CALIFORNIA DEPARTMENT OF PARKS AND RECREATION

Final Audit Report

PROPOSITION 64 CANNABIS TAX FUNDS PROGRAM

July 1, 2021, through June 30, 2022

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

June 2026

S24-CAN-0001

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Malia M. Cohen
California State Controller

June 30, 2026

Mr. Armando Quintero, Director
California Department of Parks and Recreation
715 P Street, Suite 1400
Sacramento, CA 95814

Dear Director Quintero:

The State Controller's Office audited the California Department of Parks and Recreation's (State Parks) Proposition 64 California Cannabis Tax Funds (Cannabis Tax Funds) Program to determine whether State Parks accounted for and expended its Cannabis Tax Funds in compliance with Revenue and Taxation Code section 34019 and applicable statutes, rules, regulations, and policies for the period of July 1, 2021, through June 30, 2022.

Our audit found that State Parks materially accounted for and expended its Cannabis Tax Funds in compliance with Revenue and Taxation Code section 34019 and applicable statutes, rules, regulations, and policies, except for the internal control weaknesses described in the Findings and Recommendations section of this report.

If you have any questions regarding this report, please contact Ella Finau, Chief, Special Audits Bureau, by telephone at 916-322-7699 or email at efinau@sco.ca.gov. Thank you.

Sincerely,

Original signed by
Kimberly A. Tarvin, CPA
Chief, Division of Audits

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SUMMARY

The State Controller's Office (SCO) audited the California Department of Parks and Recreation's (State Parks) Proposition 64 California Cannabis Tax Funds (Cannabis Tax Funds) Program to determine whether State Parks accounted for and expended its Cannabis Tax Funds in compliance with Revenue and Taxation Code (RTC) section 34019 and applicable statutes, rules, regulations, and policies for the period of July 1, 2021, through June 30, 2022.

Based on the procedures performed and evidence gathered, our audit found that State Parks materially accounted for and expended its Cannabis Tax Funds in compliance with RTC section 34019 and applicable statutes, rules, regulations, and policies, except for the internal control weaknesses described in the Findings and Recommendations section of this report.

BACKGROUND

In November 2016, California voters approved Proposition 64, the "Control, Regulate and Tax Adult Use of Marijuana Act," which was enacted as Senate Bill 94 (Statutes of 2017, Chapter 27). SB 94 added and amended sections of the Health and Safety Code, Business and Professions Code, Revenue and Taxation Code, and other California laws.

Health and Safety Code sections 11357 through 11362.9 allow adults 21 years of age and over to grow, possess, and use cannabis for recreational purposes; reduce criminal penalties for specified cannabis-related offenses for adults and juveniles; and authorize resentencing or dismissal and sealing of prior, eligible cannabis-related convictions. The Medicinal and Adult-Use Cannabis Regulation and Safety Act (found in Business and Professions Code sections 26000 through 26002) establishes the framework for controlling and regulating commercial cannabis businesses. The Cannabis Tax Law (codified in RTC sections 34010 through 34021.5) imposes taxes on the cultivation of cannabis, and on the retail sale of cannabis and cannabis products; and it continuously appropriates the Cannabis Tax Funds for specified purposes according to a specified schedule.

The Department of Finance estimates the cannabis tax revenues to be received pursuant to RTC sections 34011, 34011.2, and 34012. The estimates are provided to the SCO no later than June 15 of each year. In its first year of operation, revenues of $56 million were recorded in the Cannabis Tax Funds; for the year ended June 30, 2024, revenues of $635 million were recorded in the Cannabis Tax Funds.

The SCO apportions the cannabis tax revenues to several different state agencies, each of which have varied administrative roles in the allocation and expenditure of the funds. RTC section 34019 describes how the cannabis tax revenues must be allocated to various state organizations, the program purposes for the funds, and how the funds may be expended by recipients and grantees.

Proceeds from the tax revenues are intended for drug research, treatment, and enforcement; health and safety grants for youth programs; and preventing environmental damages from illegal cannabis production. The state agency recipients of the tax proceeds will fulfill the intended purposes of Proposition 64 through the following programs:

- Education to prevent substance use disorders and harm from substance use;
- Cleanup, remediation, and restoration of environmental damage in watersheds affected by cannabis cultivation and related activities;
- Stewardship and operation of state-owned wildlife habitat areas and state park units in a manner that discourages and prevents the illegal cultivation, production, sale and use of cannabis, and cannabis products on public lands;
- Investigation, enforcement, and prosecution of illegal cultivation, production, sale, and use of cannabis or cannabis products on public lands;
- Reduction of adverse impacts and use on fish and wildlife habitats throughout the state;

- Training programs for detecting, testing, and enforcing laws against driving under the influence of alcohol and other drugs, including driving under the influence of cannabis; and
- Education, prevention, and enforcement of laws related to driving under the influence of alcohol and other drugs, including cannabis.

Related activities include the stewardship and operation of State-owned wildlife habitat areas and state park units in a manner that discourages and prevents the illegal cultivation, production, sale, and use of cannabis and cannabis products on public lands. State Parks received $53.8 million in tax revenue funding for this purpose in the fiscal year ended June 30, 2022. State Parks' funding is for the clean-up and remediation of environmental damage to, and restoration of, watersheds affected by cannabis cultivation. These activities are undertaken through a collaboration between law enforcement, natural and cultural resource managers, road and trail maintenance crews, and other technical experts.

AUDIT AUTHORITY

We conducted this audit in accordance with RTC section 34020, which states that the SCO shall periodically audit the Cannabis Tax Funds Program to ensure that those funds are accounted for and expended in a manner consistent with this part and as otherwise required by law. In addition, Government Code (GC) section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether State Parks accounted for and expended its Cannabis Tax Funds in compliance with RTC section 34019 and applicable statutes, rules, regulations, and policies. The audit period was July 1, 2021, through June 30, 2022.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the Cannabis Tax Funds Program purpose and requirements by reviewing RTC section 34019, applicable laws and regulations, and the Manual of State Funds.
- We assessed whether internal controls related to Cannabis Tax Funds were adequately designed by interviewing State Parks employees; reviewing written policies, procedures, and guidelines for fund usage; completing internal control questionnaires; and performing a limited walk-through of the key internal controls related to our audit objective. Internal controls procedures include those performed by staff members to approve expenditures, and to monitor and record disbursements and expenditures in the accounting system.
- We conducted tests of key controls identified to determine whether the controls were implemented and functioning as intended.
- We assessed the reliability of computer-processed data by tracing transactions through the system to source documents to verify completeness and accuracy of recorded data. We determined that the data was sufficiently reliable for the purposes of this report.
- We reviewed the revenue and appropriation amounts and the documentation supporting the amount of cannabis tax revenues and appropriations disbursed to State Parks for the Cannabis Tax Funds Program to verify that Cannabis Tax Funds were disbursed as required by RTC section 34019(a) through (f).
- We reviewed State Parks’ accruals and adjustments for validity and eligibility.
- We reviewed State Parks’ accounting records for revenues, appropriations, disbursements, expenditures, and fund balances to ensure that they are properly accounted, adequately supported, and accurately reported.
- We selected representative, non-statistical samples using random and judgmental methods to verify that expenditures were in accordance with Proposition 64 purposes and complied

with applicable statutes, rules, regulations, and policies. We tested $1,473,221 (10.32 percent) of $14,271,078 in operating costs. Of the amount tested, $51,325 was expended using P-Cards (credit cards issued to staff members).

For the selected samples, errors found were not projected to the intended (total) population.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

CONCLUSION

Based on procedures performed and evidence gathered, our audit found that State Parks materially accounted for and expended Cannabis Tax Funds revenues, disbursed for the period of July 1, 2021, through June 30, 2022, in a manner consistent with RTC section 34019 and as otherwise prescribed by governing statutes, rules, regulations, and policies, except for the internal control weaknesses described in the Findings and Recommendations section of this report.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

We have not previously conducted an audit of State Parks’ Cannabis Tax Funds Program.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft audit report on May 15, 2026. The State Parks representative responded on June 3, 2026. State Parks agreed with the audit results and provided additional context regarding shared use and cost allocation. State Parks requested that Finding 2 state that Cannabis Watershed Protection Program (CWPP) headquarters staff managed and had responsibility for the North Coast Redwoods District's contractor. This final audit report includes State Parks' response as an attachment.

RESTRICTED USE

This report is solely for the information and use of State Parks and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by
Kimberly A. Tarvin, CPA
Chief, Division of Audits

June 30, 2026

SCHEDULE—CALIFORNIA CANNABIS TAX FUND – TRANSFERS IN, EXPENDITURES, AND CHANGES IN ACCOUNT BALANCE

July 1, 2021, through June 30, 2022

Cannabis Tax Fund 3352

Fund Activity	June 30, 2022
Transfers In	
From Cannabis Cultivation and Sales Taxes	
To State Parks for environment and remediation	$53,816,853
Total Transfers In	53,816,853
Add: Revenues	280,328
Total Transfers In and Revenues	54,097,181
Expenditures	
For Clean-up, Remediation, and Restoration	
Salaries and benefits	14,271,078
Total expenditures	14,271,078
Excess or deficiency of transfers in and revenues over expenditures	39,826,103
Beginning account balance	32,079,000
Ending account balance	**$71,905,103**

FINDINGS AND RECOMMENDATIONS

Finding 1—Lack of Controls over Expenditures

State Parks lacked adequate controls over purchasing approval and process for the Proposition 64 CWPP. Purchases were made without pre-approval and items were purchased that were not included in the project agreement budget. In addition, State Parks did not have a cost sharing or allocation plan in place, creating a risk that expenditures of Proposition 64 funds could have unintended beneficiaries.

We found that CWPP staff members made purchases without documented management pre-approval for 11 out of 42 purchases, totaling $295,230, or 21 percent of the $1,421,897 sample.

We also found that purchases in the amount of $7,544 for tires and cameras were not in the original project agreement budget. CWPP's management stated that purchases like this may be discussed and agreed to in project meetings, but oral approvals are not documented. Management's intent was to approve these purchases through subsequent project amendments.

All of the purchases reviewed were allowable. State Parks regional-district staff members are allowed a high level of purchase-decision autonomy as long as items purchased are included in project budgets; while this provides greater flexibility, it also creates greater risk.

State Parks also approved project-agreement budgets that allow regional districts in the State to use Cannabis Tax Funds for purchases that may be adapted for use by programs or entities other than the CWPP. State Parks acknowledged that in at least one instance, evidence lockers purchased for $11,853 were used for activities not associated with CWPP. State Parks acknowledged that other acquisitions could have been used for the purposes of more than one program. We identified seven items in our sample totaling $403,260 (28 percent of our invoice and labor sample) that could be used for the purposes of more than one program, including:

- A portable refractory walled air-curtain burner system purchased for vegetation disposal for $109,215;
- A building, a change order, and an electrical panel for law-enforcement housing totaling $214,192; and
- Repeater-antennae repair costs budgeted at $50,000 and $18,000 for park radios.

When multiple programs or agencies use the same facility (e.g., housing, office, equipment) or support services (e.g., communications infrastructure, equipment, repairs), best practice dictates that costs be distributed among all beneficiaries. Direct or indirect cost allocations ensure that no single program, department, or state agency benefits unfairly from facilities or services paid for by another. State Parks did not enact a CWPP acquisitions policy that would ensure that shared costs were distributed equitably among departments, agencies, programs, or funds that benefit them and would prevent one entity from subsidizing another's activities. In addition, State Parks did not seek or obtain funding from other entities or programs that might benefit. State Parks management explained that Proposition 64 CWPP funds are plentiful and readily available, whereas funds for other programs within State Parks are not. As a result, many State Parks projects would not be feasible were it not for the resources available from Proposition 64 CWPP funds.

Without effective internal controls identifying the benefiting parties or programs and implementing appropriate cost allocation procedures, CWPP funds could be spent inappropriately, or for purposes not associated with CWPP operations.

Criteria

GC section 13401(b) states, in part:

(1) Each state agency must maintain effective systems of internal control as an integral part of its management practices.

(2) The systems of internal control of each state agency shall be evaluated on an ongoing basis through regular and ongoing monitoring processes and, when detected, weaknesses must be promptly corrected.

(3) All levels of management of state agencies must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds. Monitoring processes should be designed to ensure objectivity of persons tasked with monitoring. Objectivity means allowing those tasked with monitoring to maintain integrity, impartiality, a questioning state of mind, and the ability to accurately and fairly assess circumstances and draw sound conclusions. . . .

GC section 13403(b) states that the elements of a satisfactory system of internal control include, but are not limited to, "a system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements" and "an effective system of internal review."

The Government Finance Officers Association website provides guidance on measuring the cost of government service, direct and indirect costs that should be shared, and best practices for how costs should be allocated. Shared costs should be allocated systematically and rationally, and the method of allocation along with reference to information on the methodology (calculation details, etc.) should be disclosed.

State Administrative Manual, section 9213.1, Allocation of Costs – Indirect Cost Rate Determination Methodology states, in part:

> Indirect (overhead) costs are incurred for services or activities that benefit one or more programs. Cost allocation is the assignment of indirect (overhead) costs to one or more programs according to a formula. Indirect costs are assigned to the programs they benefit according to a methodology that represents a reasonable and equitable distribution.

The following should be considered when developing a cost allocation process:

- Timeliness—the cost allocation process must produce program cost data on a timely basis.
- Consistency—the cost identification and distribution methods selected must be applied consistently throughout the accounting period.
- Accuracy—the information provided shall be as accurate as possible.
- Auditability—program costs must be fully auditable; e.g., working papers, reports, or system documentation must be retained showing program cost identification, accumulation, and distribution methods.

There are many ways to distribute indirect costs. Some agencies/departments may use one method for a specific type of cost, while others may use another method for the same type of cost.

RTC section 34019(f)(2)(A) requires State Parks to use its Cannabis Tax Funds "for the cleanup, remediation, and restoration of environmental damage in watersheds affected by cannabis cultivation and related activities."

RTC section 34019(f)(2)(B) further requires State Parks to use its Cannabis Tax Funds:

> . . . for the stewardship and operation of state-owned wildlife habitat areas and state park units in a manner that discourages and prevents the illegal cultivation, production, sale, and use of cannabis and cannabis products on public lands, and to facilitate the investigation, enforcement, and prosecution of illegal cultivation, production, sale, and use of cannabis or cannabis products on public lands.

Recommendation

State Parks should strengthen its internal controls over CWPP purchases, including any decentralized project or regional district purchases, by developing and implementing policies and procedures that require management pre-approval for purchases, in order to prevent fraud and abuse, ensure that purchases are necessary, and enhance accountability over the use of funds.

We recommend that the CWPP:

- Establish effective controls for review and approval of requisitions and purchases in accordance with GC sections 13401(b) and 13403(b);
- Create and implement written policies and procedures that require documentation for reviews and approvals/justifications of CWPP purchases; and
- Establish and implement policies and procedures for:
    - Recording meetings in which purchases are authorized;
    - Consistently documenting clear, predefined procedures for identifying, allocating, and documenting direct or indirect costs incurred associated with CWPP purchases. Procedures should include costs that benefit multiple programs or state agencies and should ensure that the basis for cost distribution is transparent and equitable among all beneficiaries; and
    - Allocating indirect costs on a systematic, reasonable, and equitable basis per State Administrative Manual section 9213.1.

State Parks' Response

State Parks acknowledges the findings and recommendations centered around the improvement of purchasing and approval protocols and agrees that opportunities exist to strengthen documentation and internal controls. While the report notes that all purchases reviewed were allowable, CWPP understands that internal controls must be utilized to minimize the opportunity for waste, errors, and fraud. CWPP is committed to documenting authorization to purchase equipment, materials, etc. whether in a purchase justification, project agreement form (or amendment). To the extent possible, CWPP will work with field-based staff to facilitate their understanding of and compliance with internal spending controls regarding projects partially or wholly funded with Proposition 64 funds.

Specifically, the report states the following:

> *State Parks did not enact a policy regarding its CWPP acquisitions to allocate expenditures that would ensure that shared costs were distributed equitably among departments, agencies, programs, or funds that benefit them and prevent one entity from subsidizing another. In addition, State Parks did not seek or obtain funding from other entities or programs that might benefit. State Parks management explained that Proposition 64 CWPP funds are plentiful and readily available, whereas funds for other programs within State Parks are not. As a result, many State Parks projects would not be possible were it not for the abundant resources available from the Proposition 64 CWPP funds.*

The Department would like to provide additional information regarding the discussion of shared use and cost allocation. Revenue and Taxation Code [section]34019(f)(2) authorizes activities that support stewardship, operations, prevention efforts, and resource protection activities associated with the impacts of illicit cannabis cultivation on public lands. These responsibilities are carried out through the department's existing programs and activities such as, but not limited to, interpretation and education, law enforcement, and maintenance activities. Therefore, certain CWPP investments may also provide incidental benefits to broader park operations or partner agencies. To be clear, all CWPP-funded purchases and activities are made first and primarily in support of CWPP and for purposes established in Revenue and Taxation Code [section]34019. Any broader operational benefit is secondary to the primary purpose for which the expenditure was made. The CWPP implements cost sharing protocols when practical and appropriate.

However, opportunities for cost-sharing are not always available due to operational or timing constraints affecting other programs and fund sources. In these instances, formal cost-sharing arrangements may not be feasible because other programs may not have funding available, may not be participating in the acquisition, or may not have an operational need that aligns with the timing of the purchase. Without the CWPP direct investment, the required CWPP activity could not be carried out. Therefore, the absence of cost-sharing does not diminish the necessity of the purchase or its primary role in supporting the CWPP.

The repeater-antennae repair highlighted in the report highlights this challenge. The repeater was in disrepair and covered an area in which the CWPP staff were working. While the repair may provide benefits to other Department staff, evaluating the repair as an isolated expenditure does not fully capture the broader cost sharing relationship that already exists within the department's communications infrastructure.

Additionally, the Department utilizes substantial non-CWPP resources year-round to maintain and operate the larger communications and IT network that supports all park operations, including infrastructure maintenance, technical support, repairs, and operational oversight. CWPP benefits from those investments without direct allocation of all associated costs. Viewed in that broader context, a single CWPP-funded infrastructure improvement that may incidentally benefit other users does not necessarily represent an inequitable distribution of costs. Conversely, evaluating individual projects in isolation could suggest that CWPP resources should be proportionally applied throughout all Department communications and IT infrastructure costs whenever some level of program benefit exists, which would create significant administrative complexity and additional cost burden to CWPP, and may not accurately reflect the integrated and shared nature of Department operations. Finally, limiting access to radio services in that area to only CWPP staff would be impractical and have the potential to jeopardize employee safety. This project was prudent and aligned with Revenue and Taxation Code [section]34019(f)(2).

The CWPP recognizes that the Cannabis Tax Fund has been a valuable resource to the Department. However, the funds are being used in support of activities consistent with

Revenue and Taxation Code [section]34019 by addressing the numerous impacts illicit cannabis cultivation has had on State Park lands, something the Department has never had funding for before. The use of the terms “plentiful and readily available” and “abundant resources” insinuates that the CWPP has more than enough funding to meet these mandates and is not diligent in its expenditures. This is not the case as demonstrated by the criteria used by the CWPP to allocate resources, and multiple levels of review and sign-off required to approve investments consistent with program requirements. The magnitude, scale, and history of impacts facing State Park lands from illicit cannabis cultivation is vast and these funds will be necessary for years to come and ultimately may not be enough to fully address all the impacts.

More broadly, the Department is concerned that applying a cost-allocation requirement whenever an expenditure provides any incidental benefit to another program would establish a standard that is difficult to administer and inconsistent with the integrated way the Department operates. Department programs utilize shared infrastructure, equipment, communications systems, facilities, and support services that provide benefits across multiple functions without formal allocation of every associated cost.

Requiring CWPP to identify, quantify, and proportionally distribute costs based on all potential beneficiaries of a purchase would create substantial administrative burden, and could delay or prevent critical investments necessary to carry out the activities authorized under Revenue and Taxation Code [section]34019. In circumstances where other funding sources are unavailable or unable to participate, such an approach could effectively prevent CWPP from making purchases that are necessary to support its statutory responsibilities, despite those purchases being made primarily for CWPP purposes. By the same logic, CWPP could also be expected to contribute proportionally toward a wide range of Department expenditures from which the program receives some benefit, an approach that does not appear to be intended by Revenue and Taxation Code [section]34019 and would be impractical to administer across the Department’s interconnected operations.

This same principle applies to watershed restoration and resource protection activities funded through the CWPP. Restoration efforts undertaken to remediate the impacts of illicit cannabis cultivation are intended to restore natural systems, improve water quality, stabilize soils, rehabilitate habitat, and protect park resources consistent with the purposes of Revenue and Taxation Code. While these projects are undertaken specifically to address damage caused by illicit cultivation activities, the resulting benefits extend beyond a single program area. Improvements to watershed health benefit natural resource management, cultural resource protection, visitor experience, interpretation, and public safety. Because the systems are interconnected, it is impractical to isolate and quantify the proportionate benefit received by each program or activity. Applying a cost-allocation methodology based on all potential beneficiaries of a restoration project would create significant administrative complexity while failing to recognize that the primary purpose of the expenditure remains the remediation of impacts associated with illicit cannabis cultivation.

SCO Comment

While State Parks management may not currently foresee a need for complex cost allocation, formal policies establish an objective framework for future decision-making. Should the scale of operations or funding structures change, having such policies in place mitigates the risk of ad-hoc allocations and ensures equitable cost distribution where the need arises. We continue to recommend that State Parks develop policies as described in our findings, and that the State Parks provide a documented framework for evaluating potential shared program benefits and supporting allocation decisions when circumstances warrant.

Finding 2—Internal Control Deficiencies Related to Contract Payments

State Parks did not adequately review the CWPP subcontractor project invoices that were paid to ensure that only eligible, adequately supported project costs were approved. For one of the

CWPP-funded projects, we observed the following for the costs of the North Coast Redwoods District's contractor, California State University (CSU) Sonoma, which was managed by and the responsibility of CWPP headquarters staff members:

- Of the five travel expense claim forms provided to support the invoiced travel costs, three were not signed and/or approved by a supervisor, and two were not signed by both the employee and the supervisor.
- Daily lodging rates for four employees exceeded the maximum California state lodging reimbursement rate. The excess charges totaled $1,898.18.
- Of the 10 CSU Sonoma employees whose salaries and benefits were included on Invoice Number 34152, four were not included in the contract agreement Exhibit B1, "Budget Justification." There were also several variances between employee contract billing rates and actual billing rates.
- In the two CSU Sonoma invoices tested in our sample (Invoice Numbers 33174 and 34152), the description of work completed did not provide the information required by State Parks per the contract agreement. The agreement requires that CSU Sonoma identify on the invoices the charges for the individual tasks, including a brief description of the work completed, the date(s) on which the work was conducted, and the task number(s) with which the work is associated. In addition, other than the invoices, there was no additional support to show that the contractor performed the work.

State Parks staff members stated that they were aware of the contract terms but did not implement procedures for review of the contractor's invoices and required supporting documentation to ensure that there was support for project costs and contract deliverables prior to approving and authorizing payment.

Criteria

Travel Reimbursements – Short-Term Lodging Reimbursement Rates on the California Department of Human Resources' website states, in part:

> Should the base room rate exceed the rates noted below, an Excess Lodging Rate Approval Request (STD 255C) must be submitted and approved by your department and/or CalHR [California Department of Human Resources] before the trip takes place.

Page 21, "Exhibit B Budget Justification" of STD 215, Agreement between State Parks and CSU Sonoma, states, "Travel costs will include mileage, vehicle, lodging, and per diem costs as per the approved State of California rates during each year of the contract."

Page 8, "Scope of Work" of STD 215, Agreement Summary between State Parks and CSU Sonoma states, in part:

> The University will submit to CA State Parks invoices for reimbursement of the expenses related to the completion of tasks which CA State Parks has requested. These invoices shall list the charges for the individual tasks, and shall include a brief description of the work completed, the date(s) the work was conducted, and the task number(s) with which the work is associated.

Page 21, "Exhibit B1 Budget Justification" of STD 215, Agreement between State Parks and CSU Sonoma states, in part:

> . . . individual scopes and budgets will be produced on a project by project basis. These scopes and budgets will detail exact costs in a breakdown similar to the categories listed. . . .

The agreement goes on to name specific personnel who may be employed on the contract.

GC section 13401(b)(1) through (3) states that the California State Legislature declares all of the following to be the policies of the State:

(1) Each state agency must maintain effective systems of internal control as an integral part of its management practices.

(2) The systems of internal control of each state agency shall be evaluated on an ongoing basis through regular and ongoing monitoring processes and, when detected, weaknesses must be promptly corrected.

(3) All levels of management of state agencies must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds. Monitoring processes should be designed to ensure objectivity of persons tasked with monitoring. Objectivity means allowing those tasked with monitoring to maintain integrity, impartiality, a questioning state of mind, and the ability to accurately and fairly assess circumstances and draw sound conclusions.

GC section 13403(b) states that the elements of a satisfactory system of internal control, shall include, but are not limited to:

(3) A system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements. . . .

(6) An effective system of internal review. . . .

Recommendation

We recommend that State Parks:

- Develop and implement policies and procedures for contractor invoice reviews to ensure that contract deliverables are received and that only eligible, adequately supported project costs are approved for payment;

- Enhance oversight by implementing a robust monitoring system for all CWPP project expenditures and deliverables to ensure that they are adequately supported, accurate, and consistent with contracted services;
- Strengthen claim verification by establishing a mandatory review process for all reimbursement or payment claims, requiring signed approval from both the employee and their supervisor, to ensure full compliance with contract terms prior to payment; and
- Seek contractor reimbursement of $1,898.18 in excess charges.

State Parks' Response

We acknowledge these findings and recommendations. The CWPP agrees that additional information should be included within invoices to support a more thorough review. Additional controls are being developed and implemented as part of future contracts to ensure that this is adequately addressed.

Regarding staffing and billing practices under the CSU Sonoma agreement, the Department notes that agreements involving universities frequently rely upon graduate students, seasonal employees, and research staff whose staffing composition may change over the life of a project. While personnel identified within project documentation provide an initial framework, staffing changes often occur during implementation. The Department's primary focus has been verifying that total labor expenditures remain within approved contract parameters. To provide additional clarity in future agreements, subsequent contracts have incorporated language acknowledging that billing rates may vary over time based on actual staffing and applicable rates in effect at the time services are performed:

> *"The rates presented serve as examples of current pricing structures. Invoice billing will be based on the actual rates applicable at the time the service is rendered, which may differ from the rates provided herein."*

Additionally, while this contract was in support of a project for the North Coast Redwoods District, the contract was managed at headquarters by CWPP staff, and thus the responsibility of the CWPP. We would appreciate it if you made that correction in the final version of the report.

SCO Comment

While the original finding did not state who was managing the project, we added this information at State Parks' request for clarity.

ATTACHMENT—CALIFORNIA DEPARTMENT OF PARKS AND RECREATION'S RESPONSE TO DRAFT AUDIT REPORT

State of California • Natural Resources Agency
Gavin Newsom, *Governor*
DEPARTMENT OF PARKS AND RECREATION
P.O. Box 942896 • Sacramento, CA 94296-0001
Armando Quintero, *Director*

Dear Chief Finau,

The Department of Parks and Recreation (State Parks or Department) is in receipt of your draft audit report of the Department's Proposition 64 California Cannabis Tax Funds Program. State Parks has utilized these Cannabis Tax Funds to create and implement the Cannabis Watershed Protection Program (CWPP) to restore watersheds affected by illicit cannabis cultivation, and to steward and operate state parks in a manner that prevents negative impacts of cannabis, thereby providing enduring resource protection and safe public access. The CWPP has reviewed your report and agree with your assertation that State Parks materially accounted for and expended its Cannabis Tax Funds in compliance with Revenue and Taxation Code §34019. Below you will find our responses to the findings as well as any actions that will be taken regarding each of the findings.

FINDING 1 – Lack of Controls over Expenditures.

State Parks acknowledges the findings and recommendations centered around the improvement of purchasing and approval protocols and agrees that opportunities exist to strengthen documentation and internal controls. While the report notes that all purchases reviewed were allowable, CWPP understands that internal controls must be utilized to minimize the opportunity for waste, errors, and fraud. CWPP is committed to documenting authorization to purchase equipment, materials, etc. whether in a purchase justification, project agreement form (or amendment). To the extent possible, CWPP will work with field-based staff to facilitate their understanding of and compliance with internal spending controls regarding projects partially or wholly funded with Proposition 64 funds.

Specifically, the report states the following:
State Parks did not enact a policy regarding its CWPP acquisitions to allocate expenditures that would ensure that shared costs were distributed equitably among departments, agencies, programs, or funds that benefit them and prevent one entity from subsidizing another. In addition, State Parks did not seek or obtain funding from other entities or programs that might benefit. State Parks management explained that Proposition 64 CWPP funds are plentiful and readily available, whereas funds for other programs within State Parks are not. As a result, many State Parks projects would not be possible were it not for the abundant resources available from the Proposition 64 CWPP funds.

The Department would like to provide additional information regarding the discussion of shared use and cost allocation. Revenue and Taxation Code §34019(f)(2) authorizes activities that support stewardship, operations, prevention efforts, and resource protection activities associated with the impacts of illicit cannabis cultivation on public lands. These responsibilities are carried out through the department's existing programs and activities such as, but not limited to, interpretation and education, law enforcement, and maintenance activities. Therefore, certain CWPP investments may also provide incidental benefits to broader park operations or partner agencies. To be clear, all CWPP-funded purchases and activities are made first and primarily in support of CWPP and for purposes established in Revenue and Taxation Code §34019. Any broader operational benefit is secondary to the primary purpose for which the expenditure was made. The CWPP implements cost sharing protocols when practical and appropriate. However, opportunities for cost-sharing are not always available due to operational or timing constraints affecting other programs and fund sources. In these instances, formal cost-sharing arrangements may not be feasible because other programs may not have funding available, may not be participating in the acquisition, or may not have an operational need that aligns with the timing of the purchase. Without the CWPP direct investment, the required CWPP activity could not be carried out. Therefore, the absence of cost-sharing does not diminish the necessity of the purchase or its primary role in supporting the CWPP.

The repeater-antennae repair highlighted in the report highlights this challenge. The repeater was in disrepair and covered an area in which the CWPP staff were working. While the repair may provide benefits to other Department staff, evaluating the repair as an isolated expenditure does not fully capture the broader cost sharing relationship that already exists within the department's communications infrastructure.

Additionally, the Department utilizes substantial non-CWPP resources year-round to maintain and operate the larger communications and IT network that supports all park operations, including infrastructure maintenance, technical support, repairs, and operational oversight. CWPP benefits from those investments without direct allocation of all associated costs. Viewed in that broader context, a single CWPP-funded infrastructure improvement that may incidentally benefit other users does not necessarily represent an inequitable distribution of costs. Conversely, evaluating individual projects in isolation could suggest that CWPP resources should be proportionally applied throughout all Department communications and IT infrastructure costs whenever some level of program benefit exists, which would create significant administrative complexity and additional cost burden to CWPP, and may not accurately reflect the integrated and shared nature of Department operations. Finally, limiting access to radio services in that area to only CWPP staff would be impractical and have the potential to jeopardize employee safety. This project was prudent and aligned with Revenue and Taxation Code §34019(f)(2).

The CWPP recognizes that the Cannabis Tax Fund has been a valuable resource to the Department. However, the funds are being used in support of activities consistent with Revenue and Taxation Code §34019 by addressing the numerous impacts illicit cannabis cultivation has had on State Park lands, something the Department has never had funding for before. The use of the terms "plentiful and readily available" and "abundant resources" insinuates that the CWPP has more than enough funding to meet these mandates and is not diligent in its expenditures. This is not the case as demonstrated by the criteria used by the CWPP to allocate resources, and multiple levels of review and sign-off required to approve investments consistent with program requirements. The magnitude, scale, and history of impacts facing State Park lands from illicit cannabis cultivation is vast and these funds will be necessary for years to come and ultimately may not be enough to fully address all the impacts.

More broadly, the Department is concerned that applying a cost-allocation requirement whenever an expenditure provides any incidental benefit to another program would establish a standard that is difficult to administer and inconsistent with the integrated way the Department operates. Department programs utilize shared infrastructure, equipment, communications systems, facilities, and support services that provide benefits across multiple functions without formal allocation of every associated cost. Requiring CWPP to identify, quantify, and proportionally distribute costs based on all potential beneficiaries of a purchase would create substantial administrative burden, and could delay or prevent critical investments necessary to carry out the activities authorized under Revenue and Taxation Code §34019. In circumstances where other funding sources are unavailable or unable to participate, such an approach could effectively prevent CWPP from making purchases that are necessary to support its statutory responsibilities, despite those purchases being made primarily for CWPP purposes. By the same logic, CWPP could also be expected to contribute proportionally toward a wide range of Department expenditures from which the program receives some benefit, an approach that does not appear to be intended by Revenue and Taxation Code §34019 and would be impractical to administer across the Department's interconnected operations.

This same principle applies to watershed restoration and resource protection activities funded through the CWPP. Restoration efforts undertaken to remediate the impacts of illicit cannabis cultivation are intended to restore natural systems, improve water quality, stabilize soils, rehabilitate habitat, and protect park resources consistent with the purposes of Revenue and Taxation Code. While these projects are undertaken specifically to address damage caused by illicit cultivation activities, the resulting benefits extend beyond a single program area. Improvements to watershed health benefit natural resource management, cultural resource protection, visitor experience, interpretation, and public safety. Because the systems are interconnected, it is impractical to isolate and quantify the proportionate benefit received by each program or activity. Applying a cost-allocation methodology based on all potential beneficiaries of a restoration project would create significant administrative complexity while failing to recognize that the primary purpose of the expenditure remains the remediation of impacts associated with illicit cannabis cultivation.

FINDING 2 – Internal Control Deficiencies Related to Contract Payments

We acknowledge these findings and recommendations. The CWPP agrees that additional information should be included within invoices to support a more thorough review. Additional controls are being developed and implemented as part of future contracts to ensure that this is adequately addressed.

Regarding staffing and billing practices under the CSU Sonoma agreement, the Department notes that agreements involving universities frequently rely upon graduate students, seasonal employees, and research staff whose staffing composition may change over the life of a project. While personnel identified within project documentation provide an initial framework, staffing changes often occur during implementation. The Department's primary focus has been verifying that total labor expenditures remain within approved contract parameters. To provide additional clarity in future agreements, subsequent contracts have incorporated language acknowledging that billing rates may vary over time based on actual staffing and applicable rates in effect at the time services are performed:

> *"The rates presented serve as examples of current pricing structures. Invoice billing will be based on the actual rates applicable at the time the service is rendered, which may differ from the rates provided herein."*

Additionally, while this contract was in support of a project for the North Coast Redwoods District, the contract was managed at headquarters by CWPP staff, and thus the responsibility of the CWPP. We would appreciate it if you made that correction in the final version of the report.

State Parks appreciates the opportunity to review the draft report. Any questions regarding these responses can be directed to Adrien Contreras at adrien.contreras@parks.ca.gov.

Sincerely,

Adrien Contreras, Assistant Deputy Director of Park Operations
California State Parks