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TRANSCRIPTION OF RECORDED INTERVIEW

OF

Denzil Verardo

September 24, 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 2, 2012  
New York, New York

(SA201210710)

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1 MR. PATTON: Okay. We're on the  
2 record. This is Thomas M. Patton, Deputy  
3 Attorney General, speaking. It is 9:03 a.m.,  
4 Monday, September 24, 2012. We are in the  
5 government law offices of the Attorney  
6 General's Office, 1300 I Street, Sacramento,  
7 California. Also with me from the DOJ are  
8 Deputy Attorney General Jeffrey Rich and  
9 Investigator Michael Mattson, M-A-T-T-S-O-N.

10 And you, sir, if you could, give us  
11 your name and spell your name for the record.

12 MR. VERARDO: Yes. Denzil Verardo.

13 MR. PATTON: And how do you spell  
14 your last name?

15 MR. VERARDO: V-E-R-A-R-D-O.

16 MR. PATTON: And go ahead and spell  
17 your first name also.

18 MR. VERARDO: D-E-N-Z-I-L.

19 MR. PATTON: Okay. Great. Thank  
20 you.

21 MR. VERARDO: And by the way, if I  
22 ask you to repeat, it's because I don't hear  
23 well so --

24 MR. PATTON: You have a --

25 MR. VERARDO: Yeah, I'm turned up,

1 but if at any time I don't understood  
2 something, I'll say --

3 MR. PATTON: Okay.

4 MR. VERARDO: -- say that again.

5 MR. PATTON: And that gives us all  
6 the more reason to be careful to -- and it'll  
7 probably require more caution on my part to  
8 make sure I don't speak while you're speaking  
9 or someone else.

10 We are recording this in order to  
11 have all the witness interview transcripts  
12 transcribed. All the audio recordings will  
13 end up transcribed. And as I think you're  
14 aware and I think we talked a little on the  
15 phone, we've been asked -- the Attorney  
16 General has been asked to investigate what was  
17 reported in the newspapers and actually  
18 reported originally by the Natural Resources  
19 Agency to the governor's office as some  
20 disparities in funding reports submitted to  
21 the Department of Finance versus the reports  
22 submitted to the Controller. So we've been  
23 looking hard at that. We've been looking at  
24 the two accounts that were reported to have  
25 discrepancies, the State Parks and Recreation

1 Fund, which we've learned to call for short  
2 SPRF.

3 MR. VERARDO: That's right.

4 MR. PATTON: Okay -- and the Off  
5 Highway Vehicle Trust Fund, the OHV fund.

6 And we've been provided some  
7 spreadsheets from the Department of Finance  
8 that show us what the disparities are, and so  
9 I'm going to go over this for a minute with  
10 you so you can take a little bit of a look,  
11 and then I'm going to tell you something about  
12 what we've learned so far, and then we're  
13 going to talk about what was going on during  
14 your tenure at the Department of Parks and  
15 Recreation.

16 Before we do that and start looking  
17 at numbers, let's get a little bit of  
18 background on you just so we can put your  
19 service in the appropriate time frame.

20 MR. VERARDO: Okay.

21 MR. PATTON: So your background --  
22 your State employment history is -- kind of  
23 begins and spans what time period?

24 MR. VERARDO: I began as a park  
25 ranger in 1971. I retired from State Parks in

1 early 2003 as the Chief Deputy Director for  
2 Administration. I went back to work as a  
3 retired annuitant for the California  
4 Performance Review for a year and a half, and  
5 then as a favor to the Schwarzenegger  
6 administration went back to work again as a  
7 retired annuitant, full time retired  
8 annuitant. That was the year that they  
9 changed from the calendar year to the fiscal  
10 year on retired annuitants, so I could work  
11 full time for six months, then full time for  
12 another six months.

13 So I was the Chief Deputy Director  
14 for the Department of Alcohol and Drug  
15 programs for one year, left that and for four  
16 years, as a retired annuitant, worked for the  
17 California Environmental Protection Agency,  
18 Department of Toxic Substances Control. Since  
19 last, a year ago July, I have not worked for  
20 the State of California except occasionally  
21 doing interviews if they needed to hire a  
22 deputy director or something like that.

23 MR. PATTON: And you're currently --  
24 but you do currently serve as an appointed  
25 member of some government body, right?

1 MR. VERARDO: Yes. Senate Advisory  
2 Commission on Cost Control in Government,  
3 which is an appointed nonpaid commission.

4 MR. PATTON: Okay. And you were  
5 appointed by whom?

6 MR. VERARDO: By the Senate Rules  
7 Committee.

8 MR. PATTON: And when?

9 MR. VERARDO: Good question.  
10 Two-and-a-half years ago, maybe three.

11 MR. PATTON: Okay. So you started  
12 as a park ranger in '71, and you say you  
13 retired in early 2003 as the Chief Deputy  
14 Director --

15 MR. VERARDO: For Administration.

16 MR. PATTON: -- for Administration.

17 MR. VERARDO: We have two.

18 MR. PATTON: Okay. And you  
19 obviously ascended through quite a few  
20 different positions then. You worked, I  
21 assume, outside of the central administration  
22 for quite a while.

23 MR. VERARDO: For a long time, I was  
24 the -- I can give you the synopsis --

25 MR. PATTON: Yeah.

1 MR. VERARDO: -- quickly.

2 MR. PATTON: Sure.

3 MR. VERARDO: Supervising started at  
4 Big Basin Redwood State Park as the duty  
5 ranger, supervising ranger of Mount Tamalpais  
6 State Park north of San Francisco,  
7 superintendant of the Napa Valley State Parks,  
8 tough assignment, and at our central coast  
9 region headquarters as the Administrative  
10 Officer, four years at our training center  
11 where we became post certified as our law  
12 enforcement on the ranger side, then  
13 superintendant of Monterey District, Big Sur  
14 Santa Cruz District, San Juan Bautista, Santa  
15 Cruz Mountains, Big Basin sector, and then up  
16 to Sacramento as the Deputy -- the Assistant  
17 Director for Quality Management for --

18 MR. PATTON: When did you first come  
19 to Sacramento into Administration?

20 MR. VERARDO: 1994.

21 MR. PATTON: Okay. As Deputy  
22 Director for what?

23 MR. VERARDO: Assistant Director for  
24 Quality Management --

25 MR. PATTON: Okay.

1 MR. VERARDO: -- as doing  
2 improvement efforts in the department,  
3 particularly with regards to efficiency.

4 MR. PATTON: And you reported in  
5 that position to whom?

6 MR. VERARDO: The Director.

7 MR. PATTON: Okay. So that was not  
8 part of Admin Services?

9 MR. VERARDO: That was not part of  
10 Admin Services. That was separate.

11 MR. VERARDO: Okay. All right. So  
12 that was 1994?

13 MR. VERARDO: 1994. In 1995, I  
14 became -- late '95, I think, Deputy Director  
15 for Administration. So that's when I began in  
16 Admin Services and became the Chief Deputy  
17 Director for Administration in 2000.

18 MR. PATTON: Okay.

19 MR. VERARDO: And Chief Deputy  
20 Director versus Deputy Director of the Office  
21 of Historic Preservation then reported to me  
22 administratively. So with the new chunks and  
23 the reorganization, it became a bigger job  
24 than the Deputy Director.

25 MR. PATTON: So in '95 when you took



1 over as -- I think you said Deputy Director  
2 for Administration --

3 MR. VERARDO: Yes.

4 MR. PATTON: -- you were in charge  
5 of the Administrative Services Division.

6 MR. VERARDO: That's correct.

7 MR. PATTON: And then -- because  
8 I've seen on the organization charts that you  
9 then seemed to have kind of a dual title, and  
10 I guess this is what you're talking about  
11 beginning in 2000 you were designated also the  
12 Chief Deputy Director --

13 MR. VERARDO: For Administration.

14 MR. PATTON: -- for Administration.

15 MR. VERARDO: Yes.

16 MR. PATTON: You didn't --

17 MR. VERARDO: Another Chief Deputy  
18 Director that's exempt.

19 MR. PATTON: Right. Mary Wright.

20 MR. VERARDO: Mary Wright, yes. And  
21 Mary --

22 MR. PATTON: And she was --

23 MR. VERARDO: -- retired, yeah.

24 MR. PATTON: Yeah. She was Chief  
25 Deputy Director over which side?

1 MR. VERARDO: I had all of Admin.

2 MR. PATTON: Yeah.

3 MR. VERARDO: Mary had basically  
4 everything --

5 MR. PATTON: Operations, everything  
6 else.

7 MR. VERARDO: Yeah. Primarily the  
8 politics --

9 MR. PATTON: Um-hum.

10 MR. VERARDO: -- because again,  
11 leg -- the types of things that a normal  
12 Deputy Director does that's an exempt position  
13 reporting to the governor's office obviously  
14 through the Director.

15 MR. PATTON: Um-hum. So --

16 MR. VERARDO: But Mary and I worked  
17 together -- I should explain this a little  
18 bit.

19 MR. PATTON: Sure.

20 MR. VERARDO: I've known Mary Wright  
21 since 1974 because we were at the training  
22 center together. Mary headed the State Parks  
23 Academy, so I worked for Mary in 1979 through  
24 '80, '81, something like that.

25 MR. PATTON: Um-hum.

1 MR. VERARDO: It's a little hard to  
2 remember that long ago but -- so Mary and I  
3 knew each other very well when she came to  
4 Sacramento.

5 MR. PATTON: How many districts are  
6 there? You ran a -- you were superintendant  
7 for a number of districts.

8 MR. VERARDO: A number of districts.  
9 At the time, we went from fifty-four districts  
10 to twenty one districts during a  
11 reorganization, eliminating the region  
12 which -- I was a part of that effort, and I  
13 was at the region. So I eliminated my own  
14 position within the director, but that worked  
15 out just fine.

16 So during the time we had fifty-four  
17 districts, I obviously was superintendant of  
18 multiple ones. We called them area managers  
19 then, but district superintendant. When we  
20 went to twenty-one districts, then I had the  
21 Monterey District which included the old Big  
22 Sur District, Monterey District, San Juan  
23 Baustista District, kind of a big chunk in  
24 there. Then I came to headquarters.

25 MR. PATTON: So you came to

1 headquarters in '94, you said, and then in '95  
2 you were put in charge of the Administrative  
3 Services side.

4 MR. VERARDO: Correct.

5 MR. PATTON: And we understand a  
6 little bit about how that's composed, that  
7 it's got an accounting office and a budget  
8 office and a procurement, the IT department  
9 and sections under that, and you're nodding  
10 your head yes. That's good. So it seems like  
11 I've --

12 MR. VERARDO: Yes.

13 MR. PATTON: -- got the  
14 organization --

15 MR. VERARDO: Try not to interrupt.  
16 Do you want the rest of the pieces? It's  
17 personnel and planning and the training  
18 section. And again, administratively later,  
19 the Office of Historic Preservation.

20 MR. PATTON: Now, one of the things  
21 I'm curious about then is that I understand  
22 Administrative Services, this is the money  
23 side of headquarters, the budgets, the  
24 accounts.

25 MR. VERARDO: Correct.

1           MR. PATTON:  And so you -- here you  
2  were someone who came up as a ranger, and your  
3  post -- you ended up getting post certified  
4  and you ran districts.  So how was this and  
5  what qualified you to take over the  
6  Administrative Services side?

7           MR. VERARDO:  The director and I,  
8  Donald Murphy, were at the training center  
9  together also.  The training center is a great  
10 meeting place because everybody has to go  
11 through it.  So when we were both staff at the  
12 training center, we were talking about the  
13 lack of efficiency in State Parks and --

14          MR. PATTON:  Donald Murphy was  
15 director of the whole department?

16          MR. VERARDO:  Director of the whole  
17 department.

18          MR. PATTON:  Okay.

19          MR. VERARDO:  He became director of  
20 the whole department in -- I forget.  It would  
21 have been -- I went up in '94, and he's the  
22 one who brought me up to Sacramento, so it  
23 would have been probably '92 that he became  
24 director, a couple of years before the  
25 reorganization was taking place, elimination

1 of the regions, combining of districts, all of  
2 that. So --

3 MR. PATTON: Let me just ask you  
4 this to follow up on that. So Donald Murphy  
5 was director maybe starting around '92 --

6 MR. VERARDO: Correct.

7 MR. PATTON: -- and he brought you  
8 up to Sacramento in '94.

9 MR. VERARDO: Correct.

10 MR. PATTON: You had met him --

11 MR. VERARDO: At our training center  
12 which would have been -- when does he come to  
13 the training center? Let me guess, '81.

14 MR. PATTON: Okay. So you met him  
15 in the early '80s. He brought you up after he  
16 becomes director --

17 MR. VERARDO: Correct.

18 MR. PATTON: -- in '94. And then he  
19 was director, I assume until about -- I think  
20 it was '98 that Rusty Areias was appointed.

21 MR. VERARDO: Donald resigned,  
22 taking another position, just maybe six months  
23 or eight months before the election. Now, you  
24 know, I can't be certain of that, but --

25 MR. PATTON: Okay.

1 MR. VERARDO: -- he wasn't Director  
2 until the end of the administration because he  
3 knew the administration was going to change,  
4 so he took another position.

5 MR. PATTON: In '92, he would have  
6 been appointed by whom?

7 MR. VERARDO: Wilson.

8 MR. PATTON: Okay.

9 MR. VERARDO: Governor Wilson.

10 MR. PATTON: So then I think Davis  
11 is coming in at that point.

12 MR. VERARDO: That's correct.

13 MR. PATTON: Yeah.

14 MR. VERARDO: And Governor Davis  
15 appointed Rusty -- Director Areias.

16 MR. PATTON: Got it. So Wilson  
17 resigned about six months before.

18 MR. VERARDO: Not Wilson, Murphy.

19 MR. PATTON: That's what I -- that's  
20 a good one. Thank you. Keep me clear here.

21 MR. VERARDO: Hey, I'm having enough  
22 trouble with this so --

23 MR. PATTON: Yeah. That was a test.  
24 You passed that. Good job.

25 And then Davis came in and appointed

1 Rusty Areias.

2 Okay. So you take over -- you're  
3 appointed by Murphy, and in '95, it's Murphy  
4 who puts you in charge of Admin Services.

5 MR. VERARDO: Correct. I'm saying  
6 '95; it might have been early '96, but I think  
7 it was --

8 MR. PATTON: All right.

9 MR. VERARDO: -- late '95.

10 MR. PATTON: And so then my question  
11 was, when I interrupted you, so how was that  
12 for you? That was -- here's a park ranger,  
13 peace officer, turned head of Admin Services.  
14 What's your background that made that  
15 possible?

16 MR. VERARDO: Well, my post-doctoral  
17 certificate in quality implementation which is  
18 efficiency measures, cycle time, error rate  
19 measurement, that kind of thing.

20 MR. PATTON: Um-hum.

21 MR. PATTON: And so Admin Services  
22 was a great fit because we'd been saying all  
23 this time how inefficient we were in some  
24 things and how the field wasn't getting its  
25 fair share of dollars, and we needed to turn



1 that around. So Director Murphy said  
2 basically time maybe to do something like  
3 that; instead of being staff making  
4 recommendations, why not take over a big chunk  
5 of the department that really needs to be run  
6 more efficiently than it had been. I say,  
7 yes, I'll do that, and that was great.

8 And I had, when I was at the  
9 regional office of Santa Rosa, a training and  
10 development assignment as the business  
11 manager, as the Regional Administrative  
12 Officer. So I had had two years' experience  
13 running one of the region's administrative  
14 programs as well, which was a much smaller  
15 scale, but I could -- felt that I could and  
16 did, just could walk into Admin Services. I  
17 also inherited a heck of a team.

18 MR. PATTON: Um-hum.

19 MR. VERARDO: So that, I think, is  
20 very important, perhaps the best team there's  
21 ever been in State Parks from an Admin  
22 standpoint.

23 MR. PATTON: Do you remember in  
24 particular who the accounting chief and budget  
25 chiefs were?

1           MR. VERARDO: Oh, yes. They would  
2 have been Freda Luan-Dun would have been the  
3 Accounting Officer --

4           MR. PATTON: Um-hum.

5           MR. VERARDO: -- not when I first  
6 took over, but fortunately, the previous  
7 person retired, so we could appoint someone,  
8 new dynamic, probably the year after I became  
9 an admin, so I would guess that would be  
10 '96-ish, '97 Freda would have come in and then  
11 Becky Brown who was the Budget Officer the  
12 whole time that I was there.

13           MR. PATTON: So when you arrived in  
14 Sacramento, Becky Brown was Budget Officer?

15           MR. VERARDO: Becky Brown was the  
16 Budget Officer. And they reported to Tom  
17 Domich --

18           MR. PATTON: Um-hum.

19           MR. VERARDO: -- who was the  
20 Assistant Deputy Director of Admin reported  
21 directly to -- handled most of the financial  
22 stuff so that I can handle training and all  
23 the rest of it.

24           MR. PATTON: Okay. So he -- his  
25 responsibility was to keep an eye then on the

1 accounting and budget operations.

2 MR. VERARDO: That's -- and business  
3 services, yes.

4 MR. PATTON: Okay. When budgets  
5 were being worked up and all the submittals  
6 getting ready to go to Finance, did you leave  
7 that to him or did you also review and did  
8 people above you review what was going to  
9 Finance?

10 MR. VERARDO: You know, I left it to  
11 him, but he always brought to me budget  
12 information that we'd be reporting to Finance  
13 because at the Director's office level, then  
14 we had decisions to make.

15 MR. PATTON: Um-hum.

16 MR. VERARDO: We were in a -- I'll  
17 get into this in a minute, but we were in a  
18 very unique program with our districts under  
19 performance-based budgeting. But for now, let  
20 me answer your question and say, yes, Tom was  
21 in charge of virtually all the financial  
22 decisions, but yes, he showed me everything.  
23 It's not like I can say, no, I didn't know  
24 anything that was going on during that period  
25 of time. That's wrong. I did know --

1 MR. PATTON: Um-hum.

2 MR. VERARDO: -- certain aspects of  
3 the budget because we needed to make financial  
4 decisions for the following fiscal year.

5 MR. PATTON: And then who ultimately  
6 approves the submittal after this has been  
7 worked on and discussed, shown to you, and I  
8 assume the Director looks at.

9 MR. VERARDO: Absolutely.

10 MR. PATTON: And then who gives --  
11 who makes the decision then that, oh, this is  
12 what -- okay, it's ready to go, this is what  
13 we're submitting under our budget -- our  
14 proposed budget?

15 MR. VERARDO: Well, after we make  
16 those decisions, the direct liaison with  
17 Finance were Becky and Tom.

18 MR. PATTON: Okay. So then they  
19 fire it off. But what I'm hearing is that  
20 there's an executive review process.

21 MR. VERARDO: Absolutely.

22 MR. PATTON: And once the Director  
23 and you and everybody's satisfied this is what  
24 we want to submit as our proposed budget, then  
25 Becky and Tom handle the transmittal.

1 MR. VERARDO: That's correct.

2 MR. PATTON: Okay.

3 MR. VERARDO: And the key person,  
4 you see, is the Director -- Deputy Director of  
5 Operations, and that's because we give out  
6 funding to the districts once the budget is  
7 approved by -- once the governor's budget is  
8 approved and we parcel out funding to the  
9 twenty-one districts.

10 MR. PATTON: Um-hum.

11 MR. VERARDO: And they spend the  
12 dollars we parcel out based on their  
13 priorities.

14 MR. PATTON: And that's all under  
15 the command of the Deputy Director for  
16 Operations?

17 MR. VERARDO: Correct.

18 MR. PATTON: And I've heard that  
19 operations at the districts get the lion's  
20 share of the allocation, about eighty-five  
21 percent of the monies that are budgeted.

22 MR. VERARDO: That's correct.  
23 That's where eighty-five percent of the  
24 personnel are.

25 MR. PATTON: Right. And so who was

1 the Deputy Director for Operations back in the  
2 '90s when you started?

3 MR. VERARDO: Ken Jones.

4 MR. PATTON: Ken Jones. Okay.

5 MR. VERARDO: Ken Jones, Mary  
6 Wright, Donald Murphy, and I were all at the  
7 training center. We didn't overlap, Ken was  
8 there before me, but we all -- we were all  
9 field operations people, so we all knew each  
10 other.

11 MR. PATTON: So when you came in  
12 '94, it was Ken Jones.

13 MR. VERARDO: Correct.

14 MR. PATTON: And then at some point  
15 it -- he left that spot and someone else  
16 became Deputy Director for Ops. I think it  
17 might have been Tony Perez.

18 MR. VERARDO: Yes. Ken retired the  
19 year before me. So I'm guessing Ken retired  
20 in late 2001 or early 2002. That's a guess.

21 MR. PATTON: Um-hum.

22 MR. VERARDO: And then -- because  
23 then I'm winding down. Who would have been  
24 there? Bill Berry, William Berry --

25 MR. PATTON: Okay.

1 MR. VERARDO: -- B-E-R-R-Y, also a  
2 field operations person. Most of the  
3 operations deputies have always come from the  
4 field.

5 MR. PATTON: Okay.

6 MR. VERARDO: None of the admin  
7 deputies have ever come from the field until I  
8 was appointed.

9 MR. PATTON: Okay. So you're there,  
10 and you go through this annual budgeting  
11 process, and you've got some trusted capable  
12 people, Becky Brown in particular, and what  
13 was your -- you obviously worked with her then  
14 for a while, about eight years, I think.

15 MR. VERARDO: Yes.

16 MR. PATTON: And what was your  
17 opinion of her abilities?

18 MR. VERARDO: Oh, I think that she  
19 was one of the State's best Budget Officers.  
20 She was well respected within Finance, within  
21 all control agency institutions as well as  
22 other departments. I still think Becky was  
23 the best there's ever been for Parks.

24 MR. PATTON: She knew the  
25 intricacies of this budget then?

1 MR. VERARDO: That's right.

2 MR. PATTON: And I understand this  
3 is a fairly complicated budget, that there's  
4 about twenty-six different --

5 MR. VERARDO: It started with  
6 twenty-six. By the time I was Deputy, I think  
7 we had sixteen or eighteen funding sources.

8 MR. PATTON: Okay.

9 MR. VERARDO: Some had been  
10 combined; some had been reduced. One -- the  
11 big --

12 MR. PATTON: When you started?

13 MR. VERARDO: When I started.

14 MR. PATTON: And so the funding  
15 sources grew from there?

16 MR. VERARDO: No, not actually.

17 MR. PATTON: Okay.

18 MR. VERARDO: No. There were about  
19 sixteen when I started and about sixteen at  
20 the end because the big --

21 MR. PATTON: So the number  
22 twenty-six that I've heard, that's wrong; it's  
23 about sixteen components?

24 MR. VERARDO: Well, I don't think it  
25 was twenty-six --



1 MR. PATTON: All right.

2 MR. VERARDO: -- unless there's  
3 some --

4 MR. PATTON: All right.

5 MR. VERARDO: -- minor ones I don't  
6 know about.

7 MR. PATTON: Okay.

8 MR. VERARDO: Yeah. That doesn't  
9 sound correct, but again, the big three are  
10 SPRF, State Parks and Recreation Fund --

11 MR. PATTON: Um-hum.

12 MR. VERARDO: -- General Fund --

13 MR. PATTON: Um-hum.

14 MR. VERARDO: -- and Off Highway  
15 Motor Vehicle accounts, gasoline taxes and  
16 green sticker fees. The relationship that we  
17 had to look at every year, that's the  
18 trickiest, weren't the other funding sources  
19 that were dedicated. It's the relationship  
20 between SPRF and the General Fund because the  
21 more SPRF we -- would you like to hear this  
22 now?

23 MR. PATTON: Sure.

24 MR. VERARDO: Yeah. The more SPRF  
25 we earn during performance budgeting where the

1 districts were able to raise -- or lower fees,  
2 our incentive program to the districts for  
3 about five or six years was if a district  
4 exceeded what they -- what they're required  
5 SPRF collection was, then they were able to  
6 keep twenty-five percent of the excess SPRF.  
7 If they really exceeded it, and I forget where  
8 the breaking point is because that was handled  
9 by Operations, but if they really exceeded it,  
10 they got to keep fifty percent of the extra  
11 SPRF.

12 So it was an incentive program where  
13 they had to collect this much. Everything  
14 over that much, they got to keep twenty-five  
15 percent in the district and fifty percent over  
16 that. And that was an approved program under  
17 performance budgeting with the Department of  
18 Finance, so Department of Finance approved  
19 that. The trick is --

20 MR. PATTON: That was the commission  
21 compensation model when I sold cars.

22 MR. VERARDO: Oh, there you are.

23 MR. PATTON: Go ahead.

24 MR. VERARDO: I think I bought one  
25 of those.

1 MR. PATTON: Um-hum.

2 MR. VERARDO: The trick is guessing  
3 and asking for spending authority from the  
4 Department of Finance for the following year's  
5 SPRF, because when you ask for that spending  
6 authority, there's a certain amount you're  
7 going to have to collect. So if you ask for  
8 too much and you don't collect it, you're  
9 basically in the hole at the end of the fiscal  
10 year, and that's the art of guessing SPRF  
11 because unfortunately, in half of May -- most  
12 of May and all of June are huge revenue  
13 months --

14 MR. PATTON: Um-hum.

15 MR. VERARDO: -- very difficult to  
16 predict how well you're going to do.

17 If it all works out nice and the  
18 weather's gorgeous, you're going to exceed  
19 your SPRF allocation and be able to budget the  
20 district's extra dollars. And we tried to  
21 monitor that as close as possible. But if it  
22 rains in Huntington Beach on June 20th, you  
23 are in trouble because that's 100,000 people  
24 on the beach at three dollars a pop or  
25 whatever it was then, and you could easily go

1 under millions if the weather turned bad in  
2 June.

3 So we always tried to keep a certain  
4 amount of SPRF buffer. You never wanted to go  
5 under in SPRF. It's always best to go over  
6 but not too far over. And that's why you  
7 don't have a surprise (indiscernible -  
8 simultaneous speaking).

9 MR. PATTON: Go over -- wouldn't go  
10 over in what sense?

11 MR. VERARDO: Over in the amount of  
12 revenue you collected.

13 MR. PATTON: Oh, okay. To have  
14 revenues exceed your expectations by a bit.

15 MR. VERARDO: Yeah. If they exceed  
16 by too much, then it's obvious that the  
17 Department of Finance may take that SPRF  
18 allocation and use it for the general good of  
19 State government, but the general good of  
20 State government --

21 MR. PATTON: Reduce the SPRF  
22 allocation or to actually take the excess  
23 revenue?

24 MR. VERARDO: Reduce the General  
25 Fund allocation --

1 MR. PATTON: Oh, there you go.

2 MR. VERARDO: -- because we're  
3 exceeding the SPRF allocation.

4 MR. PATTON: Right.

5 MR. VERARDO: So the better you do  
6 on SPRF consistently, the chances are the  
7 lower your General Fund is going --

8 MR. PATTON: Um-hum.

9 MR. VERARDO: -- to be done. And in  
10 fact, it was pretty consistent that our  
11 General Fund was decreased severely in early  
12 1990s. Before I came up, there was a huge  
13 General Fund hit, and the SPRF allocation  
14 increased mandatorily.

15 MR. PATTON: Um-hum.

16 MR. VERARDO: That was not a request  
17 of the department and --

18 MR. PATTON: How did it increase  
19 mandatorily? You increased fees?

20 MR. VERARDO: Yes. Basically the  
21 Department of Finance said, here's what we're  
22 expecting you to collect.

23 MR. PATTON: Um-hum.

24 MR. VERARDO: So we gave flexibility  
25 to the districts to be able to adjust their

1 fees at the district level. Before that,  
2 fees -- and I don't know the years on this  
3 before I came -- just before I came up.  
4 Before that, fees were fixed state-wide, so  
5 you paid two dollars for parking at Big Basin,  
6 you paid two dollars for parking at Huntington  
7 Beach, and it didn't matter what season it  
8 was.

9           The districts then were given  
10 flexibility to adjust those fees seasonally  
11 and individually at the parks at their  
12 districts so that they could -- for instance,  
13 Big Basin, if we know all the campsites are  
14 going to be full all summer, instead of a five  
15 dollar fee, they know they can get along with  
16 an eight dollar fee. The heart to that  
17 prediction is not making fees so high that  
18 suddenly you have vacancy rates and you  
19 actually shoot yourself in the foot by raising  
20 the fees too high.

21           But the districts pretty much knew  
22 their operations. I mean, their field people  
23 knew that they could raise on the beach in the  
24 summertime, for instance, and collect more  
25 revenue. So that increased the amount of SPRF

1 we were taking in by a considerable amount,  
2 and therefore, the General Fund was reduced by  
3 some amount.

4 MR. PATTON: Okay. So it was not a  
5 dumb move on the State's part --

6 MR. VERARDO: No.

7 MR. PATTON: -- because you  
8 certainly had the capacity to increase  
9 revenues.

10 MR. VERARDO: Absolutely. And in  
11 fact, we wanted to because the first cut we  
12 took, which I believe was around ten million  
13 dollars in 1990-'92-ish, when Governor Wilson  
14 first took over, that first ten million dollar  
15 hit was just taken in General Fund, you know,  
16 too bad, find a way around it or come up with  
17 a plan.

18 The only non-option in our mind,  
19 when I came up there, was closing parks. We  
20 had a closure list just in case, but that's  
21 something we never wanted to do. That was  
22 kind of a -- that would have been a cop out  
23 because we knew, at least at the beginning,  
24 those early years we knew we could raise  
25 revenue and had other ways to do it.

1           MR. PATTON: Yeah. I remember that  
2 '91-'92 were some lean years for the State;  
3 there was a fiscal crunch.

4           MR. VERARDO: Yeah, it was.

5           MR. PATTON: I remember that. I got  
6 out of law school at Davis in '89, and tuition  
7 doubled the following year in '90.

8           MR. VERARDO: Yeah.

9           MR. PATTON: Yeah. So those were  
10 the years when State was looking for ways to  
11 reduce General Fund appropriations --

12          MR. VERARDO: That's right.

13          MR. PATTON: -- to all kinds of  
14 agencies. Yeah.

15          MR. VERARDO: Yes. In fact, I think  
16 we did a good job because frankly, number one,  
17 Department of Finance knew everything we were  
18 doing. It surprises me in the newspaper to  
19 see in recent times they're not looking at  
20 Controller's tapes or whatever. I never  
21 looked at those, by the way. They were kind  
22 of meaningless because they're after-the-fact  
23 reporting. What we reported to Finance, which  
24 was a different set of paperwork, was what we  
25 always considered accurate, and Finance's job



1 was to make sure that we were reconciling  
2 properly.

3 But we were awarded certificates for  
4 the SPRF account from the Controller's office.  
5 We were given pats on the back from Department  
6 of Finance. We won every major award for  
7 efficiency you can win, and we were audited  
8 backward, forward, upside down. Because we  
9 were a performance budget pilot, Department of  
10 Finance audited us, the legislative analyst's  
11 office came in --

12 MR. PATTON: This was when?

13 MR. VERARDO: -- the Bureau of State  
14 audits --

15 MR. PATTON: When?

16 MR. VERARDO: This would have been  
17 '90 -- I'm guessing, '95, '96, '97, '98.

18 MR. PATTON: You were a performance-  
19 based budget pilot program --

20 MR. VERARDO: Correct.

21 MR. PATTON: -- in those years?

22 MR. VERARDO: Those years, from '95,  
23 '96, '97, '98, '99. 2000 we pulled ourselves  
24 out because we were the only department left  
25 on the program.

1           MR. PATTON:   And just sort of  
2   briefly encapsulate how you describe  
3   performance-based budget.  I think you've  
4   described it in talking about really examining  
5   and zeroing on in fee revenue, figuring out  
6   how to maximize --

7           MR. VERARDO:   Performance budget --  
8   let's look at the governor's budget level as  
9   completely different than the current line  
10  item budget.  So we really ran two accounting  
11  shops during the pilot, one because the  
12  legislature and Department of Finance would  
13  not free us from the traditional galley and  
14  display in the governor's budget like you see  
15  now and saw then.

16          MR. PATTON:   Um-hum.

17          MR. VERARDO:   But at the same time,  
18  we had a performance budget display, and the  
19  accounting is different because the one is  
20  line item by fund source coming in then going  
21  out.  Performance budget display shows what  
22  we're spending the money on at a program  
23  level, so resource management -- natural  
24  resource management, cultural resource  
25  management, recreation, enforcement, something

1 else. It showed where the monies were going  
2 specifically to those programs. So the  
3 accounting, it was completely different.

4 And in fact, Freda came up and  
5 worked with the Department of Finance CALSTARS  
6 unit to be able to capture the income and  
7 expenditure data based on a performance budget  
8 because CALSTARS doesn't lend itself to be  
9 able to do that easily. CALSTARS is a good  
10 accounting tool, but it's not a budget tool.  
11 People keep wanting to make it a budget tool,  
12 but it's basically not a budget tool; it's an  
13 accounting tool.

14 So CALSTARS was modified to be able  
15 to capture this performance budget  
16 information. So we sent two pieces of  
17 information to the Department of Finance, a  
18 performance budget based on the pilot and our  
19 pilot districts and a regular budget based on  
20 the entire department and the district's not  
21 on performance budgeting.

22 That's as clear as mud, isn't it?

23 MR. PATTON: Well, I'm still  
24 trying -- I'm looking for a succinct kind of  
25 definition. Performance budgeting relies --

1 I'm just going to take a stab at it; I could  
2 be way off. Performance budgeting then relies  
3 on some fairly accurate predictions as to what  
4 a revenue-generating fund is going to actually  
5 generate.

6 MR. VERARDO: And the expenditures  
7 are shown by program instead of by line item.  
8 So instead of seeing, we spent this much on  
9 SPRF, although it shows that too, but spent  
10 this much on SPRF, it shows we spent this much  
11 on SPRF in the following categories, in the  
12 following specific activities that are taking  
13 place in the districts so that you could say  
14 the ideal -- and where we were trying to get  
15 to with performance budgeting was, for  
16 instance, if in the Northern Redwoods they  
17 were spending thirty percent of their money on  
18 natural resource management but in the Santa  
19 Cruz mountains redwoods they were spending  
20 sixty-eight percent, it enabled us to say why  
21 is this district spending this much on this  
22 activity and this district's spending this  
23 much more or this much less or whatever, and  
24 we could go in and investigate and say, hey,  
25 there's some efficiencies here in this

1 district or you should be spending more of  
2 your money here. So one is a programmatic  
3 look specifically, and the other is a line  
4 item look.

5 MR. PATTON: Okay. So you said that  
6 you -- you mentioned that you didn't look at  
7 the accounting reports to the Controller  
8 because that was done after the fact, you  
9 said.

10 MR. VERARDO: Correct. I didn't.

11 MR. PATTON: Yeah. And that you --  
12 what you did look at were the reports in the  
13 budget items going to Finance.

14 MR. VERARDO: Correct.

15 MR. PATTON: And I understand  
16 that -- my rudimentary understanding is that  
17 the reports going to the Controller are cash  
18 basis accounting reports; it's essentially  
19 your checkbook showing what the balance of  
20 funds is in the bank and maybe accounting for  
21 expenditures in the pipeline, checks not yet  
22 cashed.

23 MR. VERARDO: Yes, that's my  
24 understanding too, because the only thing I  
25 really cared about in that explanation was did

1 we get a certificate from the Controller's  
2 office --

3 MR. PATTON: Yeah.

4 MR. VERARDO: -- or not.

5 MR. PATTON: And I've heard about  
6 certificates. Lots of certificates are  
7 received. I think the accounting department's  
8 numbers over the years, from what I've seen,  
9 and of course, you know, they work with the  
10 Controller constantly, they're reconciling,  
11 and I've seen no indication that those numbers  
12 were ever off. You're nodding your head yes.

13 MR. VERARDO: Yeah.

14 MR. PATTON: You'd never heard of  
15 them being off?

16 MR. VERARDO: No.

17 MR. PATTON: What I'm curious about  
18 is, so you've got what they tell me is the  
19 annual fund account statement with the  
20 Controller, the year-ending account statement  
21 saying that the balance of funds is in all  
22 these accounts, and I'm looking primarily at  
23 SPRF, and I guess I want you to describe to me  
24 how that balance interplays with the budget  
25 that gets worked up and what's submitted to

1 Finance, something I've heard referred to as a  
2 fund condition statement.

3 MR. VERARDO: Yeah. And I wish I  
4 knew because I don't. I left that up to  
5 Accounting, and the only thing --

6 MR. PATTON: Wait, wait, wait, wait.  
7 The fund condition statement itself is  
8 prepared by the budget office, right?

9 MR. VERARDO: Oh, by the budget  
10 office, yes, and we submit that to the  
11 Department of Finance. But what the fund  
12 condition report showed, in my mind, was never  
13 a level of concern --

14 MR. PATTON: Okay.

15 MR. VERARDO: -- as long as we were  
16 within certain parameters. In other words,  
17 looking at June, okay, if we were a couple of  
18 million dollars over in SPRF on the fund  
19 condition, to me, that wasn't a big deal.

20 MR. PATTON: If you were a couple  
21 million over? Over what?

22 MR. VERARDO: Over what our spending  
23 authority was.

24 MR. PATTON: Okay. If you were a  
25 couple million in revenue above your spending

1 authority?

2 MR. VERARDO: Yes.

3 MR. PATTON: Okay.

4 MR. VERARDO: Not a -- I mean, that  
5 would have been normal -- being within ten  
6 percent of your allocation would have been the  
7 normal kind of --

8 MR. PATTON: Sure.

9 MR. VERARDO: I'm making up ten  
10 percent, but something reasonable. Fifty  
11 percent or twenty percent or twenty-five  
12 percent would have been -- I would have  
13 expected, you know, Becky to let Tom know or  
14 to let me know that we've got a red flag  
15 issue.

16 MR. PATTON: If your revenues  
17 exceeded or fell short by more than about ten  
18 percent, I understand that idea because this  
19 is an account you're having to try to predict  
20 revenue.

21 MR. VERARDO: That's right.

22 MR. PATTON: So you may or may not  
23 hit your prognosticated amount right on.

24 MR. VERARDO: Right.

25 MR. PATTON: And your appropriation



1 is tied to what you're predicting --

2 MR. VERARDO: Right.

3 MR. PATTON: -- the year ahead. So  
4 it's going to be normal that -- and you're  
5 doing a pretty good job if you're within ten  
6 percent plus or minus.

7 MR. VERARDO: That's what I always  
8 felt.

9 MR. PATTON: Yeah.

10 MR. VERARDO: It's going to be --  
11 you know, a couple of years, as I recall, we  
12 hit it right on the money, which is --

13 MR. PATTON: Yeah.

14 MR. VERARDO: -- what you want to do  
15 because you can budget based on a certain  
16 stability because some years revenue is going  
17 to go up, some years down. There's a normal  
18 wiggle. It's trying to hit the midline in  
19 that wiggle so that you're consistent.

20 MR. PATTON: And like you said, one  
21 of the tricks is to -- you want to make sure  
22 that you don't overspend. You're kind of --  
23 in terms of your spending plan, one of the  
24 tricks is to make sure your spending plan is  
25 conservative enough so that you'll have a

1 little bit of a cushion --

2 MR. VERARDO: That's correct.

3 MR. PATTON: -- based on expected  
4 revenue.

5 MR. VERARDO: Yes.

6 MR. PATTON: Okay.

7 MR. VERARDO: Especially in  
8 Operations. They --

9 MR. PATTON: Yeah.

10 MR. VERARDO: -- held back a certain  
11 amount from the districts in case when we  
12 looked at mid year or towards the end of the  
13 fiscal year we were short, it could be  
14 covered.

15 MR. PATTON: Um-hum.

16 MR. VERARDO: And so that money was  
17 given out at the end of the year if it looked  
18 like we were achieving all our --

19 MR. PATTON: And who made the  
20 decision how much to hold back (indiscernible  
21 - simultaneous speaking).

22 MR. VERARDO: That would have been  
23 the Deputy for Operations; that would have  
24 been Ken Jones within the operations part.

25 MR. PATTON: So Admin Services gives

1 Operations -- they say, here's how much you're  
2 going to have.

3 MR. VERARDO: That's right. We give  
4 them the full bucket.

5 MR. PATTON: And then the decision  
6 what to retain as a reserve in the event of  
7 revenues not achieving expectations, that's  
8 the Parks Operation Deputy Director.

9 MR. VERARDO: That's Operations,  
10 yeah. And of course, we work closely  
11 together.

12 MR. PATTON: Okay. Now, so you're  
13 familiar with a fund condition statement that  
14 goes to Finance?

15 MR. VERARDO: I'm sort of familiar  
16 with it.

17 MR. PATTON: Is it -- do you  
18 understand that the account -- I mean, my  
19 rudimentary understanding of how the financial  
20 world works is that -- because I've never done  
21 a budget or a fund condition statement to  
22 Finance, but based on what people have told  
23 me, one of the components of it is to know  
24 what your balance -- your account balance is.

25 MR. VERARDO: Yes.

1 MR. PATTON: Okay. So that number  
2 that gets reported to the Controller is --  
3 it's a starting point.

4 MR. VERARDO: Yes. And again,  
5 our -- you know, that's -- that was pretty  
6 much routinely handled by our budget shop --

7 MR. PATTON: Right.

8 MR. VERARDO: -- and the budget --  
9 Tom, Becky, and Freda were a pretty tight  
10 working group because it's all tied together  
11 on what that --

12 MR. PATTON: Yeah.

13 MR. VERARDO: -- report's going to  
14 look like.

15 MR. PATTON: Yeah. So I guess we go  
16 to the numbers at this point because, as it  
17 turns out, the amount reflected at the end of  
18 the year as the end-of-the-year balance in  
19 SPRF as reported into CALSTARS and to the  
20 Controller was different than the starting  
21 balance amount reflected in the documents to  
22 the Department of Finance. And so let's --  
23 I'm going to show you the spreadsheet now --

24 MR. VERARDO: Okay.

25 MR. PATTON: -- which this top

1 section here is the SPRF, and just above the  
2 line is the adjusted Controller balance and  
3 the balance as reported in the fund condition  
4 statement to Finance.

5 Now, back -- and so you can see the  
6 Controller's balance is -- starts off as the  
7 Controller's budgetary legal basis, the amount  
8 reported minus a reserve for encumbrances,  
9 maybe some adjustments for payroll, although  
10 that's a zero all the way down the line until  
11 we get to the very last couple years, and that  
12 brings us to an adjusted Controller balance.  
13 So the main distinction is reserve for  
14 encumbrances, which I understand are basically  
15 payments not yet cleared but that have been --

16 MR. VERARDO: Right.

17 MR. PATTON: -- authorized. So you  
18 get an adjusted Controller balance. And then  
19 this number right above the line is the  
20 balance reported in the fund condition  
21 statement. And they're off by about four  
22 million. It drops to 2.3 million in '95.  
23 This is right around when you're taking over.

24 MR. VERARDO: Right.

25 MR. PATTON: And it's back at five

1 and six, and then in '98, '99, 2000, 2001,  
2 2002, 2003, it goes through a growth period,  
3 that disparity.

4 MR. VERARDO: Okay.

5 MR. PATTON: And so what we're  
6 informed is that in '97 -- at the fiscal year  
7 ending '97, the disparity is 6.3 million more  
8 is reported to Controller than to Finance.

9 MR. VERARDO: Okay.

10 MR. PATTON: In '98, 9.3 million  
11 more is reported to Controller than Finance.  
12 The disparity, the underreport, to Finance  
13 grows to 13.8; in '99, 19.9; almost twenty  
14 million in 2000; 22.7 in '01; 26.8 in '02; and  
15 twenty-nine in '03. It then dropped down a  
16 little bit in '04 back to 26.6, drops again to  
17 22 -- 23.9 in '05, and for the last six years  
18 has fairly leveled off in the nineteen to  
19 twenty million range --

20 MR. VERARDO: Um-hum.

21 MR. PATTON: -- fairly consistently  
22 right around twenty million the last six  
23 years.

24 So what we've been told, talking to  
25 a number of people, is that -- and we've not

1 really yet been able to identify exactly why a  
2 disparity went into this growth period --

3 MR. VERARDO: Um-hum.

4 MR. PATTON: -- between '98 and  
5 2004, but what we've been told is that right  
6 around 2000 Becky was aware of this and came  
7 to the accounting -- her accounting peers,  
8 Freda --

9 MR. VERARDO: Okay.

10 MR. PATTON: -- and ask for some  
11 help trying to understand why their numbers to  
12 the Controller were different than what was  
13 being reflected in her fund condition  
14 statement -- in the department's fund  
15 condition statement.

16 And we're told that some work was  
17 done specifically by Dorothy Kroll at Freda  
18 and Cheryl Kilzer's request, and that Dorothy  
19 determined that there indeed was an error that  
20 was being made by the budget shop side and the  
21 error was traceable to some erroneous numbers  
22 in the prior year adjustment figure and --

23 MR. VERARDO: Okay. Because that is  
24 a big number.

25 MR. PATTON: You're looking at the

1 twenty million in 2000. Well, it gets bigger.

2 So what we're curious about is we  
3 know that -- from various witness reports, we  
4 know that Becky started looking into this,  
5 that Dorothy, in particular, personally looked  
6 into this. She came up with some  
7 explanations. She didn't dissect to the level  
8 of knowing exactly where Finance -- or the  
9 budget shop side was making the error, but  
10 she --

11 MR. VERARDO: One question.

12 MR. PATTON: Yeah.

13 MR. VERARDO: Who's Dorothy?

14 MR. PATTON: She was an  
15 accounting --

16 MR. VERARDO: Oh.

17 MR. PATTON: She was an accounting  
18 supervisor.

19 MR. VERARDO: Okay.

20 MR. PATTON: She was one of the  
21 accounting staff.

22 MR. VERARDO: Okay.

23 MR. PATTON: You never knew her?

24 MR. VERARDO: I don't remember her.

25 MR. PATTON: Okay.



1 MR. VERARDO: Let's put it that --

2 MR. PATTON: And she later took over  
3 Freda's position as the Accounting Chief.

4 She's the Accounting Chief today.

5 MR. VERARDO: Oh, okay.

6 MR. PATTON: Been there a long time.  
7 So she's -- she identified the problem. It  
8 got reported back to Becky, and we're told  
9 that Becky and Freda reported this to Tom.

10 MR. VERARDO: Okay.

11 MR. PATTON: And I'm curious whether  
12 or not they ever discussed the problem that  
13 they were having getting the fund condition  
14 statement consistent for the SPRF, consistent  
15 with the accounting statement.

16 MR. VERARDO: I never heard of it,  
17 and it's hard to believe that Tom or Becky  
18 wouldn't have told me unless there was so much  
19 confusion going on in here that they wanted to  
20 sort it out first. But no, I had absolutely  
21 no idea.

22 Now, here's where I leave, so this  
23 is --

24 MR. PATTON: You said you left  
25 the --

1 MR. VERARDO: Probably early 2003.

2 MR. PATTON: -- early part of '03.

3 MR. VERARDO: Yeah.

4 MR. PATTON: Now, in April of '02,  
5 the Finance Department issued to all the  
6 Budget Officers a memo, and they issued an  
7 identical memo in 2003, I guess after you'd  
8 left, June 5 of '03. The text of it is the  
9 same. It's the same author, Yoshi Fujiwara --

10 MR. VERARDO: Okay.

11 MR. PATTON: -- program budget  
12 manager at Finance. And this address, I'm  
13 told, is the group -- it's a group address for  
14 the Budget Officers of various departments  
15 that have special funds. And it says, "A  
16 recent State Controller's Office review  
17 revealed many differences between  
18 corresponding prior year fund balances in the  
19 Controller annual report and in the governor's  
20 budget."

21 MR. VERARDO: Okay.

22 MR. PATTON: "Departments are  
23 responsible for reconciling these  
24 differences."

25 And then it talks about special

1 funds, finance designation, administering  
2 organizations. So Parks is the administering  
3 organization for the SPRF fund --

4 MR. VERARDO: Right.

5 MR. PATTON: -- as I understand it.  
6 The administering organization prepares the  
7 fund condition statement for the governor's  
8 budget and must reconcile fund balance  
9 differences between the Controller's annual  
10 report and the governor's budget. So it's  
11 basically telling you we've identified some  
12 disparities, and we need these reconciled.  
13 And the attachment shows that two of the  
14 special funds identified are in the Parks  
15 Department, the Off Highway Vehicle and the  
16 SPRF fund. And the discrepancy identified at  
17 year ending -- I think this would be '01 --

18 MR. VERARDO: Yeah.

19 MR. PATTON: -- is 22,765,000 --

20 MR. VERARDO: Okay.

21 MR. PATTON: -- which is what we  
22 have on the spreadsheet here.

23 MR. VERARDO: Um-hum.

24 MR. PATTON: And a similar memo is  
25 issued in '03 after you've left, and this

1 would be for year end '02, and it's -- the  
2 disparity now in the SPRF is 26,825,000, and  
3 the Off Highway Vehicle is not mentioned. So  
4 in '02, April of '02, you're still there.  
5 This memo comes out.

6 MR. VERARDO: Um-hum.

7 MR. PATTON: Nobody ever told you  
8 about this memo?

9 MR. VERARDO: No, I don't ever  
10 remember seeing it. If I had, I don't  
11 remember it.

12 MR. PATTON: Okay.

13 MR. VERARDO: I certainly didn't  
14 know about these numbers.

15 MR. PATTON: So it's interesting.  
16 So you -- if you have no knowledge, I'm  
17 assuming, obviously you could never have had a  
18 chat with your director about it who was  
19 Murphy, I think you said.

20 MR. VERARDO: Right. Donald  
21 Murphy --

22 MR. PATTON: Yeah.

23 MR. VERARDO: -- 2000 would have  
24 been --

25 MR. PATTON: Right.

1 MR. VERARDO: -- Rusty.

2 MR. PATTON: Right.

3 MR. VERARDO: But no, I never had a  
4 conversation with the Director, and no one  
5 ever had a conversation with me.

6 MR. PATTON: So -- and you also --  
7 back then, did Rusty conduct, as I understand  
8 is conducted today, what are called executive  
9 committee meetings where the department heads  
10 are all in a meeting?

11 MR. VERARDO: Yes, but we rarely  
12 discussed finances.

13 MR. PATTON: Um-hum.

14 MR. VERARDO: We discussed the Bond  
15 Act because our budget in 2000 was a billion  
16 dollars and which shoots up because the  
17 largest state park bond in the country's  
18 history passed --

19 MR. PATTON: Um-hum.

20 MR. VERARDO: -- 2.1 billion dollar  
21 state park bond but one billion administered  
22 by Department of Parks and Recreation, 330  
23 million dollar a year for three years in  
24 capital improvements. So that was our -- that  
25 was really our big focus in 2000, and any

1 discussions at headquarters, those I do  
2 remember because we didn't feel we had the  
3 ability to spend that much capital outlay  
4 program when we had such a reduced staff in  
5 the capital outlay unit.

6 MR. PATTON: Um-hum.

7 MR. VERARDO: So that's a longer  
8 story than you want to hear, but that meant --  
9 that was very important for us to be able to  
10 ramp up on construction issue contracts. So  
11 our focus was more on contracts, what were the  
12 priorities to the department.

13 MR. PATTON: You say your -- when  
14 you say "our", you're talking about you and  
15 the Director that (indiscernible -  
16 simultaneous speaking).

17 MR. VERARDO: Oh, the Director and  
18 Ken Jones and --

19 MR. PATTON: Yeah.

20 MR. VERARDO: -- you know, that core  
21 staff.

22 MR. PATTON: So what I'm hearing  
23 from you is that -- and you said this early  
24 on, was that Tom Domich, one of his  
25 responsibilities was to supervise the

1 financial side --

2 MR. VERARDO: Correct.

3 MR. PATTON: -- the accounting and  
4 the budgeting. And we walked through this,  
5 and we talked about, yeah, the budget would be  
6 looked at by you and by the Director, but I'm  
7 gathering that in terms of understanding all  
8 the nuts and bolts within the budget, that was  
9 left to people below you.

10 MR. VERARDO: Correct.

11 MR. PATTON: And was it your  
12 understanding -- is it your opinion that Tom  
13 Domich was someone who understood the nuts and  
14 bolts of the budget?

15 MR. VERARDO: Oh, I think Tom,  
16 Becky, and Freda all understood the nuts and  
17 bolts of the budget. Tom had been the Budget  
18 Officer.

19 MR. PATTON: Okay. So I'm -- I  
20 guess what's really curious is that we know  
21 that they determined that there was a problem,  
22 that the numbers had diverged.

23 MR. VERARDO: And you mentioned that  
24 that was roughly in --

25 MR. PATTON: 2000 --

1 MR. VERARDO: -- 2000-2001.

2 MR. PATTON: -- 2001, yeah. And  
3 you're saying they didn't report it to me --

4 MR. VERARDO: No.

5 MR. PATTON: -- and -- go ahead.

6 MR. VERARDO: They might have been  
7 trying to figure out was it really a problem  
8 or was it a --

9 MR. PATTON: Why do you say that?

10 MR. VERARDO: -- reporting issue.  
11 Why do I say that?

12 MR. PATTON: Yeah.

13 MR. VERARDO: Because if this came  
14 up, they would need to reconcile the books --

15 MR. PATTON: Right.

16 MR. VERARDO: -- from both the  
17 performance budget and -- remember, again, we  
18 went off performance budgeting in 2000.

19 MR. PATTON: Um-hum.

20 MR. VERARDO: So Freda is trying to  
21 get the accounting shop back on the regular  
22 budget. So the reason I say in their defense,  
23 at least in 2000-2001, is I'm guessing do they  
24 think this is really a reporting error or not.

25 Now, the document you're showing me



1 here means that they would be going back  
2 through a lot of paperwork if this is attached  
3 because that's showing that the Department of  
4 Finance is saying there's a discrepancy.

5 MR. PATTON: Um-hum.

6 MR. VERARDO: Now, how long it would  
7 take Freda and Becky to reconstruct the  
8 accounting and budget documents to see if it  
9 was really a discrepancy or not, I don't know,  
10 but I would guess at least one fiscal year  
11 because it took us more than one fiscal year  
12 to back out of the performance budget.

13 After that though, I have no  
14 explanation because at that point in time,  
15 when you hit 2003-'4, I mean, the answer  
16 should have been, A, there's a big mistake or,  
17 two, what gets reported to the Controller's  
18 office is a completely different set of  
19 paperwork, it's never going to match, it's  
20 always going to be off, but I'm guessing  
21 because I have no answer for that.

22 MR. PATTON: And when you said --  
23 you said that what they may have been doing in  
24 2000-2001 was trying to figure it out, but you  
25 don't have any actual knowledge -- you're

1 nodding your head no.

2 MR. VERARDO: No, I don't have any  
3 actual knowledge other than the knowledge that  
4 Freda had to get the accounting system back on  
5 a single accounting system with -- and all the  
6 regular budget system that, you know --

7 MR. PATTON: And she had to do that  
8 when?

9 MR. VERARDO: That would have  
10 been -- since I pulled us out in 2000, that  
11 would have been the 2000-2001, 2001-2002  
12 fiscal years.

13 MR. PATTON: So tell me again what  
14 was going on then that she had to do. This is  
15 when you --

16 MR. VERARDO: Well, we have two --

17 MR. PATTON: -- were going on  
18 performance-based budgeting?

19 MR. VERARDO: Yeah. As I understand  
20 it, you know -- not as I understand it. We  
21 had two accounting systems basically, one  
22 reporting for performance budgeting, one  
23 reporting on the regular budget system. When  
24 we went off performance budgeting, we would  
25 have had to get all the -- there were seven

1 pilot districts within the department. She  
2 would have had to get those pilot districts  
3 back on the regular accounting system.

4 MR. PATTON: When did you go off of  
5 performance budgeting?

6 MR. VERARDO: 2000.

7 MR. PATTON: Okay. So she's got to  
8 get them off of that, and I guess I still  
9 don't have enough of an appreciation for what  
10 the difference was from condition accounting  
11 standpoint between performance-based budgeting  
12 and --

13 MR. VERARDO: From an accounting  
14 standpoint, you'd have to ask Freda --

15 MR. PATTON: Yes.

16 MR. VERARDO: -- because she worked  
17 with CALSTARS which was, I know, a big job  
18 because it took us a couple of fiscal years to  
19 figure out how to do the accounting for  
20 performance budgeting. So I'm guessing that  
21 it took at least one fiscal year to get all  
22 the paper back into the regular budget system.

23 MR. PATTON: Okay.

24 MR. VERARDO: But that still doesn't  
25 explain the continued discrepancy. It might

1 explain it for a single fiscal year or maybe  
2 even two, but it doesn't explain what I'm  
3 seeing here.

4 MR. PATTON: Which is that it's  
5 continued to the current time.

6 MR. VERARDO: Yeah, because at the  
7 point in time that it was identified, then  
8 what number is correct, what's reported to the  
9 Department of Finance or what the Controller's  
10 office is showing, and we're dealing with a  
11 pretty archaic system, so which number is  
12 correct is unusual. And two, I always  
13 considered it the Department of Finance's job  
14 to raise a red flag to us like as if there was  
15 a problem and to monitor that year after year.  
16 That's their job.

17 MR. PATTON: Which they did in '02  
18 and '03.

19 MR. VERARDO: Which they did in '02  
20 and '03.

21 MR. PATTON: Yeah. Did any --

22 MR. VERARDO: Now, if we had a  
23 shortage of funds, if it weren't for the Bond  
24 Act -- and by the way, in year 2000, I'd like  
25 to point out, was our -- we say we had one

1 good year in a row. We had all the revenue  
2 and budget stuff we wanted in 2000. Those  
3 were the good years under the Davis  
4 administration, and I don't mean good  
5 politically, I mean good from a budgetary  
6 standpoint Parks had a lot of money  
7 operationally and with the Bond Act, capital  
8 outlay wasn't.

9 So not having discrepancies reported  
10 to me then, if we had known this discrepancy  
11 and we had more in SPRF, even at that point in  
12 time I'm not sure we would have had the  
13 ability to ask for more spending authority; in  
14 other words, this money can't be spent without  
15 the Department of Finance authorizing --

16 MR. PATTON: Right.

17 MR. VERARDO: -- the spending of  
18 it --

19 MR. PATTON: Right.

20 MR. VERARDO: -- giving you spending  
21 authority. I'm not sure in these years we  
22 would have asked for it. Department of  
23 Finance probably would have used it for  
24 something else, although they didn't need it  
25 in these fiscal years. These were good years,

1       however, like I say, one good year in a row.  
2       Then though you start to hit harder times  
3       again.

4               MR. PATTON:     So in 2000 --

5               MR. VERARDO:    And in harder times,  
6       you (indiscernible - simultaneous speaking).

7               MR. PATTON:     -- was really the peak  
8       of the good times.

9               MR. VERARDO:    That's it.

10              MR. PATTON:     And then things started  
11       getting tough again.

12              MR. VERARDO:    That's right.

13              MR. PATTON:     Okay.    In '01, as soon  
14       as '01 --

15              MR. VERARDO:    As soon as '01 but for  
16       sure '02.

17              MR. PATTON:     So the last couple  
18       years you were there, in '02 and '03, things  
19       started getting lean again?

20              MR. VERARDO:    Yeah.    And again, I  
21       retired early '03.

22              MR. PATTON:     Yeah.

23              MR. VERARDO:    But I don't remember  
24       anything getting so lean that we had the  
25       concerns we did of the early '90s, but until

1 recent times we didn't -- you know, where you  
2 read in the paper about potential or closing  
3 parks and all that. That, in my career, only  
4 occurred in 1992, '93, '94, '95 where we were  
5 really hurting on -- from a budgetary  
6 standpoint.

7 MR. PATTON: Do you remember  
8 anything about the Off Highway Vehicle fund?  
9 Any (indiscernible - simultaneous speaking)?

10 MR. VERARDO: Off Highway Vehicle  
11 fund, you know, had its own administration,  
12 even though that would go through Becky  
13 obviously for reporting to the Department of  
14 Finance, but because that was a trust account,  
15 which is different than SPRF, I don't know if  
16 anybody -- undoubtedly there's a  
17 (indiscernible).

18 But let me explain my understanding  
19 of it again. SPRF is not a trust account  
20 which means if the governor's office or  
21 Department of Finance needs money that might  
22 be over in SPRF, that can be used for other  
23 things. The Off Highway Vehicle fund is a  
24 trust account, and it became a trust account  
25 because the department was using the revenues

1 in the Off Highway Vehicle account before it  
2 was a trust account for the general good of  
3 the system because it was raising so much  
4 money. The Off Highway Vehicle community  
5 basically lobbied successfully to make it a  
6 trust account where the monies had to be spent  
7 strictly within the Off Highway Vehicle  
8 Division or to grants to Off Highway Vehicle  
9 uses. So it couldn't be spent on other  
10 things.

11 That's about all I know because I  
12 never monitored their balances. We always  
13 felt they had a -- there was always going to  
14 be a surplus. It was impossible internally to  
15 spend all the revenue that was being raised in  
16 the Off Highway Motor Vehicle fund.

17 MR. PATTON: Anybody ever tell you  
18 about the legislature taking loans against the  
19 OHV account?

20 MR. VERARDO: They took a loan  
21 against the OHV account in one of the years  
22 that I was still there, and the loan had to be  
23 paid back. And if they took it recently, it  
24 would have to be paid back, too. I understand  
25 that the legislature now has found a way



1 around that though, reading between the lines  
2 in the paper, and that's to capture the  
3 dollars before it enters the trust fund. In  
4 other words, as revenues are earned, the  
5 legislature could take that in which case it's  
6 bypassing the fund itself.

7 MR. PATTON: So it's a diversion of  
8 the dollars before they hit the trust account?

9 MR. VERARDO: Yeah. Now, we have a  
10 couple of other parks that operate like that.

11 MR. PATTON: Wait. Let me ask you  
12 about that.

13 MR. VERARDO: Yeah.

14 MR. PATTON: The Off Highway Vehicle  
15 community that lobbied to get this designated  
16 as a trust fund, they ever complain, they ever  
17 made aware that monies get diverted, get --

18 MR. VERARDO: Well, the loan, at the  
19 time I was there, the most --

20 MR. PATTON: What you just  
21 described, and I haven't picked the right  
22 adjective or adverb yet --

23 MR. VERARDO: Okay.

24 MR. PATTON: -- whether it's a  
25 seizure of funds before they hit the trust

1 account --

2 MR. VERARDO: Yes.

3 MR. PATTON: -- or a diversion or --  
4 I don't know -- a using of these and --

5 MR. VERARDO: Yes, a loophole.

6 MR. PATTON: -- it's a loophole that  
7 you're indicating to me is something the  
8 legislatures figured out how to take advantage  
9 of?

10 MR. VERARDO: I'm guessing it's LAO  
11 or the Department of Finance figured out how  
12 to do it. That is way after my time.

13 MR. PATTON: Okay.

14 MR. VERARDO: My time is the loan.

15 MR. PATTON: So we don't know that  
16 it's the legislature --

17 MR. VERARDO: No.

18 MR. PATTON: -- or the LAO is  
19 redirecting some funds before it hits the --  
20 it could be Finance.

21 MR. VERARDO: It could be Finance.

22 MR. PATTON: All right. But you  
23 have heard that that's occurred?

24 MR. VERARDO: I've -- yeah, but it's  
25 rumor.

1 MR. PATTON: Oh, it's rumor?

2 MR. VERARDO: Yeah.

3 MR. PATTON: We have no evidence of  
4 that.

5 MR. VERARDO: This is after my time.  
6 They have absolutely no evidence.

7 MR. PATTON: Based on anecdotal  
8 complaints.

9 MR. VERARDO: Based on -- yes.

10 MR. PATTON: Okay. All right.

11 MR. VERARDO: Because I don't talk  
12 much about the department anymore. When I  
13 left, I left. I did not want to go back as a  
14 retired annuitant. I had a fantastic  
15 thirty-two years. The day I left I loved it  
16 as much as the day I started, but I was a  
17 member of what I call the golden handcuffs. I  
18 was a peace officer. So staying longer than  
19 thirty-two years has no benefit.

20 MR. PATTON: So nobody ever talked  
21 to you about we've had some wild disparities  
22 and big swings in numbers in terms of  
23 disparate reporting to Controller and Finance  
24 regarding the Off Highway Vehicle fund?

25 MR. VERARDO: Not as I recall.

1 MR. PATTON: All right.

2 MR. VERARDO: That would be --

3 MR. PATTON: That would be what?

4 MR. VERARDO: I was going to say, I  
5 think I would remember if I was told  
6 because -- you know, even though we were  
7 dealing with capital outlay, if someone said,  
8 hey, we got a twenty million dollar problem, I  
9 think I would have known.

10 MR. PATTON: Um-hum.

11 MR. VERARDO: But now, no one ever  
12 told me. I don't recall that at all.

13 MR. PATTON: Does it surprise you  
14 seeing these numbers for the SPRF, that there  
15 was a twenty million plus disparity and that  
16 Tom Domich and Becky didn't talk to you about  
17 this?

18 MR. VERARDO: It would have  
19 surprised me in here -- it wouldn't have  
20 surprised me in here --

21 MR. PATTON: 2000 --

22 MR. VERARDO: -- until they had an  
23 answer.

24 MR. PATTON: Okay. So in 2001 or '2  
25 when they start to get some answers, you are

1 surprised.

2 MR. VERARDO: I am surprised. If I  
3 didn't hear in here, I'm surprised.

4 MR. PATTON: Okay.

5 MR. VERARDO: So I'm not so  
6 surprised here if this is --

7 MR. PATTON: 2000.

8 MR. VERARDO: -- when it was first  
9 identified, yeah, because I would have said,  
10 okay, figure it out if they had --

11 MR. PATTON: Right.

12 MR. PATTON: -- talked to me, but  
13 I'm sure that didn't --

14 MR. PATTON: Right.

15 MR. VERARDO: -- because they're.  
16 That was delegated to them. I take  
17 responsibility, I'm the Deputy for Admin, but  
18 I didn't know it, I would suspect again that  
19 they were trying to figure out why.

20 MR. PATTON: Yeah, in 2000-2001.

21 MR. VERARDO: Yeah.

22 MR. PATTON: Okay. All right. Now  
23 I'm going to let Mr. Rich ask any accounting  
24 follow-up type questions in case he has any.

25 MR. VERARDO: And again, you can

1 tell by my conversation I'm not an accountant,  
2 but I'll answer anything you have as well as I  
3 understand it.

4 MR. PATTON: You can probably tell  
5 from my conversation I'm not either.

6 MR. RICH: Okay. Now, during your  
7 tenure at Parks, what would be the average  
8 percent of the budget funded by SPRF?

9 MR. VERARDO: Percent of the budget  
10 funded --

11 MR. RICH: Yeah.

12 MR. PATTON: Are you talking about  
13 the Parks' entire budget?

14 MR. VERARDO: I'm trying to  
15 remember the pot --

16 MR. RICH: Well --

17 MR. VERARDO: -- but I'm guessing  
18 thirty to thirty-three percent --

19 MR. RICH: Okay. Yeah.

20 MR. VERARDO: -- of the entire  
21 budget was SPRF.

22 MR. RICH: Yes. Okay.

23 MR. VERARDO: That's a guess.

24 MR. RICH: Okay. That's fine. I  
25 was just trying to get an idea.

1           MR. VERARDO:   And an equal amount --  
2   a little more than that would be General Fund,  
3   so I think we're talking like -- let me make  
4   it up -- sixty-five percent of our budget was  
5   General Fund and SPRF.

6           MR. RICH:   Okay.  Yeah.  In terms of  
7   performance budget or that process, do you  
8   recall this being a target in variances shown?  
9   Was that part of why you do a performance  
10  budget, to see if you varied as to some goal,  
11  in other words actual versus budget?

12          MR. VERARDO:   Actual versus budget.

13          MR. RICH:   Was that part of what you  
14  needed to do it?

15          MR. VERARDO:   Yes, that was -- there  
16  were targets because performance budgeting is  
17  concerned about results, what is fiscally  
18  happening to the dollars.  That's what our  
19  targets were.  It's how much of the public was  
20  getting served in their interpretation and  
21  number of campfire talks.  How well were we  
22  doing with that.  How much budget were we  
23  allocating to that.  What did the graph show  
24  we could reduce the budget in interpretation  
25  and keep the level of public service at a

1 consistent rate.

2 In other words, the moment the  
3 public saying we're not liking Parks'  
4 interpretive programs as much as we used to,  
5 we would prepare a graph showing, okay, here's  
6 how we've cut the budget and here's  
7 dissatisfaction going up. But as long as the  
8 satisfaction level stayed at that eighty  
9 percent, eighty-five percent range, then we  
10 knew that we could take those dollars and put  
11 them into enforcement or some other fund. So  
12 that's the way the performance budget worked.  
13 It wasn't the revenue targets under  
14 performance budgeting or district revenue  
15 targets.

16 Did that explain what you wanted?

17 MR. RICH: Yeah. Were you involved  
18 in preparing -- okay, let me back up. Did you  
19 have any involvement in terms of the next  
20 year's budget as far as estimated  
21 expenditures?

22 MR. VERARDO: No. That would have  
23 been Tom Domich with Operations. Then once  
24 the admin and operation's budgets were  
25 reconciled, then I would get involved, and we



1 as the Director staff would discuss is this  
2 realistic or not and how should we divvy it  
3 up.

4 MR. RICH: Did you have any  
5 involvement in estimating revenue for the next  
6 budget year?

7 MR. VERARDO: I didn't.

8 MR. PATTON: You didn't.

9 MR. VERARDO: No. That's, again,  
10 operations were the estimator.

11 MR. RICH: Right. Okay. Was it  
12 your understanding that the actual current  
13 year fund balance for SPRF was part of the  
14 budget process? In other words, the fund  
15 balance affected ultimately what could be  
16 spent for the next year? Is that the  
17 relevant -- did you understand my question?

18 MR. VERARDO: Yeah, I understood  
19 your question, and no, I never looked at fund  
20 balance. My assumption was on what I was  
21 being shown was this is what our budget was  
22 going to be and here's how we were going to  
23 break it up.

24 MR. RICH: Okay. All right. I  
25 don't have any other questions.

1 MR. PATTON: Thanks, Jeff.

2 MR. RICH: Sure.

3 MR. PATTON: Mike, do you have any  
4 questions?

5 MR. MATTSON: No, sir.

6 MR. PATTON: Okay. I think we've  
7 asked you all the questions we can think of.  
8 You've got my card if anything comes to  
9 recollection, particularly about anybody ever  
10 hinting at disparities in numbers, but I get  
11 the sense that's not likely to happen.

12 MR. VERARDO: No. In fact, let me  
13 put one more thing --

14 MR. PATTON: Sure.

15 MR. VERARDO: -- for you before we  
16 close, and that's that I looked in my files  
17 because I kept some performance budget  
18 information obviously --

19 MR. PATTON: Um-hum.

20 MR. VERARDO: -- but unfortunately  
21 it has nothing to do with this stuff. It's  
22 more how do you do a performance budget. So I  
23 looked through all of my files and I had  
24 absolutely nothing, and I wish I did, because  
25 ten years is a long time to try to remember.

1 But I had absolutely nothing on fund balance,  
2 so why this would occur, because when I saw  
3 this stuff, it obviously concerned me too.  
4 And I've seen this document before.

5 MR. PATTON: You've seen what  
6 document?

7 MR. VERARDO: I've seen these  
8 numbers before you showed them to me.

9 MR. PATTON: You've seen the  
10 disparity?

11 MR. VERARDO: I've seen the  
12 disparity in these years.

13 MR. PATTON: When did you see that?

14 MR. VERARDO: Because Aaron  
15 Robertson asked me if I knew what the heck was  
16 going on --

17 MR. PATTON: Oh.

18 MR. VERARDO: -- with this  
19 disparity, and I told him I have absolutely no  
20 idea. The only reason I could think of a  
21 disparity in these years -- well, I can't  
22 think of any reason here. The only reason I  
23 could think of a disparity is because of an  
24 error in the reporting and trying to get -- or  
25 trying to get spending authority from the

1 Department of Finance. I mean, it's not  
2 explainable to me other than from what you've  
3 shown me and that there is some technical  
4 error going on, I don't -- it's not  
5 explainable.

6 MR. PATTON: You said the only  
7 reason was error or to get spending authority  
8 from the Department of Finance?

9 MR. VERARDO: Well, back in here,  
10 you know, if you're -- I mentioned other  
11 performance budgeting. If we were --

12 MR. PATTON: You're pointing back at  
13 '95 when --

14 MR. VERARDO: Yeah, it's not really  
15 the disparity.

16 MR. PATTON: Yeah.

17 MR. VERARDO: It's if we were making  
18 more SPRF --

19 MR. PATTON: Um-hum.

20 MR. VERARDO: -- then we were  
21 required -- I needed to know that because we  
22 would, with operations, then ask for increased  
23 spending authority so --

24 MR. PATTON: Um-hum. Well -- and  
25 you kind of indicated early in the interview

1 that one of the challenges was -- and how did  
2 you put this, that when revenues in SPRF  
3 exceeded expectations, predictions, one of the  
4 dangers was that you were likely -- it could  
5 likely result in a General Fund cut --

6 MR. VERARDO: That's correct.

7 MR. PATTON: -- which happened  
8 obviously, you said, back in '92, I think --

9 MR. VERARDO: Right. If it were --

10 MR. PATTON: -- before you got to  
11 Admin.

12 MR. VERARDO: Yeah. If this is our  
13 SPRF allocation --

14 MR. PATTON: Yeah.

15 MR. VERARDO: -- and we have -- this  
16 says additional spending authority --

17 MR. PATTON: Um-hum.

18 MR. VERARDO: -- and we make this  
19 every year, obviously Finance then is going to  
20 make -- that's our required SPRF and this and  
21 reduce the General Fund.

22 MR. PATTON: So they're going to  
23 prod you --

24 MR. VERARDO: Yeah.

25 MR. PATTON: -- to make a little bit

1 more. They're going to move the bar up.

2 MR. VERARDO: That's right. And  
3 that's -- I think that's a fair thing to do --

4 MR. PATTON: Yeah.

5 MR. VERARDO: -- within reason.

6 MR. PATTON: Yeah.

7 MR. VERARDO: It's a fair thing to  
8 do within reason. And it was during the  
9 performance budget years, the agreement we  
10 had, and it was a good deal for us was, okay,  
11 if we make this, then we get to give a certain  
12 amount of this out to the districts, and this  
13 would be our spending authority, so we  
14 wouldn't be reduced here, it was an incentive  
15 program.

16 MR. PATTON: The performance-based  
17 budget pilot ran from when to when?

18 MR. VERARDO: '95 to 2000 roughly.  
19 '94 we began, but there was no budget as such.  
20 So '95, '96, '97, '98, '99, 2000.

21 MR. PATTON: To 2000. You know,  
22 it's interesting. You've actually kind of  
23 identified by telling us about that -- and  
24 what you just described is that the SPRF part  
25 of the budget was based on a certain level,

1 and in the '90s after budget problems with the  
2 State in the early '90s, the legislature  
3 want -- you were put on a performance-based  
4 budget pilot to try to increase SPRF revenues,  
5 and you were successful.

6 MR. VERARDO: Well, it wasn't a  
7 performance budget pilot to try to increase  
8 SPRF. There were five departments, six, but  
9 one dropped out right away, that were the  
10 pilots for the State of California on  
11 performance budgeting with whatever that meant  
12 for those (indiscernible - simultaneous  
13 speaking).

14 MR. PATTON: Yeah, yeah, but as far  
15 as Parks. I'm only talking about Parks.  
16 Parks was one of the pilots.

17 MR. VERARDO: Parks was one of the  
18 pilots, but increasing SPRF was not the goal  
19 of the pilot. I didn't want to mislead you --

20 MR. PATTON: Really?

21 MR. VERARDO: -- and say -- it  
22 wasn't the goal of the pilot. It was  
23 efficiency --

24 MR. PATTON: Okay.

25 MR. VERARDO: -- and could we

1 reduce --

2 MR. PATTON: All right.

3 MR. VERARDO: -- costs.

4 MR. PATTON: It may not have been  
5 the goal, but the result was --

6 MR. VERARDO: That was one of the  
7 results.

8 MR. PATTON: You just -- because you  
9 just draw in your notes a little chart that  
10 showed growth in the SPRF revenue --

11 MR. VERARDO: That's right.

12 MR. PATTON: -- and as the  
13 department realized consistent increased  
14 revenues in SPRF, the legislature -- this gets  
15 reported, the legislature sees that, and they  
16 move then the bar up and they basically start  
17 to assume then that, okay, SPRF is going to  
18 realize at least this much revenue --

19 MR. VERARDO: Right.

20 MR. PATTON: -- and we're going to  
21 prod you to maybe even increase a little bit  
22 more, and we're going to -- and they, in fact,  
23 did increase the amount of SPRF appropriation  
24 and did a corresponding decrease in General  
25 Fund --



1 MR. VERARDO: Correct.

2 MR. PATTON: -- in the mid '90s.

3 MR. VERARDO: Correct.

4 MR. PATTON: Yeah. And it's  
5 interesting to note that that's what was going  
6 on in the '90s because then by the end of the  
7 '90s the end of the disparity in terms of  
8 what's not being reported in SPRF revenue  
9 starts to grow.

10 MR. VERARDO: Starts to grow, yeah.

11 MR. PATTON: And it remains  
12 undisclosed throughout the 2000s. And I won't  
13 go down too far --

14 MR. VERARDO: No, but --

15 MR. PATTON: -- and tell you what my  
16 theory is, but I got a theory.

17 MR. VERARDO: You see, this bothers  
18 me as much as what the target years you're  
19 talking about.

20 MR. PATTON: Yeah.

21 MR. VERARDO: I mean, (indiscernible  
22 - simultaneous speaking).

23 MR. PATTON: You're looking at the  
24 growth period.

25 MR. VERARDO: Yeah, why didn't

1 Finance say, since they're looking at  
2 Controllers' stuff all the time --

3 MR. PATTON: Well, that's a good --

4 MR. VERARDO: -- because we're being  
5 audited.

6 MR. PATTON: That's a good question.  
7 You know, let me ask you that. That's a very  
8 good question which Finance is going to get to  
9 answer why because they were issuing memos,  
10 they were aware of a disparity, and we'll see  
11 what ultimately is explained in terms of that.

12 Just so you know, on September 17,  
13 the governor signed AB-1874, and it requires  
14 that Finance and the Controller compare their  
15 numbers. Just so you know.

16 MR. VERARDO: Good.

17 MR. PATTON: Now -- yeah. What was  
18 I going to ask you? Oh, I'm drawing a blank.  
19 So why -- you say why weren't they looking.  
20 Well, they were looking --

21 MR. VERARDO: Because we were  
22 audited.

23 MR. PATTON: Oh, yeah. That's --  
24 thank you. You were audited by --

25 MR. VERARDO: Department of

1 Finance --

2 MR. PATTON: Uh-huh.

3 MR. VERARDO: -- our internal  
4 audits --

5 MR. PATTON: Yeah.

6 MR. VERARDO: -- Bureau of State  
7 Audits --

8 MR. PATTON: Uh-huh.

9 MR. VERARDO: -- Legislative  
10 Analyst's Office.

11 MR. PATTON: Everybody audited you.

12 MR. VERARDO: Yeah, and there was  
13 never -- I don't remember a time where we  
14 didn't make space for an auditor. Now,  
15 that's --

16 MR. PATTON: Well, what I want to  
17 know is when an auditor -- when they come in  
18 and do audits, what are they auditing? Are  
19 they auditing your -- they're looking at your  
20 fund condition statements? Are they --

21 MR. VERARDO: Some are looking at  
22 fund condition statements. Some are looking  
23 at internal operations of our accounting  
24 office, which was done multiple times while I  
25 was there. So let me say, by "multiple

1 times", two, but I think it's more than that  
2 because there was never not someone auditing  
3 Administrative Service -- the department but  
4 Administrative Services part of the  
5 department.

6 MR. PATTON: Um-hum. So there were  
7 multiple audits?

8 MR. VERARDO: Multiple audits.  
9 That's why I'm amazed --

10 MR. PATTON: That this was never  
11 caught.

12 MR. VERARDO: -- and a big number,  
13 yeah.

14 MR. PATTON: Especially while it was  
15 growing.

16 MR. VERARDO: I wouldn't get  
17 concerned probably about a six million even if  
18 I had known about it --

19 MR. PATTON: Um-hum.

20 MR. VERARDO: -- I'd find out what's  
21 wrong, but I would get concerned about these  
22 numbers.

23 MR. PATTON: Yeah, when it's  
24 growing.

25 MR. VERARDO: Yeah, absolutely.

1 MR. PATTON: And growing by a  
2 significant percentage. There's a fifty  
3 percent bump from --

4 MR. VERARDO: Yeah.

5 MR. PATTON: -- '99 to 2000 --

6 MR. VERARDO: And I'm surprised --

7 MR. PATTON: -- from 13.8 to twenty  
8 million.

9 MR. VERARDO: -- like I said, that  
10 Department of Finance didn't come up to us and  
11 say, hey, you know, we got a problem here --

12 MR. PATTON: Um-hum.

13 MR. VERARDO: -- and we would have  
14 resolved it.

15 MR. PATTON: Um-hum. Well, I think  
16 part of the answer, just at least a theory is,  
17 based on their memo, is that they do see in  
18 '02 and '03, they issue memos, and they say,  
19 look, you had a disparity fiscal year ending  
20 '01 and '02 of 22.7 and 26.8 million, and they  
21 say rectify it because there's -- there is  
22 some work to do then to -- because my  
23 understanding is that the fund condition  
24 statement is going to include some things that  
25 aren't included in the cash report to the

1 Controller, primarily future anticipated  
2 encumbrances that are not yet actual debts,  
3 right?

4 MR. VERARDO: Right.

5 MR. PATTON: So there is a certain  
6 amount -- because when -- just so you know,  
7 that memo from '02 and '03, when you take the  
8 whole world of special funds and you combine  
9 them, in '03, the total disparities totaled  
10 1.9 billion.

11 MR. VERARDO: Yeah.

12 MR. PATTON: Okay. But most of  
13 this -- you know, almost all of this is  
14 explained by differences in accounting  
15 methodology and so there's some adjustments  
16 that have to be made, from what I understand,  
17 to account for primarily encumbrances. That's  
18 not right? Jeff is nodding his head yes. So  
19 it's a matter then of really pulling apart the  
20 fund condition statement and making all those  
21 adjustments and then seeing if you're able to  
22 true it up to the cash report.

23 MR. VERARDO: Right.

24 MR. PATTON: Yeah.

25 MR. VERARDO: Yeah. I would -- it's

1 not and so I'm nodding too.

2 MR. PATTON: And from what we can  
3 see, all the different agencies, all the  
4 control agencies that audited, evidently that  
5 just -- that never happened. They never went  
6 to that degree of reconciliation to see if the  
7 bottom line cash matched up.

8 MR. VERARDO: Well, if the bottom  
9 line is a systemic issue throughout State  
10 government, not a Parks and Recreation issue,  
11 this is Park and Recreation issue, but that  
12 memo didn't go just to Park and Recreation.

13 MR. PATTON: No.

14 MR. VERARDO: There's some --

15 MR. PATTON: But we don't know that,  
16 at the end of the day, how much of that is not  
17 reconcilable.

18 MR. VERARDO: Correct.

19 MR. PATTON: We know that in the  
20 SPRF --

21 MR. VERARDO: Yeah.

22 MR. PATTON: -- this amount was not  
23 reconcilable. Okay. So we're not here to  
24 say -- you know, to conclude and we haven't  
25 looked at all the other reconciliations --

1 MR. VERARDO: Yeah.

2 MR. PATTON: -- so we're certainly  
3 in no position to say that this is systemic as  
4 to every special fund listed there. And  
5 that's for Finance and LAO and everybody else  
6 to examine to make sure that there is no  
7 systemic issue.

8 MR. VERARDO: Absolutely.

9 MR. PATTON: Yeah. Okay. And as I  
10 indicated, there's an -- Assembly Bill 1874  
11 passed, and it requires exactly that. That's  
12 good.

13 MR. VERARDO: I have to say this on  
14 the record. Isn't it a shame that it required  
15 that?

16 MR. PATTON: Well, you know --

17 MR. VERARDO: You don't have to  
18 answer that.

19 MR. VERARDO: I'm going to turn off  
20 my recorder now.

21 MR. PATTON: All right. I'm going  
22 to turn off ours as well, and we're going to  
23 conclude the interview at 10:23.

24 (End of audio)

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Denzil Verardo interview on 9-24-12

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best of my ability from an audio recording  
submitted by Heidi Webb at the California  
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                  I have subscribed this certificate  
at New York, New York, this 2nd day of  
October, 2012.

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[& - administrative]

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[break - contracts]

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[people - reduce]

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