

## **Summary of 9-24-12 interview of Denzil Verardo**

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

### **Employment History and Parks Administrative Services Personnel**

Denzil Verardo worked 32 years for the Department of Parks and Recreation. He started in 1971 as a park ranger and retired in mid-2003 after serving as chief deputy director of administrative services. During his career Verardo supervised a number of different parks, and was superintendent of various districts including Monterey, Big Sur-Santa Cruz, and San Juan Bautista. He spent four years at the Department's Peace Officers Standards and Training center at Asilomar. In 1994 he came to Sacramento headquarters to be assistant director for quality management, where he worked to improve efficiency and reported to then-director Donald Murphy. In late 1995 Verardo became deputy director, and in 2000 chief deputy director of administrative services.<sup>1</sup> (Denzil Verardo interview transcript (DVtr), pp. 4-8.)

From 2003 to 2011, Verardo worked as a retired annuitant for the California Performance Review, the Department of Toxic Substances Control, and as chief deputy director of the Department of Alcohol and Drug Programs. Verardo ceased working as a retired annuitant in July 2011, but continues to serve as a Senate Rules Committee appointee to the Senate Advisory Commission on Cost Control in Government. Verardo has a post-doctoral certificate in quality implementation. (DVtr, pp. 5-6, 16.)

Verardo noted that he "inherited a heck of a team" in the Parks Department's administrative services section. The team consisted of accounting officer Freda Luan-Dun, budget officer Becky Brown, and financial management chief Tom Domich. Verardo stated that those three handled most financial matters while Verardo handled training and the rest of administrative services. He stated that he left the budget preparations to Domich and his crew, and Domich took charge of budget preparations in consultation with the operations division. He observed that Domich, Brown, and Luan-Dun all understood the nuts and bolts of the budget,

---

<sup>1</sup> Organization charts indicate Verardo's title in 2000 was Chief Deputy Director of Administrative Services, and the next most senior person was Tom Domich, then-Chief of the Financial Management Division. After Verardo retired in 2003 the title of his post was changed to Deputy Director of Administrative Services. Mary Wright served during the same period as Verardo and advises she was the sole chief deputy for the department as a whole. (Mary Wright 10-3-12 interview transcript, pp. 10-11.)

and that Domich had previously been the budget officer. He stated that he reviewed items before submission to the Department of Finance (DOF). Verardo also stated that Domich was the person in charge of “virtually all the financial decisions,” but also showed Verardo everything. Final budgetary decisions were made by Verardo and Murphy, and Domich and Brown served as the direct liaison with the DOF. (DVtr, pp. 17-20, 54-55, 72-73.)

Verardo stated he believed Becky Brown was one of the state’s best budget officers, and was well respected by DOF and all control agencies. He opined that Brown was the best there's ever been for Parks and well knew the intricacies of the Department’s budget. (DVtr, p. 23.)

### **State Parks and Recreation Fund**

Verardo advised that the Park's budget is fairly complicated. It had consisted of some 26 funding sources when he began, and had later been reduced to 16 or 18 different sources. He explained that the big three items in the Department’s budget are the State Parks and Recreation Fund (SPRF), the general fund, and Off-Highway Vehicle (OHV) fund. (DVtr, pp. 24-25.)

Verardo described the budget relationship between the SPRF and the general fund. He noted that the DOF approved an incentive program during his tenure whereby park districts that exceeded targeted amounts were allowed to retain between 25 and 50 percent of excess SPRF revenue generated. Verardo stated the trick was to accurately predict SPRF revenue, as over-predicting led to a deficit, plus you needed excess revenue in order to have a reserve. But if revenue exceeded predictions too much, it was obvious to the DOF the Department generated more revenue than needed. Those monies might be taken and applied elsewhere, and also lead to a subsequent reduction of the Department's general fund appropriation. (DVtr, pp. 25-28.)

Verardo summarized that the better the Department did with SPRF revenue, chances were the general fund appropriation would be reduced. He noted that the general fund appropriation was consistently and severely decreased in the early 1990s, and noted there had been a “huge general fund hit” and mandated increase in the SPRF appropriation. Verardo recalled that the first significant general fund hit of approximately \$10 million occurred between 1990 and 1992. The Department developed a park closure list as one possible way of dealing with the cut, but also devised a flexible methodology that enabled districts to adjust fees and thereby increase SPRF revenue. (DVtr, pp. 28-31.)

Verardo expressed surprise that the DOF would not have known everything Parks was doing, observing that the SCO issued award certificates for the SPRF, and the Department was “audited backward, forward, upside down” as part of a performance budget pilot program that ran from 1995 to 2000. Verardo also noted that during the performance budget pilot period, the Department ran two accounting programs to accommodate both performance and traditional line-item budgeting. (DVtr, pp. 32-34.)

Verardo stated that he never looked at accounting reports submitted to the State Controller’s Office (SCO), and that such reports represented information after the fact. What he looked at were the budget reports going to the DOF, and about which he never had any concern. He indicated that as long as SPRF monies were within a couple million dollars or ten percent of what was forecasted, things were reasonable and normal. He stated that had the number gone off track by 20 to 50 percent, he would have expected Brown and Domich to raise a red flag. He recalled that the spending plan was always conservative enough to ensure a small cushion for operations, and the reserve amount was determined by the operations managers working with administrative services. (DVtr, pp. 37-43, 73.)

Verardo stated he was sort of familiar with a fund condition statement for the DOF. When asked if the account balance reported to the SCO was the starting point for a fund condition statement, Verardo replied “yes.” He stated it would routinely be handled by the budget shop, further noting that Domich, Brown, and Luan-Dun were a tight working group. (DVtr, pp. 43-44.)

A DOF spreadsheet showing disparities in fund balances reported to the SCO and the DOF for the SPRF from 1993 to 2011 was then shown to Verardo. (Exhibit A attached.) It was observed that the document demonstrated the disparity in the SPRF balance reports grew from \$6.3 million at the end of the fiscal year in 1997 to a high of \$29.2 million at the close of the fiscal year in 2003. Verardo was also told that it had been reported that Brown was aware of the SPRF disparity around the year 2000, came to Luan-Dun for help, and Dorothy Kroll in accounting determined that an error in the SPRF budget report was traceable to errors in the prior year adjustment figure. Verardo stated that the matter had never been reported to him. He stated it was hard to believe Domich or Brown wouldn’t have told him about it, “unless there was so much confusion going on in there that they wanted to sort it out first.” (DVtr, pp. 44-49, 69.)

Next, Verardo was shown two DOF memos issued on April 8, 2002, and June 5, 2003, which identified disparate balances reported to the DOF and SCO for various special funds, including the SPRF and OHV funds. (Exhibits G and H attached.) Verardo indicated he had never been informed of or seen the memos. (DVtr, pp. 50-53.)

Verardo recalled executive committee meetings hosted by the director, and stated that financial matters were not regularly discussed. He did recall management discussing a large bond act in 2000 which Verardo stated resulted in \$1 billion for capital improvements coming to Parks at the rate of \$330 million per year for three years.<sup>2</sup> He stated that the focus at the time was on capital improvements, and they doubted their ability to spend that much money, considering the Department's reduced staffing in capital outlay. He noted that the priority at the time was ramping up their construction contracts. Verardo observed that by 2002-2003, the Department hit on hard times again, although nothing as severe as what occurred in the early 1990s when park closures were discussed. (DVtr, pp. 53-54, 62.)

This interviewer remarked it was curious that his subordinate staff identified the SPRF balance report disparity around 2001 yet did not report it to him. Verardo replied that they might have been trying to determine if it really was a problem and how to reconcile it, which could take an entire fiscal year. He indicated he had no explanation why they failed to do so after the performance based budget program ended and the discrepancy continued. (DVtr, pp. 55-57.)

### **Off-Highway Vehicle Fund**

Verardo was asked what he recalled about the OHV fund. He recalled that OHV had its own administration, although the numbers would go through Brown and the Department's budget office for the purposes of reporting to the DOF. Verardo noted that the off-highway vehicle community had successfully lobbied to make the OHV fund a trust account, and he never monitored their balances knowing there would always be a surplus, as it was impossible to spend all the revenue the OHV fund generated. (DVtr, pp. 63-64.)

---

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

Verardo recalled that loans had been made of the OHV monies. He stated that the anecdotal complaints he has heard are that the Legislature or the Legislative Analyst's Office, or the DOF, had figured out a loophole in order to avoid the trust account limitations and to thereby access OHV monies before they entered the account. He clarified that such reports were simply rumor and he was aware of no supporting evidence. (DVtr, pp. 64-67.)

The DOF's spreadsheet showing fund balance discrepancies from 1993 to 2011 was then reviewed. (Exhibit A attached.) The document reflects tremendous swings with tens of millions more OHV dollars being reported to DOF than to the SCO one year, and an opposite report imbalance occurring the next year. Verardo indicated no one had ever talked with him about the OHV fund balance report disparities and he would have recalled if they had. (DVtr, pp. 67-68.)

### **Conclusion of Interview**

As the interview concluded, it was observed that increased SPRF revenues were generated during the performance based budget program, which ran from 1995 to 2000. Through the same time period, the disparity in balance reports to the SCO and DOF for the SPRF also grew, from \$5.5 million at the end of the fiscal year in 1996 to approximately \$20 million at the end of the fiscal year in 2000. (DVtr, pp. 78-81; Exhibit A attached.) Verardo again voiced his puzzlement that such reporting discrepancies could have occurred during a time when the Department was constantly being audited. (DVtr, pp. 81-84.)