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practice

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In 2009, when an internal auditor questioned the hidden nature of a Department of Forestry and Fire Protection account, a department lawyer warned that tipping off Finance officials would result in fire budget cuts elsewhere. The department kept quiet.

Elsewhere, state payroll and budget officials appear to have had little knowledge that 571 employees not eligible for overtime, including managers, were taking second state jobs, possibly in violation of labor laws.

At nearly \$146 billion, California spends such vast amounts annually that state leaders debate the budget as large trade-offs between education, welfare and prisons.

But in the trenches of state government, a battle of accounting gamesmanship plays out each year between money managers and the governor's Department of Finance.

Away from the political debate, state employees have stretched and, in some cases, circumvented state rules to manage their departments, particularly in lean budget times.

Mike Genest, who worked as both a Department of Health Services manager and

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Mitchell knows all too well — he did so himself in the 1980s at UCLA, albeit in plain sight and without spending inappropriately, he said.

“It’s sort of for obvious reasons,” Mitchell said. “If you build up a reserve, it gives you a certain amount of insulation, a sort of rainy day fund.”

Of recent state government hidden funds, he said, “If you’re the manager of a department, you look around and see the state is trying to grab money where it can find it.

“Your incentive is to insulate your organization from as much of that as (you) can,” he said. “People shouldn’t be shocked this would happen.”

Witnesses in the state parks investigation said budget managers across state government practiced “use it or lose it” type budgeting, in which departments would spend down everything they could at the end of a fiscal year. State rules say that any money left over should go back to general state coffers, but few department heads want to risk losing what they believe to be theirs.

State officials cross a line when they willfully hide funds and sidestep approval procedures to avoid cuts by the Department of Finance and the Legislature, said Sen. Mark Leno, D-San Francisco. Under the state constitution, lawmakers have the power to appropriate money and rely on accurate state bookkeeping to make their decisions.

“If you take it to its absolute conclusion, we’ll have chaos and anarchy in state finances,” Leno said. “There has to be authority, and that’s the Department of Finance, and if you’re going to ‘game’ the authority you should be caught and justice should prevail.”

Since 2005, Cal Fire maintained a separate \$3.66 million fund with the California

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monitors, metal detectors, printers and cameras.

Some records are not detailed enough to know what was purchased, including two 2011 payments to a forensics store for \$84,000 worth of “various items.”

If the purposes were legitimate, it remains unclear why Cal Fire used privately housed funds rather than its own budget. Doing so gave Cal Fire more control over its funds, but it also circumvented the Legislature’s spending powers and oversight.

Gov. Jerry Brown didn’t seem alarmed Tuesday by the hidden Cal Fire account. “I find it a relatively boring story, to tell you the truth,” he said.

But he added that he will “certainly look into it.”

Assemblyman Mike Morrell, R-Rancho Cucamonga, said the problem with Cal Fire is that “you don’t want anybody hiding money from the taxpayers. There’s a system. It’s not always fair, but we should operate within that system.”

In the case of employees holding second state jobs, it is still difficult to know whether the practice occurred because state managers were simply trying to get the job done with fewer employees, filling vacant positions so Finance wouldn’t cut them in the next budget — or because they wanted to boost salaries in lean budget times.

The state has since tightened up on government employee moonlighting while officials review the policy, but it hasn’t ended the practice entirely. Some workers still hold second jobs in their departments that either can’t go unfilled — such as nurses — or are protected by contract.

Former state personnel director Dave Gilb said that when it comes to such situations, “generally speaking, managers want to get the job done. They’ve been backlogged,

there have been furloughs, and they have limited resources. They hit upon a

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He and others called for stricter accountability and better data, which require changes in how state government is organized and the technology used to track state finances.

The state for several years has been working on an overhaul of the state's financial data system, a project that remains years away from completion and once carried a \$1.6 billion price tag before cost-cutting changes were made.

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