

Summary of 9-11-12 interview of Freda Luan-Dun

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

Background and Work History

Freda Luan-Dun began working for the state in 1978 as an auditor with the Department of Finance (DOF). She later served as an accounting officer for the Department of General Services, and returned to DOF in the mid-1980s to work as an accounting system analyst with the new automated California State Accounting and Reporting System (CALSTARS). She helped agencies transition to the CALSTARS accounting system, and was the analyst that assisted the Department of Parks and Recreation in that transition. (Freda Luan-Dun 9-11-12 interview transcript (FLDtr), pp. 3-6)

The Parks Department went online with CALSTARS around 1993, and Luan-Dun transferred to the Department around 1995 as a senior administrative analyst, accounting systems. In approximately 1997, Luan-Dun took over as chief of the accounting section when former chief accounting officer Jack Vogelsang retired. (FLDtr, pp. 8-10.) She held that position for some eight years, and returned to the DOF in 2005 to become chief of the CALSTARS program, the position she held until retiring in February 2011. (FLDtr, pp. 12-13.)

Disparities in and Changes to Balances Reported for the State Parks and Recreation Fund

Luan-Dun recalls hiring Dorothy Kroll as an accounting officer at Parks. Luan-Dun stated she has much respect for Kroll's technical abilities, and observed that Kroll is a rigid and very much "by-the-books" type of person who sought to reconcile things down to the penny, as is appropriate in accounting. (FLDtr, pp. 23-24.)

When Luan-Dun was first asked if she recalled approaching Kroll in the fall of 2001 and asking her to look into discrepancies in the accounting versus budget sections' financial reports for the State Parks and Recreation Fund (SPRF), Luan-Dun initially responded that this interviewer was probably right. She further stated that "there were many occasions of when this has come up . . . and Accounting was asked to provide the background." She also recalled that the DOF would ask the Parks' budget office, who in turn would come to the accounting section, for financial documentation. (FLDtr, pp. 24-25.)

Luan-Dun then described the accounting function as maintaining a cash balance ledger in sync with the State Controller's Office (SCO). She described budgeting as more involved as it deals not only with cash balances and expenditures but also accruals (anticipated revenues or expenditures not yet realized under a cash basis of accounting¹). Luan-Dun stated such differences can result in disparities between cash and budget reports. (FLDtr, pp. 27-29.)

Luan-Dun was then asked if she recalled a discrepancy being identified in 2001 between the SPRF cash balance reported by accounting to the SCO and the SPRF fund condition balance reported by the budget office to the DOF. She initially indicated she did not have a clear recollection of it, but wouldn't be surprised by it and wouldn't be surprised if Kroll had been assigned to look into it. (FLDtr, pp. 32-33.)

This interviewer and Luan-Dun reviewed the DOF's spreadsheet which shows year-to-year discrepancies in the fiscal year-ending balances reported to the DOF and SCO for the SPRF. The \$26 million dollar disparity at the end of fiscal year 2001-02 was pointed out and Luan-Dun was asked if she recalled Kroll reporting back regarding that discrepancy. Luan-Dun responded, "I don't recall how we addressed that issue." (FLDtr, pp. 33-34; attached Exhibit A.)

Luan-Dun repeatedly indicated she had no clear recollection of any specific discrepancies in the SPRF balance reports to the DOF and SCO. Nor did she specifically recall former budget officer Becky Brown asking for help identifying the reason for the balance discrepancies, although Luan-Dun again stated it wouldn't surprise her, because Brown commonly sought assistance from accounting. Luan-Dun did clearly recall that Brown had been budget officer during the early 2000s time period being discussed, and described Brown as the face of the Department to the outside world in terms of dealing with DOF budgets. (FLDtr, pp. 34-36.) Luan-Dun later described Brown as an extremely intelligent person with much detailed knowledge and a great memory. She also observed that Becky Brown "has always loved Parks, and Becky has given 100 and 120 percent – 200 percent to Parks." (FLDtr, pp. 94-96.)

Luan-Dun was again asked if she recalled Kroll reporting back that the \$26 million discrepancy in 2002 was traceable to the prior-year adjustment figure in the budget fund condition statement, and if she recalled an original request that Cheryl Kilzer and Kroll look into the matter. Luan-Dun responded that Kroll "was the one that did the research." She then sought

¹ See, e.g., <http://www.investopedia.com/terms/a/accrualaccounting.asp#axzz2DSSSS30UW>.

to inject the caveat, “she would be the one that would do the research,” again claiming no specific recollection of the incident. (FLDtr, pp. 37-39.)

When asked if she recalled that Kroll had adduced that the problem was in budget’s prior-year adjustment figure, and if she recalled Kroll explaining this in a meeting with budget office staff, Luan-Dun again stated she did not specifically recall but the explanation “makes sense,” and she “will say it [the meeting] happened.” (FLDtr, p. 40.) This interviewer then again asked about the \$26 million SPRF discrepancy in 2002 and whether it was a significant sum that would be cause for concern. Luan-Dun responded “it would be, yes,” and then stated: “I know it was looked into.” (FLDtr, pp. 41-42.)

Luan-Dun was then asked if she recalled discussing the disparity with those above her, specifically her immediate supervisor and then-financial services manger, Tom Domich, and with then-deputy director of administrative services Denzil Verardo. (FLDtr, pp. 42-43.) She initially indicated she “would have” discussed it with Brown, but did not recall discussing it with anyone higher. (FLDtr, pp. 42-43.) Upon further inquiry as to whether such a significant monetary discrepancy would go unreported to those above, Luan-Dun stated there “must have been meetings amongst the three of us [Luan-Dun, Brown, and Domich], but still the lead is budgets.” (FLDtr, pp. 44-45.)

Discussing the SPRF Balance Reporting Discrepancy with Domich and Brown

Finally, Luan-Dun stated that she did recall that there was a discrepancy, and that she did recall discussing it with Domich, although not with Verardo. (FLDtr, p. 46.) Luan-Dun then returned to the DOF spreadsheet, and confirmed again that she recalled discussing the sizeable \$26 million discrepancy in 2002 with Brown and Domich. Luan-Dun stated she did not recall the matter being resolved, although she did recall it had been explained from accounting’s perspective to the budget side. (FLDtr, pp. 47-50, 56-57, and 65-67.) Luan-Dun added that she had no recollection of ever discussing the discrepancy with Michael Harris or Ruth Coleman. (FLDtr, pp. 59-60.)

This interviewer then asked if Luan-Dun recalled being informed that management was aware and considered the issue a “political” problem unlikely to be resolved, and was concerned that disclosing the funds to the DOF would put the Department’s general fund appropriation at risk. Luan-Dun nodded her head in concurrence while also stating she did not specifically recall

such conversation. Luan-Dun also stated: “I would say that that problem [sic] happened, yes,” and that it made “logical sense.” (FLDtr, pp. 60-62.)

Upon suggestion that the difficulty remembering details could be due to involuntary memory suppression, Luan-Dun stated “you’re probably right because it was a struggle there.” When again asked if she had been told nothing would be done because it was a political problem, Luan-Dun replied: “It’s a frustrating response.” (FLDtr, pp. 63-64.) Ultimately, Luan-Dun confirmed she had been told that the issue was political, and Luan-Dun confirmed it was her supervisor Tom Domich who provided that response. (FLDtr, p. 67.) Luan-Dun subsequently advised that Domich was the only person above her with whom she discussed the SPRF fund balance discrepancy issue, and she ultimately stated that she had had “many” conversations with Domich about the matter.² (FLDtr, pp. 90, 99.) She further stated that she did not know if the discrepancy issue had been brought up to a level higher than Domich’s. (FLDtr, p. 105.)

Luan-Dun recalled working approximately six months in 2005 with Manuel Lopez after Brown retired and Lopez came in as the Department’s budget officer. Luan-Dun stated she does not recall discussing the fund discrepancy with Lopez. She also recalled Rob Boriskin coming to the Department in 2005 as assistant deputy director for administrative services, and stated she probably did discuss the disparity issue with Boriskin, but was uncertain. (FLDtr, pp. 68-70.)

Luan-Dun explained that finances and cash flow were a big challenge for the Department in the mid 2000s. She stated her adjustment at Parks was difficult as she came from a control agency, the DOF, where things were by-the-book, while the mindset at Parks was determining what was best for Parks. And she was the person that imposed the CALSTARS accounting system on Parks, which Brown initially resisted and which caused friction between accounting and budget, although Luan-Dun and Brown became good friends. (FLDtr, pp. 71-80.)

Luan-Dun stated that Olaya Paschal (now Slaughterback) was made chief of accounting after Luan-Dun left the Department. She also recalled that Paschal, Brown, and Domich were “lifers” in the Parks family and very close to each other. When asked if she briefed Paschal about the discrepancy, Luan-Dun indicated no, as she was unaware Paschal would take over

² Luan-Dun’s interview transcript at page 99 incorrectly indicates she had “Manny” conversations with Domich about the discrepancy. The audio recording clearly reveals the word Luan-Dun stated was “many.”

accounting. She also noted that Paschal had been chief of procurement and had no accounting experience. Luan-Dun stated that this upset her, as she spent years putting in systems to work with CALSTARS. Luan-Dun returned to the DOF in 2005 and took charge of the CALSTARS program. She has not dealt directly with the Parks Department since. (FLDtr, pp. 83-86.)

When asked how she felt talking about the issue today and what she thought of the stories in the press, Luan-Dun stated the stories did not surprise her, and she found the situation very sad. She stated she believes people were well-intentioned, but the situation was “frustrating” and like “beating your head against the wall.” Ultimately, she accepted Domich’s statement that the discrepancy was a political issue she need not worry about, and that was the end of the story. She attended to what was within her control and ensured the accounting reports were correct. Luan-Dun was also not surprised to hear that Kroll raised the discrepancy issue many times over the years. She remarked that one of the things she advised Kroll when she left the Department was “you just need to document and let people know to the extent you can.” (FLDtr, pp. 91-93.)

Concluding Comments

Luan-Dun was asked if anything else at Parks had caused concern. She replied “just the inefficiency” and “lack of planning” in the Department as a whole. She stated that she saw many inefficiencies not necessarily specific to Parks, and that the State as a whole needs to be better at planning, accounting for its money, and holding people accountable. (FLDtr, p. 100.)

With regard to the Off-Highway Vehicle (OHV) fund and year-to-year discrepancies in balances reported to the DOF and SCO, Luan-Dun stated she was aware there were discrepancies but had no knowledge as to why they existed. (FLDtr, pp. 126-128.)

Lastly, Luan-Dun advised that she had kept many documents and records of special projects and studies for her successor. She stated she was informed that her successor, Olaya Paschal, had destroyed the files. The records Luan-Dun kept, however, were not related to the work Kroll did to determine the reason for the discrepancy in the DOF and SCO balance reports concerning the SPRF. (FLDtr, pp. 132-135.)