



THE CITY OF SAN DIEGO

DATE: June 2, 2014
TO: Audit Committee Members, Honorable Mayor and Members of the City Council
FROM: Eduardo Luna, City Auditor
SUBJECT: Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2013

Article V, Section 55.2, of the City Charter requires that the San Diego City Auditor shall report annually the extent and nature of the Mission Bay and the San Diego Regional Parks Improvement Funds' revenues, expenses, and improvements generated. To comply with this requirement and in accordance with the City Auditor's Fiscal Year 2014 Annual Audit Work Plan, we have performed an audit of the Mission Bay and the Regional Parks Improvement Funds' financial activity in fiscal year 2013.

Audit Scope and Methodology

Annually, Mission Bay Park lease revenues in excess of a threshold, currently \$23 million, are distributed to the San Diego Regional Parks and the Mission Bay Improvement Funds for allowable capital improvement projects. Monies deposited into Mission Bay and San Diego Regional Parks Improvement Funds prior to the implementation of City Charter Section 55.2 are excluded from our audit scope. All references in this memorandum to the Mission Bay and San Diego Regional Parks Improvement Funds exclude these pre Charter funds. Additional background information on Mission Bay lease revenue distributions can be found in the March 2012 Performance Audit of the Mission Bay Improvement Fund posted to the Office of the City Auditor web site at:

<http://www.sandiego.gov/auditor/pdf/report/audit/2012/120316missionbayaudit.pdf>.

The audit objectives, scope and methodology used to perform this audit can be found in Attachment B to this memorandum. The Administration's response to this audit can be found after page 12 of the report.

We would like to thank the Office of the City Comptroller, Park and Recreation, Facilities Financing, City Treasurer, and Real Estate Assets management and staff, as well as representatives from other departments for their assistance and cooperation during this audit. The Audit staff responsible for this audit is Judy Zellers, Megan Garth, Danielle Knighten, and Kyle Elser.



Fiscal Year 2013 Financial Activity

The Mission Bay and San Diego Regional Parks Improvement Funds' financial activity for fiscal year 2013 is shown in **Exhibit 1** below. The Mission Bay Improvement Fund (MBIF) had revenues, including transfers and investment earnings, totaling \$5,373,254 and no expenditures were made during fiscal year 2013. The ending fund balance was \$8,005,861. San Diego Regional Parks Improvement Fund (SDRPIF) had revenues, including transfers and investment earnings, of \$2,525,339 and expenditures of \$408,680 during fiscal year 2013. The ending fund balance was \$7,819,520.

EXHIBIT 1

Mission Bay and San Diego Regional Parks Improvement Funds Financial Activity Fiscal Year 2013

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Ending balance, 6/30/12	\$ 2,632,607	\$ 5,063,188
Adjustments [Note 1]	\$ 0	\$ 639,673
Beginning Balance, 7/1/12	\$ 2,632,607	\$ 5,702,861
Revenue, including investment earnings	\$ 5,373,254	\$ 2,525,339
Expenses, net of depreciation	\$ -	\$ (408,680)
Available Charter 55.2 balance, 6/30/2013	\$ 8,005,861	\$ 7,819,520
Unrealized losses on investments	\$ 3,648	\$ 6,159
Balance without unrealized losses, 6/30/2013	\$ 8,009,509	\$ 7,825,678

Source: Auditor analysis of general ledger and Comptroller schedules, amounts rounded to the nearest dollar

Note 1: Adjustments have been made to include a correcting entry for the accrual at 6/30/2009 not included in the prior year beginning balance.

The Mission Bay and San Diego Regional Parks Improvement Funds have two sources of revenue; transfers from lease revenue collected from tenants in Mission Bay Park and investment income or losses. Mission Bay Park lease revenue is deposited to a separate general fund account during the year and distributed to the improvement funds after the fiscal year-end. Prior to the effective date of Charter Section 55.2 on July 1, 2009, there were already cash balances in Mission Bay and the San Diego Regional Parks Improvement Funds. Given that these funds were collected prior to the effective date of Charter 55.2, they are not subject to the expenditure restrictions in this Charter provision according to the City Attorney's Office. However, all revenues, including interest, earned after the Charter Section 55.2 implementation date of July 1, 2009 are subject to the Charter provisions.

Mission Bay Park Lease Revenue

The fiscal year 2013 distribution from the Mission Bay Lease Revenue was \$2,500,000 to the SDRPIF and \$5,357,086 to the MBIF. Total adjusted Mission Bay Lease Revenues were \$30,857,086 as shown in Attachment C of this memorandum. Mission Bay Lease Revenues increased by \$2,907,939 between fiscal year 2012 and 2013.

The revenues in excess of the \$23,000,000 threshold were distributed to the SDRPIF and MBIF based on the Charter formula for distribution, as shown in [Exhibit 2](#).

EXHIBIT 2

Mission Bay Lease Revenue Allocation to Funds

Fund Name	Allocation Breakdown in excess of the threshold	FY 2013 Allocation Amounts
San Diego Regional Parks Improvement Fund	25% or \$2.5 million, whichever is greater, in excess of the \$23 million threshold	\$2,500,000
Mission Bay Park Improvement Fund	75% of the excess over the \$23 million threshold, if less than the 75% then, the remainder after the San Diego Regional Parks allocation	\$5,357,086

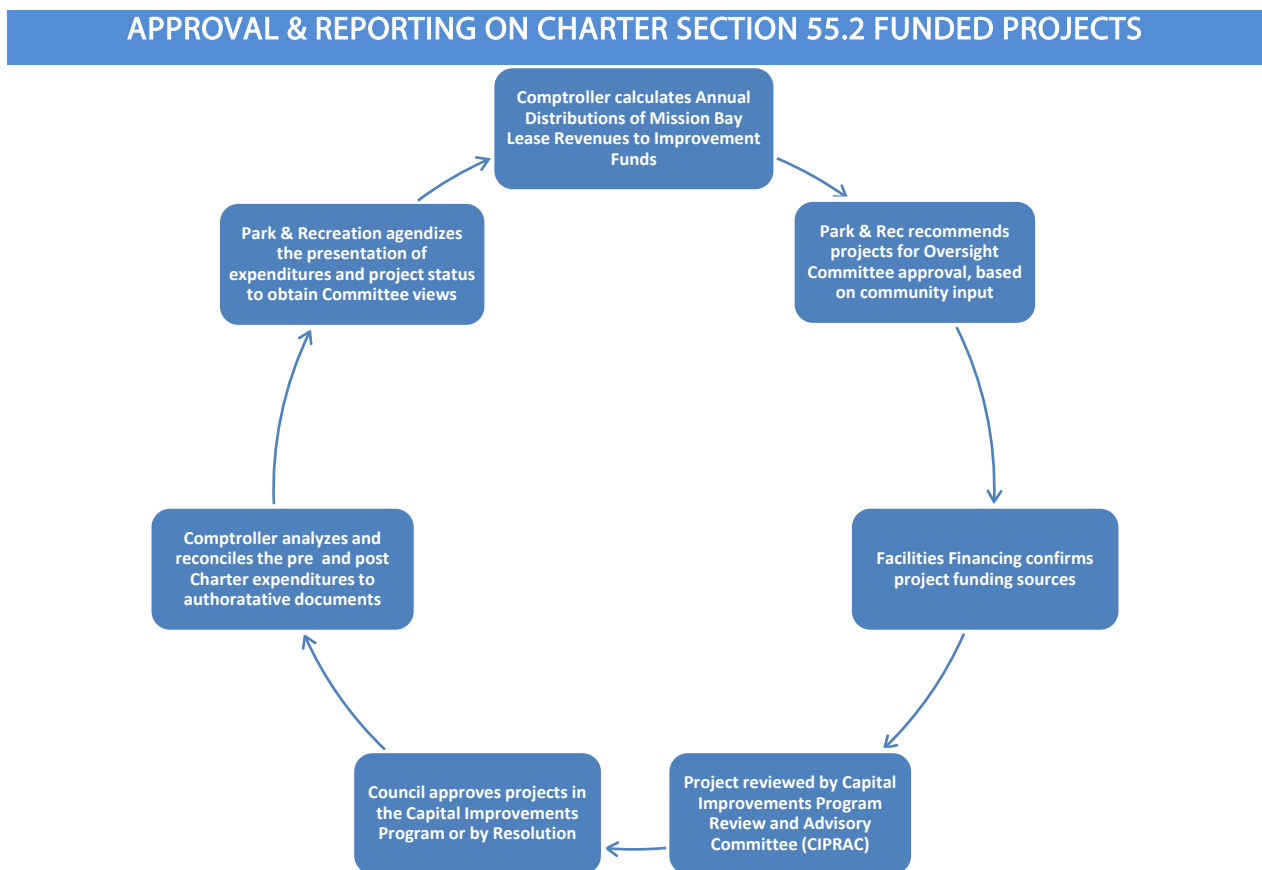
Source: San Diego City Charter, Article V, Section 55.2(b)

The Mission Bay lease revenues exclude monies paid by the residents of De Anza Cove to a property management company contracted by the City to operate the property. The City Attorney's Office has concluded that rents paid to the City by the homeowners in the De Anza Cove Mobile Home Park do not fit within the City of San Diego Charter definition of "Mission Bay Lease Revenues".

Expenditures

We found that the fiscal year 2013 SDRPIF expenditures of \$408,680 were for allowable purposes under the Charter. The processes to approve, monitor, and report Charter revenues and expenditures are shown in [Exhibit 3](#).

EXHIBIT 3



Source: Auditor's summary of key processes.

During fiscal year 2013, SDRPIF project expenditures, subject to the provisions of Charter Section 55.2, totaled \$408,680, rounded. There were no MBIF expenditures subject to the provisions of Charter Section 55.2 during fiscal year 2013.

The fiscal year 2013 SDRPIF project Charter expenditures¹ were as follows.

- \$13,311.17 was expended for the Los Penasquitos Canyon Preserve project. The project purpose is the purchase and installation of an 800 square foot Ranger Station as part of the development of Opens Space Public Facilities.
- \$1,954.36 was expended to complete the art work at the Ocean Beach Comfort Station.
- \$66,145.96 was expended to upgrade and relocate the antiquated SDG&E facility and upgrade the Museum of Man electric control panels and equipment located at the base of the tower. This is part of the California Tower, a Balboa Park historic structure, Seismic Retrofit.
- \$150,086.43 was expended for the Cowles Mountain rehabilitation and installation of material to re-establish approximately 2,000 linear feet of existing trail. This is to improve safety and reduce or eliminate the loss of sensitive natural resources.
- \$84,967.16 was expended for the Museum of Man roof replacement project to restore the integrity of the museum, stop the roof leakages, fix the museum ornamentation, restore the historic carports, protect the public safety and minimize costly maintenance.
- \$92,214.77 was expended to perform required mitigation and pursue long-term dredging permits for the Old Mission Dam Preservation project.

During the audit, we requested the assistance of the City Attorney's Office to clarify the Charter language pertaining to allowable expenditures from the Regional Park Improvement Fund. The San Diego City Charter restricts the use of funds to non-commercial public Capital Improvements and does not permit improvement of leasehold interests or any costs associated with utilities.

- According to the City Attorney's Office, the phrase "improvement of leasehold interests" is work of a more transitory nature that does not increase the life of a physical asset. Based on this, we concluded that the roof replacement of the Museum of Man, a City tenant, is allowable.
- Also, the City Attorney's Office advised that the restriction on utilities applies to utility infrastructure type projects and the operational cost of utilities such as monthly utility bills, not utility costs that are a necessary and incidental part of an overall Capital Improvement project that services a public and park use. The California Tower Seismic Retrofit required the relocation of utilities in order to complete the capital park project.

¹ Source: City Comptroller analysis of SDRPIF expenditures for fiscal year 2013

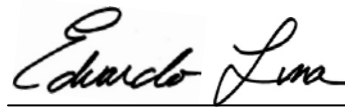
We selected a major contract for each of the projects and reviewed the authorizations by the Oversight Committee and Council. Also, on a test basis, we traced the invoiced amounts to the contract terms. Finally, we reviewed the minutes of the Oversight Committee meetings to determine if the actual expenditures and project status were reported to the Oversight Committee in order to obtain their views on expenditures. In our prior audit, we found that (1) the process of identifying and reporting Charter expenditures to obtain the Oversight Committees' opinions on expenditures, could be improved and (2) in some cases, the Capital Improvements budget presented for Council's approval may lack sufficient detail to satisfy the Charter requirement that Council approve the priority of these projects. In the current year, we found the expenditures, if any, have been reported to the Oversight Committees. Also, the Park and Recreation Department advised that they have developed a process to obtain Council approval for the project priorities and expect to obtain Council approval prior to the end of fiscal year 2014. However, this process was not in place for fiscal year 2013 projects.

During this audit, we also performed follow up on the five recommendations made in prior reports. Two recommendations are in the process of being implemented, the remaining three have been implemented. See Attachment A for the status of these recommendations still in process.

Conclusion

We found that \$2,500,000 was transferred from Mission Bay Lease Revenue to the Regional Parks Improvement Fund for capital improvements and \$5,357,086 was transferred to the Mission Bay Improvement Fund. There were SDRPIF expenditures of \$408,680 in fiscal year 2013. There were no MBIF expenditures in fiscal year 2013.

Respectfully submitted,



Eduardo Luna
City Auditor

cc: Jan Goldsmith, City Attorney
Scott Chadwick, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Stacey LoMedico, Assistant Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Kristin Geitz, Interim Director, Real Estate Assets Department
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Tracy McCraner, Director, Financial Management Department
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John Tracanna, Supervising Management Analyst, Facilities Financing
Ken So, Deputy City Attorney

ATTACHMENT A: FOLLOW UP ON PRIOR AUDIT RECOMMENDATIONS

We made three recommendations in the audit report issued March 16, 2012 and the following recommendation has not been fully implemented.

Recommendation #3: The City Comptroller should establish comprehensive process narrative procedures, process flow diagrams and departmental guidance to properly document the processes specific to the unique nature of Mission Bay Park lease revenues. These procedures should include but are not limited to:

- How the requirements outlined in the City Charter will be administered
- Procedures to reconcile SAP and REportfolio records
- The methodology used for year-end accruals, which should be based on an analysis of actual payment received after year end
- The methodology used for budgeting revenue
- The methodology used by the Oversight Committees for budgeting specific projects based on prior year's distributions

Status of Recommendation #3 – In Process: The City Comptroller has created process narratives describing the Comptroller's processes and they cover many of the requirements specified in this recommendation. However, the process narratives reviewed did not cover the following issues:

- How the requirements outlined in the City Charter will be administered
- The methodology used for budgeting revenue
- The methodology used by the Oversight Committees for budgeting specific projects based on prior year's distributions

This recommendation will be complete when management completes process narratives to address these issues.

We made two recommendations in the audit report issued August 23, 2013 and the following recommendation has not been fully implemented.

Recommendation #2: The Park and Recreation Director should request clarification from the City Attorney's office to determine if the Council's authorization of general annual allocations in the CIP budget is sufficiently detailed to meet the Charter requirement that Council should approve the SDRPIF Capital Improvements priority. If not, appropriate steps should be taken to obtain the necessary approval.

Status of Recommendation #2 – In Process: The City Attorney's office responded that the Charter requirements for Council approval of project priorities was not met by the current budget process. The recommendation will be complete when the department presents the project priority to council for approval which is expected by July 2014.

ATTACHMENT B: AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The City Charter requires that the City Auditor perform an annual audit of the distribution of Mission Bay lease revenues. Specifically, we are required to establish and oversee a mechanism to ensure public accountability by effectively reporting and communicating the extent and nature of revenues, expenses and improvements generated and in compliance with City Charter requirements. This shall include, at a minimum, an annual audit report to the Mayor, City Council and public. Each annual report shall, at a minimum, contain the following: 1) a complete accounting of all revenues received; 2) the amount and nature of all expenditures; and, 3) a report as to whether in each committee's view the expenditures have been consistent and compliant City Charter requirements.

The audit's objectives were to verify that fiscal year 2013 collection, allocation, and use of Mission Bay Park lease revenues are properly budgeted, authorized and in compliance with City Charter requirements.

To accomplish our objectives we performed the following audit procedures:

- Reviewed pertinent laws, policies and regulations related to Mission Bay Park lease revenues;
- Gathered and analyzed agreements and information related to Mission Bay Park lease revenues;
- Identified, collected, analyzed financial information including transaction adjustments and management reports related to Mission Bay Park lease revenues;
- Made inquiries with management and key staff in charge of managing and monitoring information related to Mission Bay Park lease revenues;
- Reviewed Mission Bay Park and San Diego Regional Parks Improvement Fund Oversight Committee minutes, agendas and related bylaws
- Analyzed the quality and effectiveness of the reporting related to Mission Bay Park lease revenues; and
- Verified the calculation and reporting of project expenditures.

We reviewed data for fiscal year 2013. We performed data reliability testing of the financial data provided to us and which we relied on in this report.

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.

ATTACHMENT C: Mission Bay Park Lease Revenue for Fiscal Years 2013 and 2012

Lessee	Revenue Amount FY 2013	Revenue Amount FY 2012	Change
Sea World Inc	\$ 13,981,490	\$ 12,721,343	\$ 1,260,147
CHSP Mission Bay [1]	\$ 4,364,668	\$ 2,886,218	\$ 1,478,450
LHO Mission Bay Hotel, L.P.	\$ 3,222,233	\$ 3,047,217	\$ 175,016
LHO Mission Bay Rosie Hotel	\$ 2,333,629	\$ 2,110,427	\$ 223,202
Campland, LLC	\$ 1,591,079	\$ 1,509,921	\$ 81,158
Bartell Hotels	\$ 1,137,302	\$ 1,033,117	\$ 104,185
BH Partnership	\$ 1,231,985	\$ 1,278,119	\$ (46,134)
Seaforth Sportfishing Corporation	\$ 753,276	\$ 617,057	\$ 136,219
Marina Village	\$ 676,852	\$ 698,637	\$ (21,785)
Driscoll Mission Bay LLC	\$ 363,306	\$ 365,795	\$ (2,489)
Wesco Sales Corp	\$ 247,801	\$ 259,789	\$ (11,988)
Mission Bay Yacht Club	\$ 307,747	\$ 299,059	\$ 8,688
Mission Bay Boat & Ski Club	\$ 103,153	\$ 99,755	\$ 3,398
Bahia Sternwheelers Inc/02	\$ 83,278	\$ 75,900	\$ 7,378
Everingham Bros Bait Co	\$ 48,640	\$ 48,000	\$ 640
Mission Bay Sports Center	\$ 114,924	\$ 53,675	\$ 61,249
Sportsmen's Seafood Co Inc	\$ 59,990	\$ 69,734	\$ (9,744)
Bahia Sternwheelers Inc/01	\$ 33,066	\$ 33,362	\$ (296)
Braemar Partnership 9th & A LP	\$ 39,799	\$ 34,074	\$ 5,725
Associated Students SDSU/Regents Of	\$ 37,242	\$ 31,814	\$ 5,428
San Diego Rowing Club/Intercollegiate Rowing	\$ 24,995	\$ 25,360	\$ (365)
Hanohano Outrigger Canoe Club	\$ 3,635	\$ 3,505	\$ 130
Canoe & Kayak Team	\$ 2,971	\$ 2,808	\$ 163
Verizon Wireless VAW	\$ 9,300	\$ 0	\$ 9,300
Bahia Sternwheelers	\$ 121,141	\$ 0	\$ 121,141
Grand Total	\$ 30,893,502	\$ 27,304,686	\$ 3,588,816
Adjustments to accrue June lease revenue*	\$ (36,416)	\$ 644,461	\$ 680,877
Adjusted total lease revenue	\$ 30,857,086	\$ 27,949,147	\$ 2,907,939
Threshold	\$ (23,000,000)	\$ (23,000,000)	
Revenues exceeding the threshold	\$ 7,857,086	\$ 4,949,147	\$ 2,907,939

Source: OCA generated based on information from the Office of the City Comptroller

[1] The fiscal year 2013 revenue includes receipts by the prior lessee - Kencal, and the current lessee – CHSP. Additionally, revenues include a one-time payment of \$1.2 million received in consideration for assignment of the lease.

* Lease revenues collected and deposited in the Mission Bay Lease Revenue account were \$30,893,502 during fiscal year 2013. However, this amount does not include the change in rents collected in July for June rent and other accounting adjustments. Therefore, an adjustment was added to the rents earned in fiscal year 2013.

ATTACHMENT D: Definition of Audit Recommendation Priorities

**DEFINITIONS OF PRIORITY 1, 2, AND 3
AUDIT RECOMMENDATIONS**

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ²	Description ³	Implementation Action ⁴
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

² The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

³ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

⁴ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: June 2, 2014 *

TO: Eduardo Luna, City Auditor

FROM: Rolando Charvel, City Comptroller *RC*

SUBJECT: Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2013

The Office of the City Comptroller has reviewed the City Auditor's annual report regarding the audit of Mission Bay and San Diego Regional Parks Improvement Funds for Fiscal Year 2013 for which there were no new audit recommendations.

In response to recommendations made in prior year audits, we have completed the documentation and implementation of the following processes:

- PN-0289 - Mission Bay Park and Regional Parks Improvement Funds Period Analysis Spreadsheets
- PN-0348 - Mission Bay Park lease revenue statistics spreadsheet
- PN-0404 - Mission bay park lease revenue

We are currently working on documenting and implementing additional processes to address the remaining recommendations from prior year audits, identified in Attachment A of your report. We anticipate those items will be completed by July, 2014.

RC/rc

cc:
Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Tracy McCraner, Financial Management Director
Herman Parker, Park and Recreation Director
Kyle Elser, Assistant City Auditor