



Transmitted via e-mail

December 21, 2012

Major General Anthony L. Jackson, USMC (Ret), Director
Department of Parks and Recreation
1416 Ninth Street
Sacramento, CA 95814

Dear Mr. Jackson:

Final Report—Department of Parks and Recreation Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its internal control review of the Department of Parks and Recreation as of June 30, 2012.

The enclosed report is for your information and use. The Department of Parks and Recreation's response to the report and our evaluation of the response are incorporated into this final report. The draft report was issued on December 12, 2012, and Parks' response to the draft report required further analysis. As a result of our analysis, changes to Observation 3 were made to reflect the following:

- References to retention have been replaced by "final payment."
- The number of Cal-Card statements in which staff requesting purchase authorization and also approved the purchase was changed from 9 to 2 statements.

A detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies. This report will be placed on our website.

We appreciate the assistance and cooperation of the Department of Parks and Recreation. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Alexis Calleance, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Mr. Aaron Robertson, Chief Deputy Director, Department of Parks and Recreation
Ms. Karen Edgren, Acting Deputy Director, Administrative Services Section, Department of Parks and Recreation
Ms. Megan Florida, Legislation Office, Department of Parks and Recreation
Ms. Dorothy Kroll, Accounting Administrator, Accounting Services Section, Department of Parks and Recreation
Ms. Elsie Brenneman, Budget Officer, Budget Section, Department of Parks and Recreation
Ms. Kristal Brown, Staff Services Manager, Business Management Services Section, Department of Parks and Recreation

Audit Report

Department of Parks and Recreation Internal Control Review as of June 30, 2012



McConnell State Recreation Area, Source: www.parks.ca.gov

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) fiscal responsibilities, Finance audited the California Department of Parks and Recreation's (Parks) internal controls. Due to ongoing audits/investigations and known risk factors, the audit focused on Parks' Headquarters activities. Specifically, the audit concentrated on the activities overseen by Parks' Administrative Services Division. The audit did not include a review of district office activities.

As such, the audit objectives were to: 1) determine the ending fund balances of the State Parks and Recreation Fund (SPRF) and Off-Highway Vehicle Fund (OHVF) as of June 30, 2012, and identify any related internal control weaknesses; 2) assess if key internal controls over the Revolving Fund and State Park Contingent Fund are in place, and 3) assess if key internal controls are in place over procurement activities, such as the Voyager Card Program, the Cal-Card Program, and contracts.

We confirmed variances existed between the State Controller's Office (SCO) Budgetary/Legal Basis Annual Reports and the Governor's Budgets for at least 19 years. These variances existed because Parks submitted certified year-end financial statements to SCO reflecting actual fund balances from its accounting records while intentionally under-reporting fund balances to Finance for development of the Governor's Budget. We determined the ending fund balances (excluding encumbrances and deferred payroll) for the SPRF and OHVF as of June 30, 2012 are \$58,212,226 and \$202,004,205, respectively.

In fiscal year 2012-13, the OHVF was reduced by \$103.8 million to correct monies the OHVF received belonging to the General Fund. Specifically, the OHVF received an influx of funds from the Transportation Tax Fund anticipated in 2010-11 and 2011-12. The influx was due to fee increases to the Transportation Tax Fund that were also intended to adjust the department allocation percentages; however, the percentages were left unchanged. SCO posted a correcting entry transferring \$103,767,176 to the General Fund.

The key internal controls over the Revolving Fund are in place and working as intended. However, the following weaknesses were noted:

- The governance structure over budgeting functions needs to be strengthened.
- Risks over the State Park Contingent Fund exist.
- Key internal controls over procurement activities need improvement.

Parks must improve accountability, transparency, and communication to restore trust with the public, their partners, and internally within the department. To improve operations, Parks must develop a corrective action plan to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

In July 2012, the California Natural Resources Agency (Resources) and the California Department of Parks and Recreation (Parks) disclosed significant issues involving inaccurate reporting totaling \$53.87 million for two of Parks' special funds. The fund balances in the fiscal year 2012-13 Governor's Budget were materially less than the fund balances reported in the State Controller's Office (SCO) Budgetary/Legal Basis Annual Report.

The Governor immediately directed the Department of Finance (Finance) to undertake a fund-by-fund review of more than 500 special funds. The results of that review (published on the Finance website¹) determined differences were primarily due to methodology, timing, and human error. However, Parks' variances—which reflected Parks had significantly more funds available than disclosed in the Governor's Budget—could not be explained and required further analysis. Specifically, the actual balances for the State Parks and Recreation Fund (SPRF) and the Off-Highway Vehicle Trust Fund (OHVF) were \$20.4 million and \$33.4 million more than the amounts reported to Finance, respectively. Further analysis by Finance revealed the variances dated back to 1993. These variances existed because Parks submitted certified year-end financial statements to SCO reflecting actual fund balances while intentionally under-reporting fund balances to Finance for development of the Governor's Budget.

The Governor's Budget display is for three years. Specifically, the 2012-13 Governor's Budget presents the past year actual figures for 2010-11, the current fiscal year figures for 2011-12, and budget estimates for 2012-13. In addition, the 2011-12 SCO reports have not been published. The amounts below are from the year-end financial statements prepared by Parks for 2011-12. Depicted in Table 1 is a comparison of the past year actual fund balances reported in the Governor's Budget to those balances reported by SCO. The *Results* section further describes the fund balance correction process undertaken to accurately state the 2011-12 fund balances that will be reflected in the 2013-14 Governor's Budget.

¹ www.dof.ca.gov

**Table 1 - Comparison of the Governor's Budget and SCO Reports²
Past Year Actual Amounts**

Off-Highway Vehicle Trust Fund (in millions)					
	2007-08	2008-09	2009-10	2010-11	2011-12³
SCO's Fund Balance	\$ 147.0	\$ 134.3	\$ 119.9	\$ 165.0	\$ 202.0
Governor's Budget Ending Fund Balance	146.6	128.7	140.5	131.6	202.0
Difference	\$.4	\$ 5.6	\$ (20.6)	\$ 33.4	-

State Parks and Recreation Fund (in millions)					
	2007-08	2008-09	2009-10	2010-11	2011-12⁴
SCO's Fund Balance	\$ 24.2	\$ 26.6	\$ 36.7	\$ 52.1	\$ 58.2
Governor's Budget Ending Fund Balance	4.3	7.7	16.4	31.7	58.2
Difference	\$ 19.9	\$ 18.9	\$ 20.3	\$ 20.4	-

Governance

In recent years, a structural budget deficit existed in California. The deficit required a number of budget solutions to reduce state general fund expenditures to develop a balanced budget. Among these solutions was a proposal to close as many as 70 state parks. Extensive efforts, including the solicitation of donations, were undertaken by various groups to save California parks slated for closure. Despite the proposal to close a number of state parks and the related widespread news media attention, Parks continued to under-report fund balances to Finance for the development of the Governor's Budgets over several years.

Additionally, Parks implemented an unauthorized vacation buy-back program in 2011 allowing employees to "cash in" their accrued vacation hours. This resulted in employees cumulatively receiving \$269,413 (from the SPRF). Parks implemented this vacation buy-back program at the time furloughs had been imposed on state employees and state parks risked closure.

Because of the unauthorized vacation buy-back program and misreporting of fund balances, the Parks Director resigned and top executive staff were discharged from employment for allowing such improper activities to occur. Concerns were raised about the "tone at the top" and whether

² In order to obtain an accurate comparison of the two reports, the fund balances reported to SCO were adjusted to eliminate encumbrances and deferred payroll.

³ The 2011-12 ending fund balances of the Governor's Budget are proposed and are subject to change. These proposed amounts were provided by Finance's Budget Unit.

⁴ Ibid.

other improprieties had occurred. The former Deputy Director of the Administrative Services Division was responsible for the unauthorized vacation buy-back program and misreporting of fund balances as well as other critical business functions, such as accounting and procurement. It was for this reason the audit focused on the Administrative Services Division's accounting and procurement controls and other high risk areas. Appendix A depicts the sections under the responsibility of the Deputy Director of the Administrative Services Division.

Audit and Investigative Efforts

In addition to Finance, other agencies initiated audits and investigations as a result of the known fund balance issues and potential risks. Each agency's scope is summarized below:

- *Attorney General's Office*: Perform a factual administrative investigation at the request of the Governor.
- *State Controller's Office*: Conduct an audit of personnel and payroll processes⁵.
- *Bureau of State Audits*: Conduct an audit of various topics as requested by the Legislature, such as the vacation buy-back program, special fund surpluses, and reporting.

In addition, Parks' Internal Audit Unit performed an audit dated March 28, 2012 regarding the various vacation buy-back programs. Historically, the Internal Audit Unit's audit efforts focused primarily on the district offices and Headquarter operations received minimal audit coverage.

SCOPE

In accordance with Finance's fiscal responsibilities, we were directed by the Governor's Office to audit Parks' internal controls. We considered the objectives of the concurrent audits and investigations to avoid duplication of work and conducted a risk assessment to identify high risk areas, such as areas under the direct responsibility of the former Deputy Director of the Administrative Services Division. We did not audit Parks' district offices.

Part of the risk assessment process involves interviewing key staff to gain a general understanding of Parks' operations and to collect data related to the vacation buy-back program and under-reporting of funds. During preliminary interviews and cursory review of files, current Parks management stated that due to staff turnover, they were uncertain if documentation supporting budget-related submissions was retained. Upon review of the files made available, we determined data prior to 2001 was not retained and we were unable to determine if files subsequent to 2001 were complete. Based on the known risks and our risk assessment, we identified the following high-risk areas:

- Budget-related activities, including the development of fund condition statements.
- Accounting activities, including the Revolving Fund and the administration of the State Park Contingent Fund. The State Park Contingent Fund was created as a depository for funds received in the form of gifts, bequests, and donations. The recent donations received to avoid park closures were deposited into this fund.
- Procurement activities related to the Voyager Card Program, the Cal-Card Program, and contracts. We did not review activities at the district offices as part of this audit.

⁵ This audit was issued December 18, 2012 and is available on SCO's website (www.sco.ca.gov).

Other sections within the Administrative Services Division, such as the Labor Relations Section and Office of Information Technology, were deemed low risk and were not reviewed. As such, the audit objectives were as follows:

- Determine the ending fund balances of the SPRF and OHVF as of June 30, 2012. Identify any related internal control weaknesses.
- Assess if key internal controls over the Revolving Fund and State Park Contingent Fund are in place.
- Assess if key internal controls are in place over procurement activities, such as the Voyager Card Program, the Cal-Card Program, and contracts.

Parks management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and administrative requirements.

METHODOLOGY

To address the audit objectives, we performed the following general procedures. Appendix B lists specific procedures as they relate to each audit objective.

- Interviewed key personnel to gain an understanding of their respective responsibilities and duties.
- Reviewed applicable legal provisions, regulations, management policies, procedures, and program guidelines significant to the audit objectives.
- Reviewed relevant websites to gain an understanding of Parks' operations.
- Reviewed audit reports and other publications significant to the audit objectives.
- Coordinated with SCO, Attorney General, and Bureau of State Audits to gain an understanding of their respective audit scopes.
- Coordinated with Parks' Internal Audit Unit and reviewed corrective actions and implementation plans in response to internal audits.

Except as discussed in the following paragraph, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our audit, there are certain disclosures required by generally accepted government auditing standards. Finance is not independent of Parks, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

Internal control is a process, affected by executive management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. In response to the irregularities that occurred, Parks initiated actions to remove the key management employees responsible for the misreporting of special fund balances and approval of the vacation buy-back program. Additionally, actions are being taken to improve its internal control system to restore trust with the public, their partners, and internally within the department. A new executive management team is being established, the *Department Administrative Manual* is being updated, on-the-job training is being provided to the Budget Section staff, a communication strategy emphasizing integrity and personal responsibility is being employed, and new administrative controls are being instituted to strengthen its operations. While these planned actions are positive steps, additional risks remain and improvements are needed.

Monitoring is an important component in maintaining effective internal controls. It is imperative for executive management to continuously monitor, assess, and update controls to ensure the internal control system is functioning as intended, to identify material weaknesses needing immediate attention, and to comply with laws, regulations, and applicable criteria. Monitoring efforts can consist of, but are not limited to, self-assessments, peer reviews, and internal audit activities. Given Parks has an Internal Audit Unit, executive management should consider leveraging the internal audit function to mitigate its risks, and expand its role to assume more responsibilities as a consultant to the executive team. The Internal Audit Unit can play an important role in the organization's governance, internal control structure, risk management analysis, and financial reporting process.

As related to our scope, we provide the following observations and recommendations. A corrective action plan addressing each observation is required to strengthen the internal control system. The results of the audit are based on our review of documentation, other information made available to us, and interviews with key staff.

Observation 1: Governance Structure over Budgeting Functions Needs Improvement

The State Administrative Manual (SAM) section 20050 requires state entity heads, by reason of their appointments, to be accountable for activities carried out in their agencies. This responsibility includes establishment and maintenance of internal accounting and administrative controls. The Budget Section has inadequate internal controls in place, hindering its ability to operate effectively and efficiently. We identified weaknesses requiring corrective actions to provide Parks management a reasonable level of assurance that the Budget Section's governance structure is sound.

Consistent and Reasonable Budget Methodology Is Not Applied

When reviewing the fund condition statements as presented in the Governor's Budget for fiscal years 2007-08 through 2010-11, several instances were identified where the prior-year adjustments were not properly calculated. We found the methodology was inconsistent, Parks staff could not provide reasonable explanations, and supporting documentation was not retained. As such, we were unable to determine the basis for the calculations and financial data submitted to Finance and ultimately presented in the Governor's Budget. Moreover, it came to our attention the prior-year adjustments were intentionally misstated to under-report the fund balances to Finance.

Parks' Accounting Services Section prepares fund condition statements based on certified year-end financial statements and provides them to the Budget Section. Until recently, such information was not used to develop budget-related submissions. Due to staff turnover, we could not determine the reasons why the Budget Section did not utilize the information provided by the Accounting Services Section.

Summary of Budget Letter 12-22 Requirements

- Departments shall use their year-end financial statements as the basis for preparation of budget documents for the Governor's Budget.
- Unless otherwise specified in law, the General Fund and special funds are accounted for and maintained on a modified accrual basis.
- Finance designates an administering department for each fund. The administering department is responsible for the overall management of the fund. BL 12-22 outlines the responsibilities of a fund administrator.
- Beginning with fiscal year 2012-13, each department head or his/her designee (who must be at least one level above both budgeting and accounting) is required to certify the following:
 - Past/prior year information provided to Finance is accurate and reconciles between budget accounting records.
 - Information is consistent with information provided to the Controller.

Source: www.dof.ca.gov

On September 6, 2012, Finance issued Budget Letter 12-22 to remind and inform state departments of existing and new requirements for reporting past/prior year financial data when submitting budget documents during development of the Governor's Budget. The letter also requires that information provided to Finance be accurate and reconciled between accounting and budget records. See text box for a summary of the Budget Letter's requirements.

Parks submitted a one-time adjustment to Finance for both the State Parks and Recreation Fund (SPRF) and the Off-Highway Vehicle Trust Fund (OHVF) to correct the 2011-12 past year actual fund balances' column in the Governor's Budget. Going forward, these adjustments and complying with Budget Letter 12-22 will ensure the amounts reported in future Governor's Budgets reconcile to accounting records. We reviewed these one-time adjustments for propriety and determined the adjustments were properly calculated and reported to Finance. As such, the ending fund balances (excluding encumbrances and deferred payroll) for the SPRF and OHVF as of June 30, 2012 are \$58,212,226 and \$202,004,205¹, respectively.

¹ In 2012-13, the OHVF was reduced by \$103.8 million. This was to correct monies the fund received belonging to the General Fund. Specifically, the OHVF received an influx of funds from the Transportation Tax Fund anticipated in 2010-11 and 2011-12. The influx was due to fee increases to the Transportation Tax Fund that were also intended to adjust the department allocation percentages; however, the percentages were left unchanged. In the current fiscal year, SCO posted a correcting entry transferring \$103,767,176 to the General Fund.

Management Override of Controls

Based on our interviews, over-reliance was placed on the Budget Section's management team to perform essential budget functions, such as preparing Budget Change Proposals, Schedule 10s, and Schedule 10Rs. This management style along with minimal oversight by executive management hindered budget line staff's ability to gain knowledge and expertise within their job responsibilities. Parks is in the process of cross-training staff to ensure the Budget Section has the essential knowledge and skills to operate effectively and efficiently.

No Written Policies and Procedures

Parks does not maintain written policies and procedures governing the preparation of the fund condition statements. Policies and procedures would ensure consistency and guide staff in the preparation of budget-related documents. Although procedures exist for certain calculations (such the Schedule 10s and 10Rs), they have not been updated.

Recommendations:

To strengthen the Budget Section's governance structure and internal controls, we recommend the following:

- A. Adhere to Budget Letter 12-22. In addition, establish an adequate file management system. Documentation to be maintained should include, but is not limited to, all budget-related submissions and management decisions.
- B. Promote a work environment that fosters accountability and transparency. Provide staff the necessary training and employ a communication strategy to disseminate budget policies and other budget-related information in a timely manner.
- C. Develop written policies and procedures to ensure operational efficiency and fiscal integrity of all budgetary functions. After implementation, such policies and procedures will need to be regularly monitored, re-assessed, and updated, as necessary.

Observation 2: Risks over the State Park Contingent Fund Exist

Parks has a fiduciary duty to ensure donations which are deposited in the State Park Contingent Fund (SPCF) are spent in accordance with the terms of the gift, bequest, or municipal or county appropriation or donation from which the monies are derived. Although key controls are in place, we identified the following weaknesses:

- Parks' *Department Administrative Manual* requires each new donation to be accompanied by a letter from the donor stating who the funds are from, purpose of the donation, amount of the donation, and a statement of what is to be done with any remaining funds once the project is complete. In three of seven new donations reviewed (43 percent), an accompanying donation letter was not on file.
- Parks is required to receive approval from Finance for all donations over \$100,000. However, only three of the six donations (50 percent) in excess of \$100,000 reviewed had evidence of approval.
- In instances when reoccurring donations are received (from the same donor for the same purpose), additional documentation is not submitted that clearly

specifies such receipt is a donation. This increases the risk of revenue sources being misclassified and not properly credited to the correct fund.

During the course of our audit, we also identified risk factors that could pose a threat to the SPCF. Management should take these factors into consideration when assessing and designing controls over the SPCF.

- *Excess Donation Funding Does not Have Clear Defined Purposes:* The SPCF is a nongovernmental trust and agency fund that acts a depository for gifts, bequests, and donations (donations). Due to the nature of the fund, deposits made into the fund remain in the fund until spent. In order to track donations, Parks establishes a project number for each donation project. During our review, we identified multiple general purpose projects that were established by the Administrative Services Division totaling \$3.9 million (or 20 percent of the SPCF fund balance). Upon inquiry, Parks could not support or substantiate the basis as to why numerous general purpose project numbers were established and what the funding was to be used for. For example, \$1.5 million has remained dormant while earning interest since at least 2004. Maintaining reserved project numbers without specific plans and clearly defined purposes provides an opportunity or risk of potential abuse, waste, and misallocation of funds.
- *Inequitable Interest Allocation Methodology:* Interest earned is not allocated equitably to all donation accounts within the SPCF. Interest earnings are only allocated to donations if the donor specifically makes mention of it in the donation letter. If the donor is silent, the residual interest is allocated to the Administrative Services Division's reserve accounts. We determined 14 percent is allocated to specific donation accounts, whereas 86 percent is allocated to the Administrative Services Division's reserve accounts.
- *Misclassification of Rental Income:* Rental income received by Parks was deposited as a donation. During 2012-13, Parks received rental income for leased property in the amount of \$60,000 that was misclassified as a donation. Public Resources Code section 5010(b) states all revenues received by the department shall be credited to the SPRF.

Recommendations:

- A. Re-assess and update the established policies and procedures regarding the SPCF. Incorporate new processes to address the deficiencies and risks noted above, including the proper use of these funds. Once finalized, communicate the policies to staff responsible for administering the SPCF.
- B. Review and evaluate general purpose project numbers for propriety and eliminate unnecessary project numbers. Establish specific policy for which the funds are to be used.
- C. Evaluate the current interest allocation methodology. Ensure the methodology is equitable, reasonable, and documented.
- D. Post a correcting entry to transfer \$60,000 out of the SPCF (Fund 0952) to the SPRF (Fund 0392) as revenue.

Observation 3: Key Controls over Procurement Activities Need Improvement

Weaknesses exist over procurement functions which may increase the risk of fraud, waste, and abuse. During our review, we found the following weaknesses over the administration of the Voyager Card Program, the Cal-Card Program, and contracts.

Voyager Card Program

Key internal controls over the Voyager Card Program are not adequately designed. Parks lacks written policies and procedures, has a weak control environment, and practices inconsistent and inadequate monitoring efforts.

Division management is responsible for approving transactions for payment. During our interviews, we found division management employ different review processes: some require cardholders to provide the supporting documentation for their review while others do not.

Staff from the Business Services Management Section conducts a second-level review, but does not review the respective receipts. The supporting documentation is required to be retained by the cardholder, but upon our request, it was not always readily available. As such, we were unable to determine if Voyager Card purchases were allowable and supported.

Because Voyager Cards are highly susceptible to fraud, waste, and abuse, clarification and specificity of expectations would provide Parks reasonable assurance Voyager Card transactions are proper and authorized. Parks stated it is in the process of developing policies and procedures.

Cal-Card Program

During our review of the Cal-Card Program, we found Parks designed adequate internal controls and has formalized them in the *Cal-Card Handbook*. However, we identified the following irregularities:

- In 8 of 35 Cal-Card statements reviewed, unallowable purchases were identified. If the cardholder was granted an exception, prior approval must be obtained; however, no evidence was retained to document such pre-approval.
- In 2 of 35 Cal-Card statements reviewed, the staff requesting purchase authorization also approved the purchase. Although a supervisor reviews the monthly statements, purchases should be approved by someone other than the requestor to reduce the risk of unauthorized purchases.

The Business Services Management Section stated each Cal-Card statement and related supporting documentation is reviewed for propriety and validity. However, upon review of the Cal-Card files, there was no documentation evidencing the review. In addition, the listing of active cardholders is not reviewed on a periodic basis. The list should be reviewed periodically to ensure cards are issued to staff with a need.

Types of Procurement Activities

Voyager Card Program

The Voyager Fuel Card Program is utilized for vehicle and aviation fuel and maintenance-related expenses.

Cal-Card Program

The Cal-Card (Visa card, US Bank) Program is available to government/tax-funded agencies for acquiring goods and services.

Source: www.dgs.ca.gov

Contracts

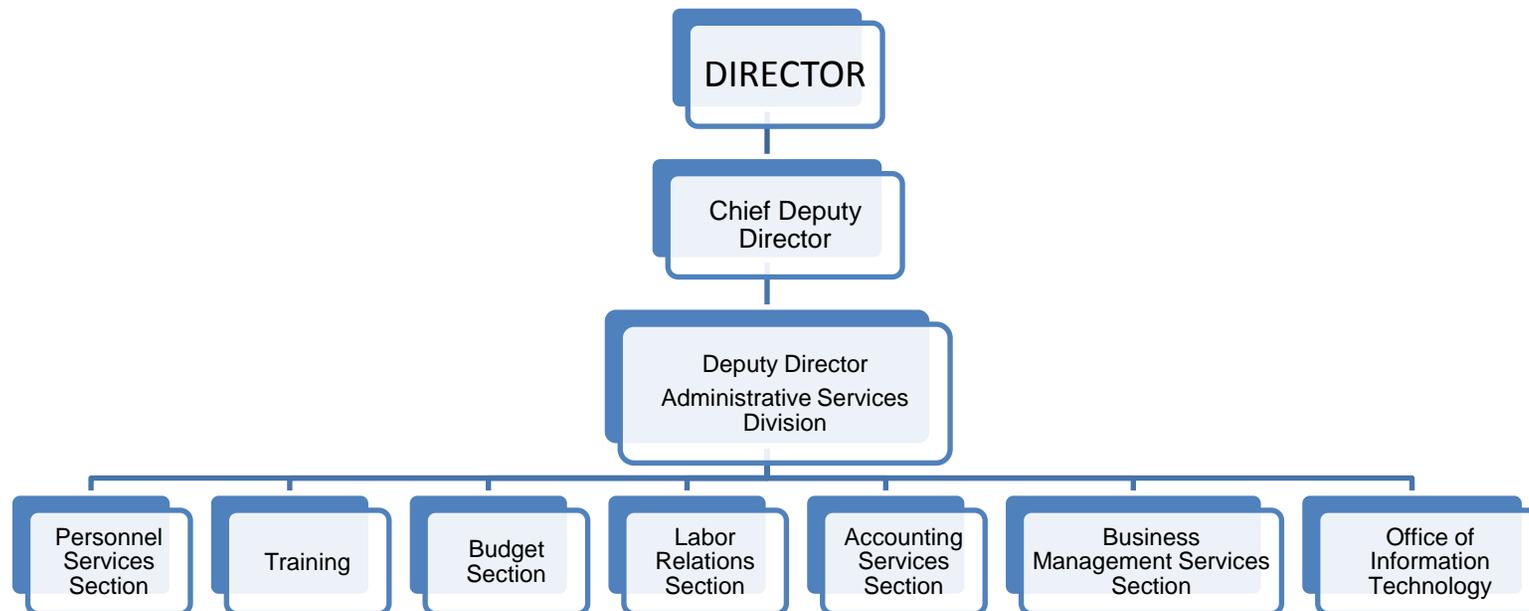
In 8 of 13 closed contracts reviewed (62 percent), we could not determine if Parks verified that contract terms were met prior to releasing the final payment. Verification would provide assurance that contract deliverables were fully met by the contractor and provide Parks leverage, if necessary.

Recommendations:

To provide reasonable assurance that procurement activities comply with laws, regulations, and applicable criteria, we recommend the following:

- A. Develop written policies and procedures for Voyager Cards to promote accountability and fiscal integrity of all Voyager Card transactions. Include guidance to address the deficiencies noted above and consider employing similar controls designed for the Cal-Card Program. Provide training to all card users on the proper use and documentation of card transactions. After implementation, such policies and procedures should be regularly monitored, re-assessed, and updated, as necessary.
- B. Re-evaluate and update the established policies and procedures regarding Cal-Card to take into consideration the weaknesses noted above, including proper card use and authorizations. Communicate the policies to cardholders and emphasize the importance of adhering to such policies.
- C. Prior to the release of final payments, ensure contract terms are met and retain adequate documentation in the contract files.

JULY 2012 ORGANIZATIONAL STRUCTURE
ADMINISTRATIVE SERVICES DIVISION



AUDIT OBJECTIVES AND PROCEDURES

AUDIT OBJECTIVE	PROCEDURES
<p>Determine the ending fund balances of the SPRF and OHVF as of June 30, 2012. Identify any related internal control weaknesses.</p>	<ul style="list-style-type: none"> Assess whether adequate policies and procedures exist to develop, estimate, and report year-end financial data and ensure accurate budget-related submissions. Assess whether Parks correctly prepares revenue/expenditure data (Schedule 10s and 10Rs) and prior year adjustments which are then submitted to Finance. Compare the fund condition statement figures reported in the Governor’s Budget to Parks’ year-end financial statements for fiscal years 2007-08 through 2011-12 to isolate where reporting variances may have occurred. Review and investigate variances.
<p>Assess if key controls over the State Park Contingent Fund are in place.</p>	<ul style="list-style-type: none"> Assess whether adequate policies and procedures exist to record, monitor, and track donations. Assess controls over recurring and one-time donations. Determine if project-related expenditures are properly recorded, tracked, and supported. Determine if residual funds from donations are properly utilized or refunded to donor, if applicable. Determine if reconciliations of project expenditures are completed timely, accurately, and reported to the districts.
<p>Assess if key controls are in place for specific functions under the responsibility of the Administrative Services Division, with emphasis on procurement processes.</p>	<p><i>Voyager Card Program</i></p> <ul style="list-style-type: none"> Assess whether adequate policies and procedures exist to administer Voyager Cards. Assess whether Voyager Cards are used for authorized purposes, adequately safeguarded, and reconciled on a regular basis. Determine whether Voyager Card transactions are reviewed and approved prior to payment. <hr/> <p><i>Cal-Card Program</i></p> <ul style="list-style-type: none"> Assess whether adequate policies and procedures exist to administer Cal-Cards. Assess whether Cal-Cards are used for authorized purposes, adequately safeguarded, and reconciled on a regular basis. Determine whether Cal-Card transactions are reviewed and approved prior to payment. <hr/> <p><i>Contracts</i></p> <ul style="list-style-type: none"> Assess whether Parks is in compliance with applicable contracting policies and procedures. Determine if contracts are properly executed and contract expenditures are correct, proper, and supported. <hr/> <p><i>Revolving Fund</i></p> <ul style="list-style-type: none"> Assess whether adequate policies and procedures exist to administer the Revolving Fund. Review whether the Revolving Fund is used for authorized purposes; expenditures are correct, proper, and supported; and reconciled on a regular basis.



DEPARTMENT OF PARKS AND RECREATION
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Major General Anthony L. Jackson, USMC (Ret), Director

December 17, 2012

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
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Sacramento, CA 95814-3706

RE: Response to the Department of Finance (DOF), Office of State Audits and Evaluations Draft Report

Dear Mr. Botelho:

In response to the December 12, 2012, letter from the Department of Finance regarding the audit of Fiscal, Accounting and Procurement functions in the Department of Parks and Recreation (DPR), DPR provides the following information. The audit was conducted by DOF for the period from June 30, 2012, through December 12, 2012.

Observation 1: Governance Structure over Budgeting functions needs improvement

The State Administrative Manual (SAM) Section 20050 requiresestablishment and maintenance of internal accounting and administrative controls. Parks' Budget Section has inadequate internal controls in place, hindering its ability to operate effectively and efficiently. We identified weaknesses requiring corrective actions to provide Parks management a reasonable level of assurance that the Budget Section's governance structure is sound.

Response – Parks concurs with this observation. However, to clarify, Parks did not intentionally misstate any information provided to DOF since the current Budget management has been in place effective February 2011. The Budget Office is dedicated to providing accurate information and will continue to work with DOF to ensure accurate Prior Year adjustments are reflected in the Governor's Budget.

Management Override of Controls

Based on our interviews, over-reliance was placed on the Budget Section's management team to perform essential budget functions, such as preparing Budget Change Proposals, Schedule 10s, and Schedule 10Rs. This management style along

with minimal oversight by executive management hindered budget line staff's ability to gain knowledge and expertise within their job responsibilities. Parks is in the process of cross-training staff to ensure the Budget Section has the essential knowledge and skills to operate effectively and efficiently.

Response – Parks concurs with this observation. Additionally, the Budget Officer now provides regular budget briefings training to Executive Staff and will provide monthly updates on budget conditions to Executive and Senior Management.

No Written Policies and Procedures

Parks does not maintain written policies and procedures governing the preparation of the fund condition statements. Policies and procedures would ensure consistency and guide staff in the preparation of such budget-related documents. Although procedures exist for certain calculations (such as the 10s and 10Rs), they have not been updated.

Response – Parks concurs with this observation. Procedures are being developed or updated, as needed. Staff will be notified and trained on all procedures and policies as they are revised, no later than February 28, 2013.

Observation 2: Risks over the State Park Contingent Fund Exist

Parks has a fiduciary duty to ensure donations which are deposited in the State Park Contingency Fund (SPCF) are spent in accordance with the terms of the gift, bequest, or municipal or county appropriation or donation from which the monies are derived. Although key controls are in place, we identified the following weaknesses:

- Parks' *Department Administrative Manual* requires each new donation to be accompanied by a letter from the donor stating who the funds are from, purpose of the donation, amount of the donation, and a statement of what is to be done with any remaining funds once the project is complete. In three of seven new donations reviewed (43 percent), an accompanying donation letter was not on file.

Response: Parks concurs with this observation. Procedures have been updated and, and we will provide appropriate notice and training to staff in future transactions. No further deposits will be recorded until a donation letter is received and filed in the Headquarters Accounting Services Section.

- Parks is required to receive approval from Finance for all donations over \$100,000. However, only three of the six donations (50 percent) in excess of \$100,000 reviewed had evidence of approval.

Response: Parks concurs with this observation. The Budget Office will receive DOF approval to process all individual donations in excess of \$100,000. To ensure this we have put safeguards in place. DOF approval must accompany the documentation in order to deposit the donation into the State Park Contingent Fund.

- In instances when reoccurring donations are received (from the same donor for the same purpose), additional documentation is not submitted that clearly specifies such receipt is a donation. This increases the risk of revenue sources being misclassified and not properly credited to the correct fund.

Response: Parks concurs with this observation. Procedures have been updated and will provide appropriate notice and training to staff in future transactions. The process includes notice to include the donation letter with the Report of Collections (DPR 197) form. No further deposits will be recorded unless or until the donation letter has been received in the Headquarters Accounting Services Section.

RISK FACTORS

During the course of our audit, we also identified risk factors that could pose a threat to the SPCF. Management should take these factors into consideration when assessing and designing controls over the SPCF.

- ***Excess Donation Funding Does not Have Clear Defined Purposes:*** The SPCF is a nongovernmental trust and agency fund that acts as a depository for gifts, bequests, and donations (donations). Due to the nature of the fund, deposits made into the fund remain in the fund until spent. In order to track donations, Parks establishes a project number for each donation project. During our review, we identified multiple general purpose projects that were established by the Administrative Services Division totaling \$3.9 million (or 20 percent of the SPCF fund balance.) Upon inquiry, Parks could not support or substantiate the basis as to why numerous general purpose project numbers were established and what the funding was to be used for. For example, \$1.5 million has remained dormant while earning interest since at least 2004. Maintaining reserved project numbers without specific plans to support park operations and clearly defined purposes provides an opportunity or risk of potential abuse, waste, and misallocation of funds.

Response: Parks concurs with all recommendations. We are diligently working to improve our policies and procedures to ensure staff have the knowledge and ability to provide accurate data to DOF.

- *Inequitable Interest Allocation Methodology*: Interest earned is not allocated equitably to all donation accounts with the SPCF. Interest earnings are only allocated to donations if the donor specifically makes mention of it in the donation letter. If the donor is silent, the residual interest is allocated to the Administrative Services Division's reserve accounts. We determined 14 percent is allocated to specific donation accounts, whereas 86 percent is allocated to the Administrative Services Division's reserve accounts.

Response: There are over 300 active donation accounts within the State Park Contingent Fund. The Interest Allocation Methodology used by Parks has been consistently applied for more than 15 years. Due to staffing limitations, we do not have the staffing capacity to calculate and record interest to over 300 individual accounts. The interest is allocated to the Administrative Services Division's reserve account and is then distributed to various District Officers as needs throughout the park system are identified. We will work with the Department of Finance to ensure that this is an appropriate methodology and that it is done accurately.

- *Misclassification of Rental Income*: Rental income received by Parks was deposited as a donation. During 2012-13, Parks received rental income for leased property in the amount of \$60,000 that was misclassified as a donation. Public Resources Code section 5010(b) states all revenues received by the department shall be credited to the SPRF.

Response: Procedures are updated and we will provide notice to all staff involved in future transactions. When funds are received and no direct determination can be identified, the funds will be deposited into the Uncleared Collections account until such time that they can be correctly identified and placed. The \$60,000 in question has been corrected to appropriately reflect the true nature of the funds as Rental Income.

Recommendations:

- A. Re-assess and update the established policies and procedures regarding the SPCF. Incorporate new processes to address the deficiencies and risks noted above, including the proper use of these funds. Once finalized, communicate the policies to staff responsible for administering the SPCF.
- B. Review and evaluate general purpose contingent fund project numbers for propriety and eliminate unnecessary project numbers. Establish specific policy for which the funds are to be used.
- C. Evaluate the current interest allocation methodology. Ensure the methodology is equitable, reasonable, and documented.

- D. Post a correcting entry to transfer \$60,000 out of the SPCF (Fund 0952) to the SPRF (Fund 0392) as revenue.

Response: Parks concurs with the recommendations made and will re-assess and update policies and procedures to reduce the risk factors identified.

Observation 3: Key Controls over Procurement Activities Need Improvement

Weaknesses exist over procurement functions which may increase the risk of fraud, waste, and abuse. During our review, we found the following weaknesses over the administration of the Voyager Card Program, the Cal-Card Program, and contracts.

Voyager Card Program

Key internal controls over the Voyager Card Program are not adequately designed. Parks lacks written policies and procedures, has a weak control environment, and practices inconsistent and inadequate monitoring efforts.

Response: Parks concurs with the prior weaknesses observed and has corrected this by providing clear policy and procedures. The Department Administrative Manual (DAM) provides policies and procedures for the State Fuel Card Voyager program which is available and accessible to Parks employees. At the time the audit commenced, the Procurement Unit had a DRAFT version of comprehensive Voyager Fuel Card Policies and Procedures. Since this time, a FINAL version has been produced and distributed to headquarters divisions and district offices. The departmental Intranet website also has multiple Voyager Fuel Card documents which provide further instruction and detailed information. In addition, Parks recently previewed and provided feedback to the Department of General Services on the new official Policies and Procedures Guide for the Statewide Fuel Card program. Parks will update its policies and procedures once the new program guide is released to agencies.

Recommendations:

Develop written policies and procedures for Voyager Cards to promote accountability and fiscal integrity of all Voyager Card transactions. Include guidance to address the deficiencies noted above and consider employing similar controls designed for the CAL-Card Program. Provide training to all card users on the proper use and documentation of card transactions. After implementation, such policies and procedures should be regularly monitored, reassessed, and updated, as necessary.

Response: Parks staff will continue to re-assess and update policies and procedures and train and provide guidance to impacted employees to promote accountability and fiscal integrity of the Voyager Fuel Card program.

CAL-Card Program Findings:

During our review of the CAL-Card Program, we found Parks designed adequate internal controls and had formalized them in the CAL-Card Handbook. However, we identified the following irregularities:

In 8 of 35 CAL-Card statements reviewed (23 percent), unallowable purchases were identified. If the cardholder was granted an exception, prior approval must be obtained; however, no evidence was retained to document such pre-approval.

Response: Parks concurs with the recommendations and will take immediate action to ensure approvals for exception purchases are clearly documented.

In 9 of 35 CAL-Card statements reviewed (26 percent), the staff requesting purchase authorization also approved the purchase. Although a supervisor reviews the monthly statements, purchases should be approved by someone other than the requestor to reduce the risk of unauthorized purchases.

Response: Parks concurs with the weakness noted will take immediate action to ensure the statement files accurately identify the originating purchase requestor and approver.

The Business Management Services Section stated each CAL-Card Statement and related supporting documentation is reviewed by propriety and validity. However, upon review of the CAL-Card files, there was no documentation evidencing the review. In addition, the listing of active cardholders is not reviewed on a periodic basis. The list should be reviewed periodically to ensure cards are issued to staff with a need.

Response: Review documentation is maintained separately from the CAL-Card Statement files. Parks will implement procedural changes to include copies of the review documentation in the CAL-Card statement files.

The CAL-Card Program Administrator receives a monthly purge report from the CAL-Card issuing bank which consists of inactive accounts the bank system will close and purge within 30 days. Parks will ensure this listing is reviewed on a consistent and timely basis.

Recommendations:

Re-evaluate and update the established policies and procedures regarding CAL-Card to take into consideration the weaknesses noted above, including proper Card use and authorizations. Communicate the policies to cardholders and emphasize the importance of adhering to such policies.

Response: Parks will ensure our procurement related policies and procedures are updated timely to include the latest rules and regulations as set by Government Code, Legislation, Department of General Services, Procurement Division, etc. Parks recognizes ongoing communications with cardholders is essential to our program integrity and are committed to keeping our purchasers up to date with the latest procurement information.

Contracts:

In 8 of 13 closed contracts reviewed (62 percent), we could not determine if Parks verified that contract terms were met prior to releasing the retention payment. Although holding a retention amount on contracts is a good practice, it is ineffective if Parks does not obtain evidence that contract terms were completed satisfactorily prior to making payment.

Response: All payments were released based on satisfactory completion of contracted work. It should be noted, that there is no retention payment withheld on the eight closed contracts identified in this audit. The department's current contracting process utilizes an "Authorization to Pay" DPR 117 form. This form must be signed by the state representative/other responsible official for verifying that the contract terms and deliverables have been met prior to payment. Adequate documentation/copies of the DPR 117 are retained by Headquarters Accounting and the issuing headquarters division/district. We believe the percentage stated in the findings should reflect 0% for this factor.
Recommendation:

Prior to release of retention payments, ensure contract terms are met and retain adequate documentation in the contract files.

Response: Parks staff will continue to ensure contract terms are met and will retain adequate documentation in the contract files. While Parks believes they have met the recommendation of the DOF Audit Report, we will continue to train and enforce this practice.

Sincerely,

**ORIGINAL SIGNED BY THE
DIRECTOR**

Major General Anthony L. Jackson, USMC (Ret)
Director

The Department of Parks and Recreation's (Parks) response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge Parks' willingness to implement our recommendations. In evaluating Parks' response, we provide the following comments:

Observation 1: Governance Structure over Budgeting Functions Needs Improvement

Even with new management in place, the information submitted to Finance in preparation of the 2012-13 Governor's Budget contained errors and misstated fund balances. Finance encourages Parks to continue its efforts to ensure accurate and reliable reporting through maintenance of accounting and administrative controls.

Observation 2: Risks over the State Park Contingent Fund Exist

Parks concurs with this observation; however, it stated further deposits will not be recorded until a donation letter is received and filed at Headquarters Accounting Services Section. To comply with State Administrative Manual sections 7826 and 8032.1, we further recommend unidentified donations without an accompanying donation letter be deposited into an uncleared collections account.

Parks also claimed interest is distributed to the various district offices as needs throughout the state park system are identified. During our review, evidence was not made available to us documenting funds in the reserve account were consistently distributed to various district offices. As such, we reiterate our recommendation that Parks develop an equitable interest allocation.

Observation 3: Key Controls over Procurement Activities Need Improvement

During our analysis of Parks' response to the draft report, corrections to the Cal-Card observation were made. The number of Cal-Card statements in which staff requesting purchase authorization and also approved the purchase was changed from 9 to 2 statements.

Parks disputes our observation regarding lack of documentation evidencing satisfactory contract completion and release of retention payments. Further, Parks claims "Authorization to Pay" approval forms ensuring the contract deliverables have been met are retained by Headquarters Accounting Services Section. Upon our request, documentation was not provided to support this practice. As such, our observation remains as reported.

While Parks states no retention payments were withheld for the eight contracts identified, no documentation was provided during our review evidencing the contract terms were met prior to releasing final contract payments. This final report was modified to replace references of retention with the term final payment, but our observation remains as reported.