah.

3 MR. LOPEZ: -- very -- much more  
4 complex explanation for the OHV.

5 MR. PATTON: So -- and so what I'm  
6 trying to get at is she realizes that, that  
7 there's twenty million of funds available in  
8 SPRF that we simply have not disclosed.

9 MR. LOPEZ: That was my feeling, my  
10 impression, yes.

11 MR. PATTON: Okay. So you can't  
12 really tell me that you ever specifically said  
13 it's the twenty million dollars that we've not  
14 been disclosing year after year.

15 MR. LOPEZ: Well, it also became  
16 clear when we started talking about the  
17 continuous appropriation, how we would be  
18 utilizing that money because we talked about  
19 that twenty million dollars as being the seed  
20 money for that continuous appropriation.

21 MR. PATTON: Okay.

22 MR. LOPEZ: So she knew that there  
23 was money there that was available --

24 MR. PATTON: Okay.

25 MR. LOPEZ: -- and that that would

1 help us. Basically, the first year where the  
2 budget cut was tough where we were closing  
3 parks --

4 MR. PATTON: Uh-huh.

5 MR. LOPEZ: -- that next year when  
6 we started trying to become more  
7 entrepreneurial in our revenue collection --

8 MR. PATTON: So you're telling me  
9 there were discussions about the continuous  
10 appropriation about using our, for lack of a  
11 better term, our little slush fund that's not  
12 been disclosed.

13 MR. LOPEZ: Yes.

14 (Phone ringing)

15 MR. LOPEZ: So, yeah.

16 MR. PATTON: So there's no doubt in  
17 your mind that she's aware that there's twenty  
18 million undisclosed dollars in SPRF? You're  
19 nodding your head yes.

20 MR. LOPEZ: Yes.

21 MR. PATTON: Okay.

22 MR. LOPEZ: Yes.

23 MR. PATTON: Because you discussed  
24 we're going to get a continuous appropriation,  
25 we're going to be able to spend some of this

1 money that we've been sitting on.

2 MR. LOPEZ: Exactly.

3 MR. PATTON: But you've never  
4 discussed specifically the plan of incremental  
5 changes to prior year adjustments?

6 MR. LOPEZ: I briefed Mr. Harris on  
7 that.

8 MR. PATTON: Yeah.

9 MR. LOPEZ: My assumption is given  
10 the close relationship between Mr. Harris and  
11 Ruth --

12 MR. PATTON: All right.

13 MR. LOPEZ: -- my assumption is she  
14 would know, but that's purely an assumption on  
15 my part.

16 MR. PATTON: All right. Do you  
17 recall when you would talk about around --  
18 January rolls around, she asks why are we --  
19 why are we not getting award for SPRF, you  
20 would say -- would you say, because we're  
21 twenty million dollars off, because there's a  
22 twenty million dollar --

23 MR. LOPEZ: Yeah, accounting.

24 MR. PATTON: Let me ask you this.

25 Why every year is she asking the same

1 question?

2 MR. LOPEZ: My sense is because she  
3 had so much going on, and when you gave her --  
4 when she got the report, she always asked the  
5 question.

6 MR. PATTON: So she's got a memory  
7 issue. She's -- I mean, she keeps asking the  
8 same question, you keep giving the same answer  
9 for five years.

10 MR. LOPEZ: Yes.

11 MR. PATTON: We didn't get it last  
12 year because there's a twenty million dollar  
13 disparity.

14 MR. LOPEZ: Yes. I said it's an  
15 ongoing issue that we've had.

16 MR. PATTON: Next year rolls around,  
17 she asks again.

18 MR. LOPEZ: Same question.

19 MR. PATTON: So from that, I'm sort  
20 of getting the sense she doesn't get it.

21 MR. LOPEZ: Well, then when I  
22 explain that to her, she's like, oh, yeah,  
23 that's right. And then she moves on. So --

24 MR. PATTON: All right. So -- okay,  
25 from that I get the impression that it

1 registers and then it registers as something  
2 fairly unimportant.

3 MR. LOPEZ: Yeah.

4 MR. PATTON: Interesting.

5 MR. LOPEZ: Or that she's aware of  
6 it and --

7 MR. PATTON: It's just kind of a --

8 MR. LOPEZ: -- because I think she  
9 saw it also as --

10 MR. PATTON: Let me see if I can  
11 describe this then. If it's something that  
12 she has to be reminded of each year and then  
13 she just sort of discounts it, you know, moves  
14 right on, as you say, then it's like she's  
15 reminded, and then she moves on because it's  
16 just this relatively inconsequential budget  
17 reporting discrepancy.

18 MR. LOPEZ: Accounting issue, maybe.

19 MR. PATTON: Yeah.

20 MR. LOPEZ: Potentially.

21 MR. PATTON: But you say then with  
22 the continuous appropriation, then there's  
23 discussions that she's involved in about we're  
24 going to be able to finally spend some of this  
25 discrepancy money.

1           MR. LOPEZ:   Um-hum, because the way  
2   it was -- we said, you know, that's our safety  
3   net is the way -- when we talked about -- when  
4   I was briefing her on it, you remember the  
5   twenty million dollar discrepancy that's being  
6   used as our safety net in the event revenues  
7   don't come in.

8           MR. PATTON:   What about -- was  
9   there -- okay.   That's one type of a safety  
10  net.   That's a safety net that if we make some  
11  corrections to prior year adjustments or if we  
12  avail ourself of some continuing appropriation  
13  authority and change what we reflect as  
14  revenue, we're going to be able to correct  
15  that; we're going to be able to tap into that  
16  safety net.

17          MR. LOPEZ:   Yeah, and offset the  
18  closure of parks.

19          MR. PATTON:   Yeah.   Was there also a  
20  different type of reserve that you would try  
21  to keep in the SPRF?

22          MR. LOPEZ:   There was typically --  
23  every year we had gotten appropriation for  
24  six million dollars that was to be used for  
25  water -- waste water projects --

1 MR. PATTON: Uh-huh.

2 MR. LOPEZ: -- but that was only  
3 contingent upon revenue being earned. And  
4 that was sort of the safety net to opt to  
5 adjust for that six million dollar rollover  
6 that we had ever year.

7 So ideally, what we had is that six  
8 million and around January, February, if we  
9 were on target for meeting our optimal budget  
10 numbers, so we had -- so Mary Veliquette, who  
11 was our revenue forecaster, had an optimal  
12 projection and a baseline projection. And by  
13 January, if we were meeting our optimal, then  
14 the idea was to allocate that additional six  
15 million dollar afloat SPRF authority. The  
16 problem is the Budget Officer at the time  
17 didn't understand that and had serious errors  
18 in her budget.

19 I remember one year she was coming  
20 to me saying, hey, we're going to have savings  
21 in our budget, because I kept pushing them to  
22 get me expenditure projection reports to show  
23 how we were going to end the fiscal year. Are  
24 we going to end in a deficit or are we going  
25 to end in a surplus. What are we going to do?

1 And so she was coming to me one year with  
2 projection reports that, for several months in  
3 a row, never balanced to what the original  
4 budget was. So I had check figures in my  
5 mind, so when they bring a report to me, I  
6 look at what the governor's budget is by fund  
7 type, and I compare that to what their report  
8 is. And here's my starting point for  
9 projections, here's all the projected  
10 expenditures, and here's my ending balance.  
11 The problem is the starting point was never  
12 matching the governor's budget. So how could  
13 those numbers be accurate, the end point, if  
14 the starting point wasn't correct.

15 MR. PATTON: Well, is it possible --  
16 was the starting point -- were you collecting  
17 any of these dollars that are in the  
18 accounting balance report?

19 MR. LOPEZ: No, no, no, not  
20 possible.

21 MR. PATTON: That's not where the  
22 problem is?

23 MR. LOPEZ: Not where that  
24 problem --

25 MR. PATTON: Because I've heard

1 that -- and you're talking about -- who was  
2 preparing those?

3 MR. LOPEZ: Cheryl Taylor and  
4 Marilyn.

5 MR. PATTON: Marilyn. See, I've  
6 heard that they were -- their reports  
7 indicated twenty-five million dollars in  
8 surplus --

9 MR. LOPEZ: Projected, yes.

10 MR. PATTON: -- projected surplus,  
11 and so that raised a question in my mind if  
12 that had a connection to the twenty million in  
13 the accounting balance reports.

14 MR. LOPEZ: No, no connection  
15 whatsoever.

16 MR. PATTON: Okay. So they're still  
17 starting from the -- what is actually --

18 MR. LOPEZ: In the governor's  
19 budget.

20 MR. PATTON: And which is actually  
21 an incorrect number in terms of the balance  
22 because the twenty million actual --

23 MR. LOPEZ: Well, no, it was a  
24 correct number because that was what was  
25 appropriated (indiscernible - simultaneous

1 speaking).

2 MR. PATTON: Right. It's consistent  
3 with the balance -- with the Finance reports.

4 MR. LOPEZ: With the governor's  
5 budget.

6 MR. PATTON: Yeah.

7 MR. LOPEZ: And that's what we had  
8 to --

9 MR. PATTON: Yeah.

10 MR. LOPEZ: -- manage to --

11 MR. PATTON: Got it.

12 MR. LOPEZ: -- on an annual basis.

13 MR. PATTON: Got it. Okay.

14 MR. LOPEZ: So when they're telling  
15 me that we're in a surplus situation, I'm  
16 looking at it -- and keep in mind, they're  
17 telling me that every division is in deficit  
18 expenditure mode.

19 MR. PATTON: Um-hum.

20 MR. LOPEZ: How can you be in  
21 deficit expenditure mode and still show me  
22 twenty million dollars in the hole -- or  
23 excuse me -- twenty million dollars to the  
24 good?

25 MR. PATTON: Um-hum.

1           MR. LOPEZ:   And they couldn't  
2 explain to me why.   And so I figured, well,  
3 it's got to be part of the fact that they're  
4 not balancing to the original budget, and if  
5 everyone's in deficit situation, there's  
6 probably some money that was unallocated.   And  
7 what I found was when we were going through  
8 the furloughs --

9           MR. PATTON:   Um-hum.

10          MR. LOPEZ:   -- Finance comes in and  
11 basically cuts your budget based upon the  
12 anticipated savings from each of the  
13 furloughs.

14          MR. PATTON:   Yeah.

15          MR. LOPEZ:   And keep in mind, what  
16 was happening is every month we were getting a  
17 budget reduction tied to the enacted budget.

18          MR. PATTON:   Um-hum.

19          MR. LOPEZ:   And so I went to Finance  
20 and said, this is our SPRF revenue, we  
21 shouldn't be cut for that; if we earn it, we  
22 should be able to spend it.   Finance agreed  
23 with that and gave us back roughly ten  
24 million -- somewhere between nine and ten  
25 million dollars' worth of SPRF authority that

1 we could spend. Cheryl's and Marilyn's job  
2 was to allocate that money out to the field.

3 MR. PATTON: Um-hum.

4 MR. LOPEZ: They told me they had  
5 done that. It wasn't until I basically got in  
6 deep and had them reconcile their projection  
7 did I realize -- and this was around April or  
8 May -- I mean, May probably is when I first  
9 realized this -- that they failed to allocate  
10 those dollars out. So when they're telling me  
11 there's savings, they had to walk through and  
12 justify that savings for me at the end of the  
13 year, and it took them several months for that  
14 to actually happen.

15 MR. PATTON: All right. Let me ask  
16 you about this. I saw an e-mail where someone  
17 from KQED wrote to -- I think it was Roy  
18 Stearns saying this bill appropriates -- I  
19 think it was 12.9 million -- I wish I had -- I  
20 don't know that I have the e-mail with me, I  
21 might, but anyways, and Roy was asking Mike  
22 Harris -- and I think you were on the e-mail  
23 trail and Ann Malcolm and some other people  
24 where Roy was saying -- Mike Harris basically  
25 said a million and a half of it's from SPRF,

1 the other is from something else that has to  
2 do with payment of a claim in a Kachati (ph.)  
3 case, Ann or Tara know more about that, and it  
4 doesn't really affect our SPRF budget. And  
5 Ruth wrote back saying, how does one-and-a-  
6 half million dollar hit not affect our SPRF.  
7 And Michael says, we have a reserve, the other  
8 monies get paid out of something else, not  
9 really out of SPRF for payment of this claim,  
10 the Attorney General's billing us for  
11 whatever.

12 MR. LOPEZ: Okay.

13 MR. PATTON: But he basically says,  
14 it's why we keep a reserve in SPRF.

15 MR. LOPEZ: That's a reserved  
16 allocation.

17 MR. PATTON: That's what I want to  
18 talk about.

19 MR. LOPEZ: Yeah.

20 MR. PATTON: Was -- tell me about  
21 that? Was -- my understanding, and it's kind  
22 of rudimentary, is that you've got a certain  
23 amount of funding in SPRF appropriation --

24 MR. LOPEZ: Um-hum.

25 MR. PATTON: -- but you allocate a

1 little bit less in order to maintain a little  
2 bit of reserve in case of unknowns.

3 MR. LOPEZ: Correct, exactly.

4 And there were a lot of unknowns as the budget  
5 was -- as we started taking more cuts because  
6 what was happening is the legislature was  
7 enacting unallocated reductions in the budget.

8 MR. PATTON: So my question is, did  
9 you factor in -- did you build in by not  
10 allocating out -- did you build in a reserve  
11 percentage of the appropriation, aside from  
12 the six million dollar waste water  
13 appropriation, what we talked about before?  
14 Was there some other reserve that you would  
15 try to construct?

16 MR. LOPEZ: Some, yes, and that was  
17 like tied to unallocated budget reductions  
18 because we knew that there were reductions --  
19 state-wide budget reductions that --

20 MR. PATTON: Um-hum.

21 MR. LOPEZ: -- covered every  
22 department.

23 MR. PATTON: Um-hum.

24 MR. LOPEZ: The only unknown was how  
25 much of that is attributable to our

1 department. So when you don't know that, you  
2 have to reserve a little bit in order to  
3 basically ensure that when you do your annual  
4 allocations that you don't have to come back  
5 after the fact and take money away from them.  
6 You're basically managing these budget cuts  
7 through that process. So there was some level  
8 of reserve that was being held for unallocated  
9 budget cuts.

10 MR. PATTON: Unallocated budget  
11 cuts. Did -- was the reserve also intended to  
12 help cover you in case park fee revenues had  
13 not -- didn't --

14 MR. LOPEZ: No. That was the six  
15 million dollar one that we didn't allocate.

16 MR. PATTON: Okay.

17 MR. LOPEZ: And that was --

18 MR. PATTON: So if revenues didn't  
19 meet forecasts, you would tap into the six  
20 million? I didn't quite catch the connection  
21 between waste water and how you --

22 MR. LOPEZ: That's why it was  
23 budgeted for.

24 (Dog barking)

25 MR. PATTON: Okay. But you -- in

1 essence then, we wouldn't use it then for  
2 waste water. If your fee generation fell  
3 short, we would then utilize those dollars to  
4 make up that shortfall for parks operations?

5 MR. LOPEZ: Correct.

6 MR. PATTON: Okay.

7 MR. LOPEZ: Yeah.

8 Give me one second.

9 MR. PATTON: Sure.

10 (Dog barking)

11 (Brief break)

12 MR. PATTON: Okay. So I think I've  
13 got a feel for the --

14 (Dog barking)

15 MR. PATTON: -- the practice of  
16 holding some money in reserve.

17 MR. LOPEZ: Yes. And there was --  
18 unfortunately, there were so many various cuts  
19 that we were taking --

20 MR. PATTON: Um-hum.

21 MR. LOPEZ: -- it was extremely  
22 difficult to try to anticipate what those were  
23 and be able to get out an allocation plan that  
24 didn't -- trying to find that fine line  
25 between giving as much as you can out without

1 shooting yourself in the foot near the end of  
2 the fiscal year.

3 MR. PATTON: Right.

4 MR. LOPEZ: And then what happened  
5 is a lot of those cuts that were anticipated  
6 department happen. You know, we were  
7 anticipating, like, a cut for IT savings  
8 reductions and things like that that never  
9 materialized, and so you're stuck. You got to  
10 save the money in case it happens, but if it  
11 doesn't happen, you -- we weren't finding out  
12 some of these cuts until May and June. Very  
13 difficult to basically then give it back out  
14 to the field and say, spend it within a month.

15 MR. PATTON: Yeah.

16 MR. LOPEZ: Very difficult.

17 MR. PATTON: Okay. I want to review  
18 just a couple of things. It first came to  
19 your attention, Becky told you about this  
20 disparity. She told you management was  
21 aware -- I'm just reading from my notes.

22 MR. LOPEZ: Um-hum.

23 MR. PATTON: You need to be aware of  
24 it also in case Chris Holtz at Finance, your  
25 fiscal analyst --

1 MR. LOPEZ: Yeah.

2 MR. PATTON: -- notices a problem.

3 MR. LOPEZ: Yeah. He actually at  
4 that -- he had just moved over to the  
5 legislature as a fiscal consultant for the --

6 MR. PATTON: Okay.

7 MR. LOPEZ: -- Assembly Republicans.

8 MR. PATTON: Okay.

9 MR. LOPEZ: But he was the fiscal  
10 analyst at Department of Finance at the time  
11 that error was generated.

12 MR. PATTON: Do you know when the  
13 error was generated?

14 MR. LOPEZ: No.

15 MR. PATTON: You don't really know.  
16 You're just -- your understanding was he was  
17 the DOF fiscal analyst when the error  
18 occurred.

19 MR. LOPEZ: That's correct.

20 MR. PATTON: All right. And he went  
21 to the Assembly what?

22 MR. LOPEZ: Fiscal Republicans.

23 MR. PATTON: Assembly Fiscal  
24 Republicans.

25 MR. LOPEZ: Yeah. So he basically

1 represents the members -- the Republican  
2 members of our budget subcommittee. He's a  
3 staffer for them --

4 MR. PATTON: Okay. Got it.

5 MR. LOPEZ: -- through the budget  
6 development cycle.

7 MR. PATTON: So did -- and then you  
8 had a briefing with Boriskin and Harris, and  
9 then did you have any further discussions with  
10 Becky other than, here's the deal that's -- it  
11 was a prior year adjustment that didn't occur,  
12 shouldn't occur -- should have occurred,  
13 didn't?

14 MR. LOPEZ: No, other than she told  
15 me management was aware of that, but given the  
16 size of that, I felt it was important that I  
17 bring it --

18 MR. PATTON: Yeah.

19 MR. LOPEZ: -- that I personally  
20 bring it to management's decision after I was  
21 informed.

22 MR. PATTON: Okay. So Becky didn't  
23 really have any more involved discussion with  
24 you about it?

25 MR. LOPEZ: Not really, no.

1           MR. PATTON:    Tell you who she -- she  
2    didn't ever indicate she had talked with Ruth  
3    about it?

4           MR. LOPEZ:    No, but Ruth had a very  
5    close working relationship with Becky, very  
6    close.

7           MR. PATTON:    Yeah.    How do you know  
8    that?

9           MR. LOPEZ:    Based upon what Harris  
10   told me, based upon what Ruth had told me --

11          MR. PATTON:    Yeah.

12          MR. LOPEZ:    -- and Becky, and my  
13   staff that she was the prime -- especially  
14   before Michael arrived, she was the prime  
15   contact with Ruth on the budget process.

16          MR. PATTON:    So did you -- in other  
17   words, Becky would brief Ruth directly?

18          MR. LOPEZ:    Yeah.

19          MR. PATTON:    Did you ever witness  
20   that?  Were you in meetings where Becky  
21   briefed her?

22          MR. LOPEZ:    No, but Ruth had told me  
23   that she would be briefed.  And so part of it  
24   was sometimes Ruth would call me asking for  
25   information --

1 MR. PATTON: Uh-huh.

2 MR. LOPEZ: -- and I think that  
3 upset Mr. Harris because it wasn't following  
4 the chain of command.

5 MR. PATTON: When you were Budget  
6 Officer?

7 MR. LOPEZ: When I was Budget  
8 Officer. And then Ruth said, well, that's  
9 just the way I am, if I need an answer, I go  
10 to where I need to get the answer from.

11 MR. PATTON: Got it. So she'd call  
12 you up directly as Budget Officer, ask for  
13 answers?

14 MR. LOPEZ: Yeah. And she said, I  
15 have to break myself of that habit because  
16 Harris was looking for a different  
17 management -- Harris and Ruth, the department  
18 was looking for a different management style  
19 coming from the budget shop.

20 MR. PATTON: Now, Freda Luan-Dun was  
21 still there when you started?

22 MR. LOPEZ: Yes.

23 MR. PATTON: And did you discuss it  
24 with her, the fact that Accounting's numbers  
25 to Controllers were higher than the balance

1 reported to Finance?

2 MR. LOPEZ: I can't -- I can't  
3 recall.

4 MR. PATTON: Okay.

5 MR. LOPEZ: I can't recall.

6 MR. PATTON: You do recall  
7 discussing with Dorothy later on?

8 MR. LOPEZ: Yes, because one of  
9 the -- when it was first brought to me, I  
10 didn't understand why we were -- what was the  
11 basis for the awards that we were getting. So  
12 I needed to understand, well, what are these  
13 awards for. And so when I got the explanation  
14 for it from Dorothy, that's when I went and  
15 briefed Ruth on it. And then from that point  
16 forward, everyone -- because I was fairly new  
17 to the position. I didn't know --

18 MR. PATTON: So this is back in '05  
19 when you started?

20 MR. LOPEZ: No, no. This was when I  
21 started as the Admin Deputy.

22 MR. PATTON: Oh, okay, '07.

23 MR. LOPEZ: Yeah. That's when I  
24 started getting --

25 MR. PATTON: You went to Dorothy to

1 understand what the basis was for the awards  
2 the Controller issued?

3 MR. LOPEZ: Correct.

4 MR. PATTON: And then that's when  
5 you learned from Dorothy why we weren't  
6 getting it for the SPRF --

7 MR. LOPEZ: Correct.

8 MR. PATTON: -- because the balances  
9 aren't matching up.

10 MR. LOPEZ: Yep.

11 MR. PATTON: And that -- and then  
12 you say that's when you explained it to Ruth.

13 MR. LOPEZ: Correct.

14 MR. PATTON: Every year.

15 MR. LOPEZ: Every year.

16 MR. PATTON: For five years.

17 MR. LOPEZ: Yep, exactly.

18 MR. PATTON: All right. You talked  
19 with Cheryl Taylor and Marilyn Evans-Jones  
20 about it, about --

21 MR. LOPEZ: Just Cheryl at the time.

22 MR. PATTON: Just Cheryl?

23 MR. LOPEZ: Yeah, because she was  
24 the Budget Officer.

25 MR. PATTON: Okay.

1 MR. LOPEZ: And typically, what I  
2 wanted to see was the Budget Officer  
3 understanding what the fund condition  
4 statement was --

5 MR. PATTON: Yeah.

6 MR. LOPEZ: -- and how --

7 MR. PATTON: Yeah.

8 MR. LOPEZ: You know, to be an  
9 effective Budget Officer, you need to know  
10 everything.

11 MR. PATTON: Okay.

12 MR. LOPEZ: And I think that's why  
13 Becky briefed me so I knew what was inherent  
14 in that.

15 MR. PATTON: Okay.

16 MR. LOPEZ: And I briefed every  
17 subsequent Budget Officer on that process.

18 MR. PATTON: Who would have been?

19 MR. LOPEZ: Cheryl and Elsie.

20 MR. PATTON: Elsie. Okay. And then  
21 you also brought in Dave Saxby at some point?

22 MR. LOPEZ: Yes, to try to help  
23 Cheryl because --

24 MR. PATTON: Yeah.

25 MR. LOPEZ: She could not get the

1 allocations nor --

2 MR. PATTON: Right.

3 MR. LOPEZ: -- projections complete.

4 MR. PATTON: So you brought him in.

5 That was what? '09 or '10?

6 MR. LOPEZ: Yeah, that sounds about  
7 right -- probably '09, somewhere around there,  
8 late '09.

9 MR. PATTON: You brought him in -- I  
10 understand he came in as a retired annuitant  
11 for a while, and he was filling the Assistant  
12 Admin Deputy -- no?

13 MR. LOPEZ: No. He basically came  
14 in into the budget office --

15 MR. PATTON: Uh-huh.

16 MR. LOPEZ: -- as a retired  
17 annuitant to help Cheryl because --

18 MR. PATTON: Okay.

19 MR. LOPEZ: -- Cheryl was struggling  
20 in that position.

21 MR. PATTON: Okay.

22 MR. LOPEZ: So he spent a number of  
23 months trying to help her until he came to me  
24 and said, I can't help her.

25 MR. PATTON: Yeah.

1 MR. LOPEZ: And then Cheryl then  
2 chose to basically voluntarily demote from a  
3 Staff 3 to a -- back down to a Staff 2.

4 MR. PATTON: Um-hum.

5 MR. LOPEZ: And then shortly after  
6 that, then she went back to Caltrans.

7 MR. PATTON: So -- and David, I  
8 understand, you later appoint him as the  
9 Assistant Admin Services Director.

10 MR. LOPEZ: Yes.

11 MR. PATTON: And he went full time  
12 for a while.

13 MR. LOPEZ: Um-hum.

14 MR. PATTON: Did you -- what  
15 conversations did you have with him about this  
16 SPRF fund discrepancy? Did you tell him about  
17 it?

18 MR. LOPEZ: I believe when he was in  
19 the budget shop and we were -- and they were  
20 in the process of preparing the budget, talked  
21 about it.

22 MR. PATTON: Okay. Did you tell him  
23 about there was a plan Mike had approved to  
24 incrementally correct?

25 MR. LOPEZ: I'm not sure if I told

1 him that.

2 MR. PATTON: Don't have much  
3 recollection about what --

4 MR. LOPEZ: No.

5 MR. PATTON: -- exactly you and  
6 David talked about?

7 MR. LOPEZ: No, because that -- I  
8 mean, that happened -- the notion of doing the  
9 correction, that one sticks out in my mind  
10 because that was early in my career at Parks.

11 MR. PATTON: Doing a one-time  
12 correction or the incremental?

13 MR. LOPEZ: The -- doing the --  
14 talking about the -- doing the one-time  
15 correction and then basically talking about --

16 MR. PATTON: Yeah.

17 MR. LOPEZ: -- the incremental  
18 because I was worried that if I didn't show  
19 that I could find a solution to that, my  
20 career would be impacted. So I --

21 MR. PATTON: Really?

22 MR. LOPEZ: Yeah.

23 MR. PATTON: Interesting.

24 MR. LOPEZ: I mean, if I didn't -- I  
25 feel if I didn't go along with that, I -- or

1 wasn't creative enough I wouldn't be in that  
2 position.

3 MR. PATTON: Because basically, I  
4 guess -- are you telling me that you felt like  
5 you inherited sort of a problem? You're  
6 nodding your head yes.

7 MR. LOPEZ: Yes.

8 MR. PATTON: And so you've talked  
9 about it with the guy above you, Harris. You  
10 offered to fix it in one shot. He said, no,  
11 can't do that. You offered an alternative.  
12 He says, okay, let's try that.

13 MR. LOPEZ: Um-hum.

14 MR. PATTON: So you sort of --

15 MR. LOPEZ: And then when the  
16 fourteen million dollar cut came along -- and  
17 keep in mind, this was my first year as the  
18 Admin Deputy --

19 MR. PATTON: Yeah.

20 MR. LOPEZ: -- when I told -- I was  
21 basically told, you're crazy, do you want a  
22 thirty-four million dollar cut instead of a  
23 fourteen?

24 MR. PATTON: Yeah.

25 MR. LOPEZ: At that point, I mean,

1 (indiscernible), career ends abruptly. You  
2 can -- you're only as good as your last  
3 decision. And if you do something that is --  
4 as I found, you do make a bad decision, you  
5 pay for that, and your career is done in that  
6 regard.

7 MR. PATTON: So I guess -- and I  
8 hearing from you that you sort of felt like it  
9 was your obligation to figure out a way to fix  
10 this problem?

11 MR. LOPEZ: Initially yeah, yeah.

12 MR. PATTON: Wow. Okay.

13 MR. LOPEZ: And to be honest with  
14 you, that's how we were able to come up with  
15 the continuous appropriation proposal that I  
16 asked Elsie to put a BCP together asking for  
17 the authority for continuous appropriation.  
18 We thought it was a shot in the dark but --

19 MR. PATTON: This was a way to fix  
20 this problem?

21 MR. LOPEZ: This was a way to fix  
22 this problem.

23 MR. PATTON: Okay.

24 MR. LOPEZ: And to provide us the  
25 seed money to go out and do the initial

1 capital investment necessary to start earning  
2 more revenue --

3 MR. PATTON: Okay.

4 MR. LOPEZ: -- you know, for  
5 instance, to fund a seasonal in a kiosk that  
6 you -- otherwise, the district didn't have the  
7 funds available. Well, if you had the cash  
8 there, you could fund the staffing necessary  
9 to put somebody in a kiosk --

10 MR. PATTON: Um-hum.

11 MR. LOPEZ: -- and actually collect  
12 revenue that would otherwise go uncollected if  
13 you didn't have staff because the field was  
14 always, hey, look, I don't have enough dollars  
15 in my allocation to hire somebody to go put a  
16 staffer in a kiosk --

17 MR. PATTON: To collect the park  
18 entrance fees.

19 MR. LOPEZ: -- to collect fees. I  
20 have too many other ongoing issues that I just  
21 don't have the resources to do that. And what  
22 they weren't seeing is a return on the  
23 investment.

24 MR. PATTON: Yeah.

25 MR. LOPEZ: They weren't getting an

1 immediate benefit for whatever additional  
2 revenue they collected.

3 MR. PATTON: Um-hum.

4 MR. LOPEZ: So the notion of a  
5 continuous appropriation was able to give them  
6 an immediate benefit for their creativity and  
7 their entrepreneurialism in terms of trying to  
8 generate more revenue.

9 MR. PATTON: Is there anybody I've  
10 left out who you had discussions with at Parks  
11 about the SPRF disparity? We've covered Ruth,  
12 Michael Harris, David Saxby, Jason Summers,  
13 Cheryl, Marilyn Evans-Jones, Elsie.

14 MR. LOPEZ: The Park Ops Deputy  
15 Directors. I talked about Ted Jackson knowing  
16 about it and also Tony Perez knowing about it,  
17 too.

18 MR. PATTON: You talked with them in  
19 what, one-on-one meeting?

20 MR. LOPEZ: Yeah, in one-on-one  
21 meetings and group meetings briefing them.  
22 And I think -- I don't -- I know Tony was  
23 involved in the discussion of the continuous  
24 appropriation and where we would get the money  
25 to basically seed that. Tony was definitely

1 involved in that. Ted was definitely involved  
2 in the meeting on the fourteen million and  
3 talking about the firefighting rangers, and he  
4 was involved in that. Like I said, I could  
5 not build a budget in a vacuum.

6 MR. PATTON: Okay. Let me ask --  
7 let me follow up on that. You did tell me  
8 before that for '08 and '9 you had the same  
9 conversation about the disparity as you were  
10 facing the fourteen million dollar proposed  
11 cut, you had that conversation with Harris and  
12 Jackson who is Parks Operations Director at  
13 the time and --

14 MR. LOPEZ: Yeah. I would say that  
15 was probably October or November of '07.

16 MR. PATTON: Okay. And you  
17 indicated that that evoked a pretty strong  
18 reaction of "are you crazy" --

19 MR. LOPEZ: Yep.

20 MR. PATTON: -- "we do a twenty  
21 million dollar correction here, we could take  
22 a thirty-four million dollar cut."

23 MR. LOPEZ: Um-hum.

24 MR. PATTON: You told me that was  
25 Harris's response, and you told me Jackson was

1 in on that meeting.

2 MR. LOPEZ: Correct.

3 MR. PATTON: So you've already --

4 MR. LOPEZ: That was in his office  
5 actually. That meeting was in his office.

6 MR. PATTON: In Jackson's office?

7 MR. LOPEZ: Yeah.

8 MR. PATTON: Okay. Now, you  
9 indicate you also told Tony Perez about the  
10 disparity?

11 MR. LOPEZ: Well, yeah, when we're  
12 discussing how we're going to use that  
13 continuous appropriation --

14 MR. PATTON: Okay.

15 MR. LOPEZ: -- to help out with cuts  
16 because what we thought is we can absorb that  
17 first year of cuts (indiscernible -  
18 simultaneous speaking).

19 MR. PATTON: These discussions are  
20 going on when?

21 MR. LOPEZ: During the budget  
22 development cycle.

23 MR. PATTON: In four -- in what  
24 year? 2010?

25 MR. LOPEZ: '11.

1 MR. PATTON: '11?

2 MR. LOPEZ: This last one was '11 --

3 MR. PATTON: Okay.

4 MR. LOPEZ: -- probably, I want to  
5 say, September -- August and September of '11  
6 because that's when I charged Elsie with  
7 developing a BCP for the continuous  
8 appropriation approach.

9 MR. PATTON: So you discussed  
10 continuing appropriation, and you remember  
11 Tony Perez being there?

12 MR. LOPEZ: Oh, yeah.

13 MR. PATTON: Okay.

14 MR. LOPEZ: They were the power base  
15 for that organization.

16 MR. PATTON: Got it. I got it. I'm  
17 just want to get your as specific a  
18 recollection you can. I mean, did you -- do  
19 you specifically recall saying, you know,  
20 we've got twenty million dollar in undisclosed  
21 money?

22 MR. LOPEZ: Because they asked,  
23 well, how is that going to help us.

24 MR. PATTON: How is that what?

25 MR. LOPEZ: The proposal to do a

1 continuous appropriation.

2 MR. PATTON: Okay.

3 MR. LOPEZ: And so I explained how  
4 the twenty million is going to be providing  
5 the seed money for us to go out and  
6 immediately, once we get that authority, to  
7 start doing capital investment (indiscernible  
8 - simultaneous speaking).

9 MR. PATTON: And how did you  
10 describe the twenty million, that twenty  
11 million?

12 MR. LOPEZ: It's the cash balance --  
13 basically described it as the cash balance.

14 MR. PATTON: The cash balance --

15 MR. LOPEZ: Yep.

16 MR. PATTON: -- of twenty million.

17 MR. LOPEZ: Yep.

18 MR. PATTON: I mean, is it clear to  
19 you, in your mind, that Tony Perez knows at  
20 this point that you're saying there is an  
21 undisclosed amount of cash as opposed to you  
22 spitting out we've got a twenty million dollar  
23 cash balance, and he goes, great, but he  
24 doesn't really understand exactly what you're  
25 saying from an accounting perspective?

1 MR. LOPEZ: My assumption is he  
2 understood. I can't be sure what he  
3 understood or didn't understand, but I thought  
4 he understood and --

5 MR. PATTON: I mean, do you describe  
6 it as an undisclosed amount of cash?

7 MR. LOPEZ: I didn't say  
8 undisclosed; I just said it was our available  
9 cash balance tied to our -- the accounting  
10 issue that we had.

11 MR. PATTON: Okay. So you do  
12 describe it tied to an accounting issue?

13 MR. LOPEZ: Correct, yeah.

14 MR. PATTON: So you've got an  
15 accounting issue that results in a twenty  
16 million dollar cash balance, available cash  
17 balance?

18 MR. LOPEZ: Correct.

19 MR. PATTON: Okay.

20 MR. LOPEZ: Yep.

21 MR. PATTON: And is it the same sort  
22 of description you use with Ted Jackson, that  
23 same sort of --

24 MR. LOPEZ: Um-hum.

25 MR. PATTON: Okay.

1 MR. LOPEZ: Yep.

2 MR. PATTON: Okay. So it's not like  
3 you sat down and said, and what I'm talking  
4 about is twenty million more has been reported  
5 to Controller over the years than to Finance.

6 MR. LOPEZ: Correct, and --

7 MR. PATTON: That is correct? You  
8 don't describe it that clearly as being, we've  
9 got different cash balances reported to  
10 Controller versus Finance?

11 MR. LOPEZ: No, I didn't --

12 MR. PATTON: You just --

13 MR. LOPEZ: -- describe it that --

14 MR. PATTON: You just said there's  
15 an accounting error, we got a twenty million  
16 dollar cash balance?

17 MR. LOPEZ: Correct.

18 MR. PATTON: Okay.

19 MR. LOPEZ: And by that time, it had  
20 been discussed so many times, I took it as  
21 everybody had that innate understanding of  
22 what it was.

23 MR. PATTON: Well, I mean, you know  
24 that there's the case based on your  
25 discussions with Harris and Boriskin --

1 MR. LOPEZ: Correct.

2 MR. PATTON: -- and Becky Brown.

3 MR. LOPEZ: Yeah.

4 MR. PATTON: I mean, that's been  
5 that specific.

6 MR. LOPEZ: Yes.

7 MR. PATTON: The discussion with  
8 them is, our reported balance to the  
9 Controller is twenty million dollar  
10 different --

11 MR. LOPEZ: Um-hum.

12 MR. PATTON: -- than our reported  
13 balance with Finance.

14 MR. LOPEZ: Yes.

15 MR. PATTON: So I know that you had  
16 that specific discussion --

17 MR. LOPEZ: Yeah.

18 MR. PATTON: -- with them. I don't  
19 know that you've had that specific an  
20 examination, detailed discussion about the  
21 genesis of the twenty million dollars.

22 MR. LOPEZ: No, not a detailed, but  
23 their question was, well, where did we get  
24 twenty million.

25 MR. PATTON: Okay.

1 MR. LOPEZ: So I had to kind of  
2 explain where it come from.

3 MR. PATTON: What did you explain?  
4 What was the explanation?

5 MR. LOPEZ: That basically there was  
6 an accounting error made, and there's  
7 basically a balance of twenty million dollars  
8 in the cash.

9 MR. PATTON: Okay. So you explained  
10 that we've made an error and we got twenty  
11 million dollars. You never say twenty million  
12 dollars which we haven't disclosed to Finance?

13 MR. LOPEZ: I never said that.

14 MR. PATTON: Okay. Got it.

15 MR. LOPEZ: So -- and maybe that was  
16 my fault for assuming that was (indiscernible  
17 - simultaneous speaking).

18 MR. PATTON: No. I'm just trying to  
19 figure out to how specifically -- how detailed  
20 the explanation was.

21 MR. LOPEZ: Okay.

22 MR. PATTON: Okay.

23 MR. LOPEZ: And given how tight the  
24 budget was, everyone wanted to know, well, how  
25 did you get twenty million, how can we use

1 that.

2 MR. PATTON: Yeah.

3 MR. LOPEZ: So that's how I --

4 MR. PATTON: And you just said --  
5 and basically I keep hearing you say, well,  
6 there was an accounting error.

7 MR. LOPEZ: Correct.

8 MR. PATTON: Yeah.

9 MR. LOPEZ: And that has left a  
10 balance in the -- and I guess maybe I had this  
11 belief that there wasn't any understanding of  
12 it because we kept talking -- everybody was  
13 fearful. As we became more and more reliant  
14 on our revenue collection, every General Fund  
15 cut was offset by an increase in our fees --  
16 fee collection requirement. And so everyone's  
17 question is, well, what if we don't make it,  
18 what are we going to do.

19 MR. PATTON: Yeah.

20 MR. LOPEZ: And that's when we  
21 talked about having the available twenty  
22 million as a safety net in the event that  
23 you -- let's say you have a really bad --

24 MR. PATTON: Yeah, yeah.

25 MR. LOPEZ: -- winter and your --

1 MR. PATTON: I get it. I get it.  
2 I'm just trying to figure out how you kind of  
3 described that twenty million dollar safety  
4 net to them. You described it as an  
5 accounting error.

6 MR. LOPEZ: Correct.

7 MR. PATTON: We've had an error in  
8 our documentation. Got it.

9 MR. LOPEZ: Which is exactly the way  
10 it was described to me.

11 MR. PATTON: Yeah -- well, yeah. I  
12 mean, you knew more about it in terms of --

13 MR. LOPEZ: The technical --

14 MR. PATTON: -- the Controller  
15 knows -- it's in the Controller's report; it's  
16 not in the --

17 MR. LOPEZ: Yes.

18 MR. PATTON: -- Finance. You can't  
19 tell me that you know for a fact that Tony or  
20 Ted Jackson --

21 MR. LOPEZ: Understood the  
22 technical --

23 MR. PATTON: -- understood the  
24 technical nature of it.

25 MR. LOPEZ: Yeah. No, I can't.

1 MR. PATTON: Got it. Okay. But you  
2 can say that with regard to Harris, Boriskin,  
3 Becky Brown, Dave Saxby.

4 MR. LOPEZ: Yep.

5 MR. PATTON: Okay. Tell me just a  
6 little bit about the OHV fund. Is there any  
7 similar situation going on with regard to  
8 known dollars not being reported in finance  
9 reports?

10 MR. LOPEZ: No.

11 MR. PATTON: Okay.

12 MR. LOPEZ: Not at OHV. All of that  
13 was -- that fund became extremely difficult to  
14 manage --

15 MR. PATTON: Yeah.

16 MR. LOPEZ: -- because of the Deputy  
17 Director at the time was very, very deeply  
18 involved in her --

19 MR. PATTON: Daphne Green?

20 MR. LOPEZ: Daphne Green.

21 MR. PATTON: Yeah.

22 MR. LOPEZ: -- and was very upset on  
23 the level of sweeps, loans --

24 MR. PATTON: Yeah.

25 MR. LOPEZ: -- cuts to her fund

1 condition to the tune of almost 119 million  
2 dollar over a number of years.

3 MR. PATTON: Yeah. I've seen 160  
4 million.

5 MR. LOPEZ: Yeah, that's probably --

6 MR. PATTON: -- with three million  
7 paid back.

8 MR. LOPEZ: Yeah.

9 MR. PATTON: Yeah.

10 MR. LOPEZ: And so --

11 MR. PATTON: That sound about right?

12 MR. LOPEZ: And yeah. And keep in  
13 mind, that's the context --

14 MR. PATTON: Um-hum.

15 MR. LOPEZ: -- that we were  
16 operating under when we were looking at the  
17 SPRF. And in theory, the OHV fund had more  
18 protections than the SPRF did, so then you  
19 were more apt to even take cut (indiscernible  
20 - simultaneous speaking).

21 MR. PATTON: Let me show you some  
22 numbers relative to SPRF that Finance has put  
23 together and ask you if any of these numbers  
24 mean anything to you. This is a fairly  
25 rudimentary spreadsheet. SPRF -- or OHV is on

1 the bottom and SPRF is on the top. We'll go  
2 back and I'll let you look at that for a  
3 minute, but right now, in OHV, what we have is  
4 we've got the cash balance reported to  
5 Controller minus some encumbrances, so this is  
6 the adjusted cash balance with the Controller,  
7 and then just above the line is the balance as  
8 reported into Finance in the fund condition  
9 statement.

10 MR. LOPEZ: Um-hum.

11 MR. PATTON: So this positive  
12 represents a disparity, more money is reported  
13 to Controller than to Finance of three  
14 million. Anyways, this thing you can see  
15 going back to '93, which I think is the first  
16 year numbers were input into CALSTARS.

17 MR. LOPEZ: Um-hum.

18 MR. PATTON: So we've got three  
19 little -- under three, twelve, almost twenty,  
20 sixteen, twenty three, twenty two million,  
21 twenty six million. We're at 2000 by now,  
22 eleven-and-a-half. All of a sudden, we've got  
23 a thirty-five million dollar overreport in DOF  
24 documents compared to the actual cash balance.  
25 We're within eleven dollars in '03, a million

1 six, a million in '05, and another two years  
2 of overreports, '06 and '7, where there's a  
3 thirty-five and thirty-one million dollar more  
4 reported in the fund condition statement  
5 balance with Finance, and then fairly close in  
6 '08 and '9. '010 we've got a twenty-and-a-  
7 half million dollar overreport to Finance and  
8 then in '11 a thirty-three-and-a-half million  
9 dollar asserted underreport --

10 MR. LOPEZ: Um-hum.

11 MR. PATTON: -- to Finance. This  
12 thirty-three-and-a-half, when combined with  
13 the twenty-and-a-half in SPRF is a fifty-four.

14 MR. LOPEZ: Yeah.

15 MR. PATTON: I've gotten to the  
16 point where, because the numbers are all over  
17 the map, I certainly don't see that thirty-  
18 four million dollars has consistently over the  
19 years --

20 MR. LOPEZ: No.

21 MR. PATTON: -- been unreported to  
22 Finance.

23 MR. LOPEZ: Huh-uh.

24 MR. PATTON: So I don't have a whole  
25 lot of confidence that this is -- that there's

1 an actual -- any intended underreport.

2 MR. LOPEZ: No. All of that -- keep  
3 in mind, during this process, what we were  
4 having was appropriations for trying to buy an  
5 SVRA down in southern California. So there  
6 was, I think -- there was a large  
7 appropriation set aside.

8 MR. PATTON: I heard about a thirty-  
9 two million appropriation to buy a property in  
10 Riverside.

11 MR. LOPEZ: Yes.

12 MR. PATTON: Is that one of them?

13 MR. LOPEZ: Yeah, that's one of  
14 them.

15 MR. PATTON: And --

16 MR. LOPEZ: And keep in mind, at the  
17 same time what was happening --

18 MR. PATTON: Yeah.

19 MR. LOPEZ: -- there were budget  
20 cuts. For instance --

21 MR. PATTON: All right.

22 MR. LOPEZ: -- there was a large  
23 budget reduction --

24 MR. PATTON: Yeah.

25 MR. LOPEZ: -- in, I would say, one

1 of these two years --

2 MR. PATTON: Yeah.

3 MR. LOPEZ: -- due to a loan to the  
4 General Fund.

5 MR. PATTON: Um-hum.

6 MR. LOPEZ: There was one that was  
7 done within the budget and one that was done  
8 outside of the budget.

9 MR. PATTON: Um-hum.

10 MR. LOPEZ: -- buy outside of the  
11 budget. There was special legislation that  
12 dealt -- I don't know if it was a trader bill  
13 or something like that that took roughly  
14 thirty million dollars.

15 MR. PATTON: Okay.

16 MR. LOPEZ: And the belief was that  
17 they were taking this money to give it to  
18 Parks. What was happening is there were so  
19 many of these things going back and forth, and  
20 Finance -- one of the years, they did a big  
21 budget cut --

22 MR. PATTON: Um-hum.

23 MR. LOPEZ: -- or a sweep to the  
24 General Fund or a loan or however they termed  
25 it; I can't remember at the time. All I know

1 is that our budget shop and ourself, we  
2 weren't informed of that --

3 MR. PATTON: Um-hum.

4 MR. LOPEZ: -- until the budget  
5 actually came out. And then Daphne was very  
6 upset with me that I did not inform them that  
7 that actually occurred.

8 MR. PATTON: Um-hum.

9 MR. LOPEZ: And I hadn't -- I didn't  
10 even know --

11 MR. PATTON: Okay.

12 MR. LOPEZ: -- that that was going  
13 on.

14 MR. PATTON: So were you -- during  
15 the years you were there, I mean, did you  
16 eventually -- did you see that -- you know,  
17 like you would say at the end of the year,  
18 December -- around January you get the awards  
19 for all these -- and OHV is not in it.

20 MR. LOPEZ: Um-hum.

21 MR. PATTON: So you're aware that  
22 these numbers are --

23 MR. LOPEZ: Are off.

24 MR. PATTON: Yeah.

25 MR. LOPEZ: Yeah.

1 MR. PATTON: And you're like,  
2 there's nothing I can do?

3 MR. LOPEZ: Yeah. They were all  
4 budgetary issue -- it was a timing issue --

5 MR. PATTON: Yeah.

6 MR. LOPEZ: -- for the reporting of  
7 the budget --

8 MR. PATTON: Yeah.

9 MR. LOPEZ: -- stuff.

10 MR. PATTON: Okay.

11 MR. LOPEZ: So --

12 MR. PATTON: Out of your control.

13 MR. LOPEZ: Out of my control. And  
14 typically those -- and those are -- for the  
15 most part, you can backtrack those two  
16 transactions. This one is backtrackable to  
17 one transaction (indiscernible - simultaneous  
18 speaking).

19 MR. PATTON: (indiscernible -  
20 simultaneous speaking) SPRF disconnect?

21 MR. LOPEZ: Yes.

22 MR. PATTON: The one transaction?

23 MR. LOPEZ: Yeah, the one --

24 MR. PATTON: And who --

25 MR. LOPEZ: -- error that started

1 it, that started --

2 MR. PATTON: How do you know that  
3 it's one transaction?

4 MR. LOPEZ: Because that's what  
5 Becky told me.

6 MR. PATTON: Because Becky told you?

7 MR. LOPEZ: Yes.

8 MR. PATTON: Okay. You never went  
9 yourself and looked back to see where -- tried  
10 the figure out, unravel where that occurred?

11 MR. LOPEZ: No, to be honest with  
12 you, because what I was charged with was  
13 trying to basically learn --

14 (Phone ringing)

15 MR. LOPEZ: -- a current year  
16 budget --

17 MR. PATTON: Yeah.

18 MR. LOPEZ: -- with staff that  
19 weren't familiar.

20 MR. PATTON: Yeah, yeah. Okay.

21 MR. LOPEZ: So my focus was  
22 basically at that point moving forward.

23 MR. PATTON: Okay. So Becky told  
24 you there had been one error and basically we  
25 got a twenty million dollar error

1 approximately, and so you're going forward,  
2 and you come in -- you learn about it, because  
3 you come in in April -- you're informed in May  
4 of '05, and I think you're probably then  
5 working on the '05-'6 --

6 MR. LOPEZ: '6, yeah.

7 MR. PATTON: -- budget, so this  
8 number, this underreported twenty-one-and-a-  
9 half million, that's fairly consistent with  
10 what --

11 MR. LOPEZ: That's almost looking  
12 like that two million dollars I was talking  
13 about.

14 MR. PATTON: Yeah, it does, doesn't  
15 it. Okay. Or maybe it's here which would --  
16 actually 1.3 million here.

17 MR. LOPEZ: Okay.

18 MR. PATTON: So maybe it's here. So  
19 you were working -- when you came in -- here's  
20 the discrepancy as of the close of the '05  
21 fiscal year, '04-'5, so --

22 MR. LOPEZ: And I came in in April  
23 of '05.

24 MR. PATTON: So any adjustment if  
25 would -- made would have been to the next

1 budget --

2 MR. LOPEZ: Yeah.

3 MR. PATTON: -- would have corrected  
4 the year-end discrepancy at the close of '06.

5 MR. LOPEZ: Yes, correct.

6 MR. PATTON: Okay. So we see -- and  
7 that's our two million dollar adjustment  
8 there. We actually see about -- what is that?  
9 Twenty --

10 MR. LOPEZ: A little over.

11 MR. PATTON: -- 23.9 and 21.5, so  
12 2.4.

13 MR. LOPEZ: Yeah.

14 MR. PATTON: All right. So she  
15 tells you it's one error. You never went back  
16 and looked at it yourself. I'm going to let  
17 you see the numbers now. There's actually --  
18 and I -- and maybe you can help me, maybe you  
19 have an opinion. Going back to the very  
20 beginning of when numbers are going into  
21 CALSTARS --

22 MR. LOPEZ: Uh-huh.

23 MR. PATTON: -- I see a 4.5 and a  
24 four million, 2.3, 5.5 million dollar --

25 MR. LOPEZ: Difference.

1 MR. PATTON: -- discrepancy, those  
2 amounts less being reported to Controller,  
3 fairly consistent --

4 MR. LOPEZ: Um-hum.

5 MR. PATTON: -- two to five, it goes  
6 to six.

7 MR. LOPEZ: What is the average --  
8 for the most part, the average difference  
9 between that? I mean, you look here; it's  
10 roughly around the same --

11 MR. PATTON: Well, forget OHV. OHV,  
12 to me, is just a completely separate animal  
13 with its own issues --

14 MR. LOPEZ: Yeah, okay.

15 MR. PATTON: -- unique issues.

16 MR. LOPEZ: I would agree.

17 MR. PATTON: We buy or maybe not buy  
18 rural property; we don't know.

19 MR. LOPEZ: Um-hum.

20 MR. PATTON: But here you -- now,  
21 you say it's typical -- it's not surprising to  
22 see maybe a two or three, four, five million  
23 dollar disconnect?

24 MR. LOPEZ: Yeah.

25 MR. PATTON: And why is that?

1 MR. LOPEZ: Because of differences  
2 of encumbrances that are carried over for a  
3 number of years.

4 MR. PATTON: Timing issues.

5 MR. LOPEZ: Timing issues.

6 MR. PATTON: Whether or not  
7 someone's inputted a correct --

8 MR. LOPEZ: Disencumbrance.

9 MR. PATTON: -- prior year  
10 adjustment.

11 MR. LOPEZ: Yeah.

12 MR. PATTON: Okay. So that's not  
13 shocking to you. And the SPRF fund is a  
14 total -- how much money?

15 MR. LOPEZ: I think we were  
16 appropriated twenty-something million dollars  
17 or something like that.

18 MR. PATTON: That's --

19 MR. LOPEZ: No, no, more than that.

20 MR. PATTON: Yeah.

21 MR. LOPEZ: 120 -- oh, God, it's --

22 MR. PATTON: I've heard this number,  
23 120.

24 MR. LOPEZ: I think 120, 123,  
25 somewhere around there.

1 MR. PATTON: Of General Fund or  
2 total?

3 MR. LOPEZ: (Indiscernible -  
4 simultaneous speaking).

5 MR. PATTON: Both fee and --

6 MR. LOPEZ: And SPRF (indiscernible  
7 - simultaneous speaking). SPRF was a  
8 combination of --

9 MR. PATTON: Okay. Right, right,  
10 right, right.

11 MR. LOPEZ: -- fees as well as  
12 transfers from other accounts.

13 MR. PATTON: Right. SPRF is about a  
14 120 million dollar a year fund. So five  
15 million is less than five percent. We're less  
16 than five percent off.

17 MR. LOPEZ: Yep.

18 MR. PATTON: Now, in '98 -- now,  
19 this brought your attention here in '05. You  
20 got about a twenty-three -- almost a twenty-  
21 four million dollar disparity. Just so you  
22 can see, '98 it went from 6.3 to 9.3, three  
23 million dollar increase. It grew by four-and-  
24 a-half million to 13.8 in '99 to almost  
25 twenty --

1 MR. LOPEZ: Um-hum.

2 MR. PATTON: -- will the six-and-a-  
3 half in '00 to 22.7, 26.8. It peaked in '03  
4 at twenty-nine million --

5 MR. LOPEZ: Okay.

6 MR. PATTON: -- started coming down  
7 a little bit by the time you're informed.

8 MR. LOPEZ: Um-hum.

9 MR. PATTON: And these numbers don't  
10 reflex to me a one-time error that's being  
11 perpetuated. There's got to be something  
12 else --

13 MR. LOPEZ: You know --

14 MR. PATTON: -- going into this.

15 MR. LOPEZ: -- and I believe what  
16 happened is we had a large appropriation  
17 for -- I'm trying to remember back, but I  
18 believe there was monies that were being  
19 deposited or that were granted to us to take  
20 care of some of the deferred maintenance --

21 MR. PATTON: When?

22 MR. LOPEZ: -- ongoing -- I want to  
23 say it was '97 or something like that. And so  
24 if you have major projects that you're trying  
25 to accomplish, you're going to have a bigger

1 balance than you otherwise would -- bigger  
2 discrepancy.

3 MR. PATTON: Well, that would affect  
4 one year's discrepancy.

5 MR. LOPEZ: Yeah, but depending  
6 on -- projects aren't just done in one year;  
7 they carry over, and it depends on the period  
8 of availability.

9 MR. PATTON: So, to your  
10 recollection, there was a big appropriation  
11 for some projects back in '97 or so?

12 MR. LOPEZ: Yeah. I remember  
13 discussions about a deferred maintenance  
14 (indiscernible - simultaneous speaking).

15 MR. PATTON: Somebody else told me  
16 about, like, there was a 156 million dollar  
17 infusion back in the '90s.

18 MR. LOPEZ: Yeah, I think that's  
19 what that was for.

20 MR. PATTON: Was that right?

21 MR. LOPEZ: Yeah.

22 MR. PATTON: So a lot of projects.

23 MR. LOPEZ: Um-hum.

24 MR. PATTON: So I guess -- and not  
25 all the money is getting spent at once. So I

1 guess that's the explanation for why there was  
2 a growth pattern here could be that there's  
3 problems in tracking timing-wise -- you're  
4 nodding your head yes.

5 MR. LOPEZ: Yes, yes.

6 MR. PATTON: Yeah -- different  
7 adjustments that should be made.

8 MR. LOPEZ: Correct.

9 MR. PATTON: And there was a lot of  
10 money coming into the system.

11 MR. LOPEZ: Correct.

12 MR. PATTON: Okay. Interesting.

13 MR. LOPEZ: Yeah. I mean, as you  
14 said, there's a typical percentage difference  
15 between the funds that --

16 MR. PATTON: Um-hum.

17 MR. LOPEZ: -- you know, regardless  
18 of funds, you're going to see some level of  
19 difference --

20 MR. PATTON: Sure, sure.

21 MR. LOPEZ: -- just due to the  
22 different timing issues --

23 MR. PATTON: Well, and every one of  
24 these --

25 MR. LOPEZ: -- or larger.

1 MR. PATTON: Every one of these  
2 increases is in about the four to six million  
3 dollar range, so overall every one of these  
4 additional disparities that occurred from year  
5 to year is an under five-percent issue.

6 MR. LOPEZ: Yeah.

7 MR. PATTON: So that, in and of  
8 itself, is not that surprising.

9 MR. LOPEZ: No.

10 MR. PATTON: No. Okay.

11 All right. Anything else you want  
12 to tell us before we conclude this that I may  
13 have missed, would have been interesting to  
14 talk about?

15 MR. LOPEZ: Covered a lot, and I'm  
16 kind of -- I'm a little -- a lot of  
17 information overload but --

18 MR. PATTON: Yeah.

19 MR. LOPEZ: You know, I don't want  
20 you to leave with the impression that I was --  
21 you know, I believed in the State Park system,  
22 I believed (indiscernible) --

23 MR. PATTON: Sure.

24 MR. LOPEZ: -- and I believed in the  
25 seventh generation, and I believed in trying

1 to do what we could to better the system and  
2 use (indiscernible - simultaneous speaking).

3 MR. PATTON: Well, let me ask you  
4 kind of an ultimate type of question. Now,  
5 when Aaron came in and took over that Admin  
6 Services spot in January of this year --

7 MR. LOPEZ: Um-hum.

8 MR. PATTON: -- you had been  
9 demoted, and we won't even go into the other  
10 thing that was investigated --

11 MR. LOPEZ: Yeah.

12 MR. PATTON: -- but did he ever talk  
13 with you -- you know, he learned at some point  
14 about this. Did he ever talk with you about  
15 the disparity -- but you're aware that -- so  
16 what he did was he went -- it was unnerving to  
17 him, this problem --

18 MR. LOPEZ: Um-hum.

19 MR. PATTON: -- and he got --  
20 according to what we're told, he got basically  
21 the same explanation you did years before.

22 MR. LOPEZ: Um-hum.

23 MR. PATTON: And he was not  
24 comfortable in just taking that explanation  
25 back to his office and sitting down and trying

1 to figure out how to live and cope with it.  
2 He went and he reported it up. And I guess  
3 that sort of the ultimate question for you is  
4 why didn't you do the same thing? Why -- and  
5 you sort of -- you talked about being in fear,  
6 you know, you could be gone --

7 MR. LOPEZ: Um-hum.

8 MR. PATTON: -- and basically you  
9 told me you went and talked with Harris, you  
10 were given a directive, no, we're not  
11 disclosing that, we're told we could fix it  
12 incrementally, that plan was okay. Did --  
13 what was your -- I guess, what was your  
14 feeling about that and not going -- and going,  
15 you know, if not demanding that Ruth Coleman  
16 sit down and fix this problem with you, going  
17 outside further until somebody did  
18 (indiscernible - simultaneous speaking).

19 MR. LOPEZ: My sense was that I was  
20 hired to do what they asked me to do.

21 MR. PATTON: Yeah.

22 MR. LOPEZ: And I was following the  
23 directions that I had been given.

24 MR. PATTON: Yeah.

25 MR. LOPEZ: What was -- what I was

1 told was, after the fact, after I had left the  
2 department, they had gotten an inquiry from  
3 the Bee of this discrepancy, and then that's  
4 when they briefed Aaron, and then that's when  
5 they took it to agency.

6 MR. PATTON: Um-hum.

7 MR. LOPEZ: And then agency took it  
8 to the governor's office.

9 MR. PATTON: And do you have any --  
10 do you know who decided to go and make this  
11 public with the media?

12 MR. LOPEZ: I believe I know --

13 MR. PATTON: Okay.

14 MR. LOPEZ: -- based upon one of the  
15 articles that was written in terms of how the  
16 story broke.

17 MR. PATTON: Okay. I'm curious to  
18 know -- I just want to make sure I've talked  
19 with that person. And you know, go ahead and  
20 speculate because you don't know for a fact --

21 MR. LOPEZ: No.

22 MR. PATTON: -- but tell me who you  
23 think it was.

24 MR. LOPEZ: It was -- my  
25 understanding, it was a combination of either

1 Tony or Ted.

2 MR. PATTON: Okay.

3 MR. LOPEZ: And a way of trying to  
4 ensure that the director would not be  
5 reappointed.

6 MR. PATTON: Okay. And one of the  
7 last things I want to ask you is that Cheryl  
8 Taylor and, I think -- now, Cheryl Taylor --  
9 they became -- they were aware -- and you say  
10 you briefed her --

11 MR. LOPEZ: Yes.

12 MR. PATTON: -- of the disparity.  
13 Somebody told me that they prepared a fund  
14 condition statement with the correct balance  
15 based on Controller account -- you're shaking  
16 you head no -- and that either they were  
17 directed, no, go change the prior year  
18 adjustment number to what was based on the  
19 prior budget documents or that you said give  
20 it to me and I'll change it myself.

21 MR. LOPEZ: I don't ever recall  
22 telling them I'm going to change it myself.

23 MR. PATTON: Do you -- did anybody  
24 ever bring you a fund condition statement  
25 (indiscernible - simultaneous speaking)

1 MR. LOPEZ: Yeah, they brought me  
2 fund condition statements, but to be honest, I  
3 don't think they understood what they were  
4 preparing. She had never prepared a fund  
5 condition statement before.

6 MR. PATTON: But you -- did they  
7 have a higher number in that prior year  
8 balance that needed to get changed downward in  
9 order to be consistent with prior DOF  
10 submittals?

11 MR. LOPEZ: Their starting point did  
12 not balance to the prior year fund condition  
13 statement.

14 MR. PATTON: Okay.

15 MR. LOPEZ: So when you started --  
16 what they did was they took Accounting's  
17 ending balance as the starting point.

18 MR. PATTON: Yeah.

19 MR. LOPEZ: What they should have  
20 done is taken the end point from the prior  
21 fund condition statement. The whole notion of  
22 what the rationale for the difference was was  
23 not a discussion; it was they weren't  
24 constructing it correctly.

25 MR. PATTON: They weren't working

1 off the prior budget documents.

2 MR. LOPEZ: No. They just -- they  
3 were working off accounting documents which --

4 MR. PATTON: So they may have  
5 actually stumbled into a more accurate number  
6 which would have then included the undisclosed  
7 twenty million.

8 MR. LOPEZ: Yeah. Well, the  
9 undisclosed twenty million plus encumbrances  
10 that were -- excuse me -- in addition to  
11 obligations --

12 MR. PATTON: Right.

13 MR. LOPEZ: -- that weren't being  
14 taken into account.

15 MR. PATTON: Right.

16 MR. LOPEZ: So basically she would  
17 have added in uncleared checks.

18 MR. PATTON: Yeah.

19 MR. LOPEZ: So the way it was being  
20 constructed was completely --

21 MR. PATTON: Right.

22 MR. LOPEZ: -- wrong.

23 MR. PATTON: So you then directed  
24 that they -- that whoever was, Marilyn Evans  
25 or Cheryl, go back and --

1 MR. LOPEZ: Reconcile it to the  
2 prior year budget --

3 MR. PATTON: Okay.

4 MR. LOPEZ: -- because the starting  
5 point was inaccurate.

6 MR. PATTON: Okay. And do you  
7 remember who was to make that change?

8 MR. LOPEZ: It was -- Cheryl had  
9 always brought in Marilyn --

10 MR. PATTON: Uh-huh.

11 MR. LOPEZ: -- as --

12 MR. PATTON: She was the Budget Op  
13 support person, right?

14 MR. LOPEZ: Correct.

15 MR. PATTON: So Marilyn's doing the  
16 physical data entry.

17 MR. LOPEZ: The actual budget  
18 itself.

19 MR. PATTON: She's sort of the  
20 keeper of the spreadsheet.

21 MR. LOPEZ: Yeah. And Cheryl is  
22 supposed to be overseeing that, and it was  
23 clear that neither one of them understood how  
24 to put a fund condition statement together.

25 MR. PATTON: Got it. Got it.

1                   Anything else that we should have  
2 asked?

3                   MR. LOPEZ:    No.

4                   MR. PATTON:    Okay.  Anything you  
5 want to add?

6                   You got my card.

7                   MR. LOPEZ:    Okay.

8                   MR. PATTON:    If you later think of  
9 something --

10                  MR. MATTSON:   Or if you have later  
11 questions, feel free to ask.

12                  MR. PATTON:    Yeah, yeah.  I  
13 appreciate you taking so much time with us --

14                  MR. LOPEZ:    No worries.

15                  MR. PATTON:    -- and given us all the  
16 information.  I appreciate it very much.

17                  Michael, you have any questions?

18                  MR. MATTSON:   No, I don't.

19                  MR. PATTON:    Okay.  We will conclude  
20 the interview at?

21                  MR. MATTSON:   12:02.

22                  (End of audio)

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[add - authority]

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[correction - director]

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[republican - series]

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[serious - statement]

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