



THE CITY OF SAN DIEGO

DATE: June 30, 2015
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 2014

Results in Brief

The City Charter requires that the City Auditor report annually the extent and nature of the Mission Bay and the San Diego Regional Parks Improvement Funds' revenues, expenses, and improvements. To comply with this requirement and in accordance with the City Auditor's Fiscal Year 2015 Annual Audit Work Plan, we have performed an audit of the Mission Bay and the Regional Parks Improvement Funds' financial activity in fiscal year 2014.

Annually, Mission Bay Park lease revenues in excess of \$23 million are distributed to the San Diego Regional Parks and the Mission Bay Improvement Funds for allowable capital improvement projects. In fiscal year 2014:

- **\$2,500,000** was transferred to the Regional Parks Improvement Fund for capital improvements.
- **\$4,260,442** was transferred to the Mission Bay Improvement Fund.
- **\$742,897** was the total San Diego Regional Parks Improvement Fund expenditures (see Attachment E for a list of expenditures).
- There were no post charter Mission Bay Improvement Fund expenditures. Allocations to the fund are to support the dredging of Mission Bay¹.

We found that the expenditures complied with the charter requirements; however, the process to obtain Council's approval of the priority of projects recommended by the San Diego Regional Park Oversight Committee could be enhanced and more transparent. We addressed this issue in a prior audit recommendation that is still in process. The Park and Recreation Department, in conjunction with the Office of the City Attorney, has proposed modifying the language in the appropriation ordinance and attaching the San Diego Regional Park Oversight Committee's project approvals to the ordinance. These modifications to the approval process will resolve this issue when implemented.

¹ Recent expenditures from the Mission Bay Improvement Fund for the Mission Bay Dredging Rose Creek project were utilizing pre-charter funds and are out of scope for the purposes of our audit.



The Administration agrees with the content as it related to the financial information included in this 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, Danielle Knighten, and Kyle Elser.

Background

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 interest. Mission Bay Park lease revenue is deposited to a separate general fund account during the year and allocated 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.

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. The audit objectives, scope and methodology used to perform this audit can be found in Attachment B to this memorandum.

Fiscal Year 2014 Financial Activity

The Mission Bay and San Diego Regional Parks Improvement Funds’ financial activity for fiscal year 2014 is shown in **Exhibit 1** below. The Mission Bay Improvement Fund (**MBIF**) had revenues, including transfers and interest, totaling \$4,302,753 and no expenditures were made during fiscal year 2014. The allocations to the MBIF will support the dredging of Mission Bay as identified as the number one priority per City Charter, Section 55.2. The balance at June 30, 2014 was \$12,312,262. San Diego Regional Parks Improvement Fund (**SDRPIF**) had revenues, including transfers and interest, of \$2,538,998 and expenditures of \$742,897 during fiscal year 2014. The available balance at June 30, 2014 was \$9,621,779. Prior years’ revenue and interest, as of June 30, 2013, is shown in Attachment C of this memorandum and summarized in Exhibit 1.

EXHIBIT 1

Mission Bay and San Diego Regional Parks Improvement Funds Financial Activity Fiscal Year 2014

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Charter 55.1 revenues exceeding expenditures as of June 30, 2013	\$ 8,009,509	\$ 7,825,678
Revenue, excluding unrealized gains and losses	\$ 4,302,753	\$ 2,538,998
Expenses, net of depreciation	\$ -0-	\$ < 742,897>
Revenue exceeding expenditures as of June 30, 2014	\$ 12,312,262	\$ 9,621,779

Source: Auditor analysis of general ledger and Comptroller schedules, amounts rounded to the nearest dollar excluding unrealized gains and losses and depreciation.

Mission Bay Park Lease Revenue

Total adjusted Mission Bay Lease Revenues were \$29,760,442². 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. The fiscal year 2014 distribution from the Mission Bay Lease Revenue was \$2,500,000 to the SDRPIF for capital improvements and \$4,260,442 to the MBIF. Mission Bay Lease Revenues decreased by \$827,942 between fiscal year 2013 and 2014. This was primarily attributed to a one-time payment of approximately \$1.2 million received in fiscal year 2013 in consideration of assignment of a lease. Also, general increases in lessee revenue were offset by decreased rents from Sea World.

EXHIBIT 2

Mission Bay Lease Revenue Allocation to Funds

Fund Name	Allocation Breakdown in excess of the threshold	FY 2014 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	\$4,260,442

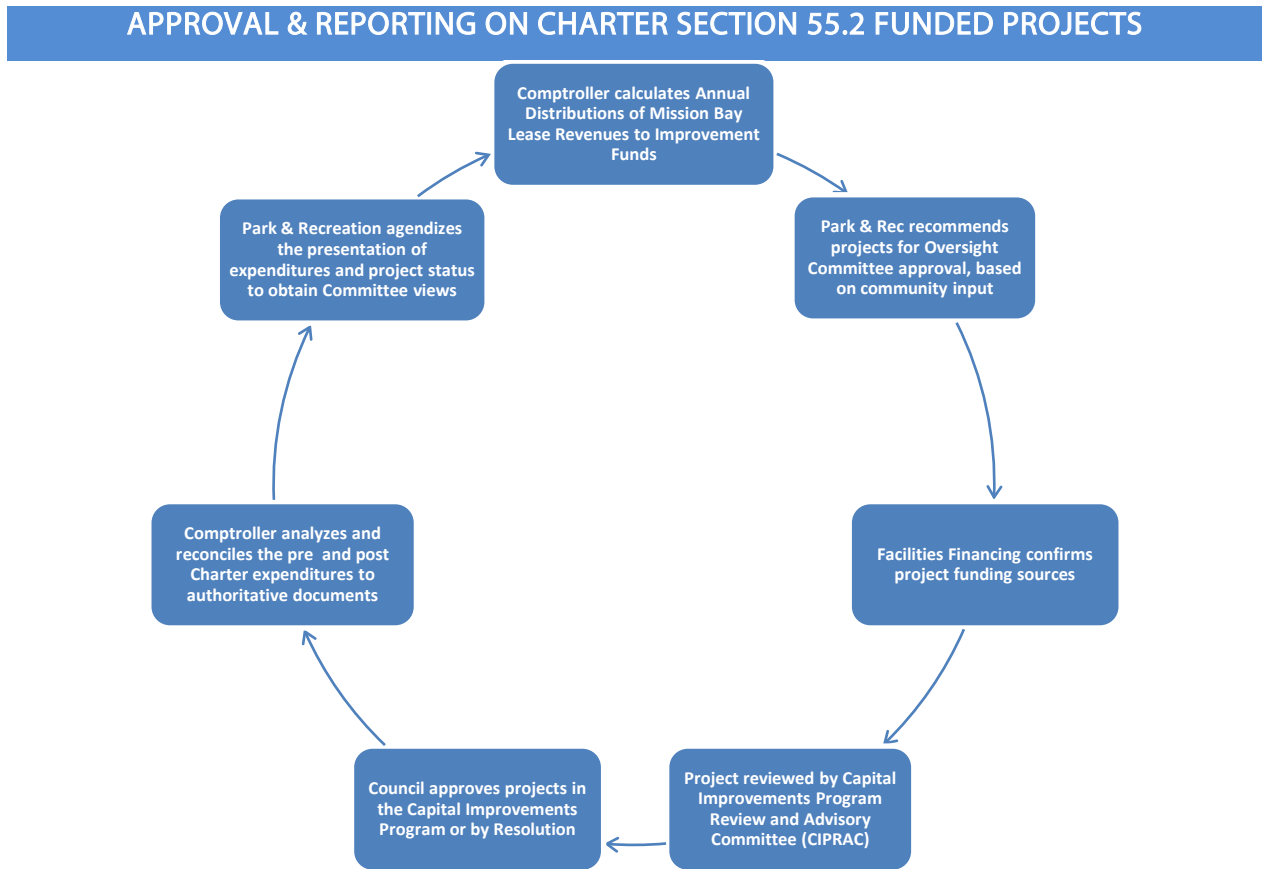
Source: San Diego City Charter, Article V, Section 55.2(b)

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".

² See Attachment D for a detailed list of revenues.

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.

San Diego Regional Parks Improvement Expenditures

During fiscal year 2014, SDRPIF project expenditures, subject to the provisions of Charter Section 55.2, totaled \$742,897, rounded. There were no MBIF expenditures subject to the provisions of Charter Section 55.2 during fiscal year 2014.

The fiscal year 2014 SDRPIF project Charter expenditures³ by project are listed in Attachment E of this memorandum. We found that the expenditures complied with the charter requirements; however, the process to obtain City Council's approval of the priority of projects recommended by the San Diego Regional Park Oversight Committee could be enhanced and more transparent. The City Charter requires City Council approve the SDRPIF Capital Improvements priority.

³ Source: City Comptroller analysis of SDRPIF expenditures for fiscal year 2014

In some instances, the City Council has approved RPIF projects by resolution; in other instances, the projects are incorporated into the annual budget and approved as part of the budget process. The SDRPIF Oversight Committee previously approved all projects in the budget. The budget document provides a brief description of the projects and the funding sources, except for the two projects approved as part of the annual allocation process. Annual allocations are usually for small projects completed in a shorter time period. The two following projects were funded by annual allocations which have no priority score:

- Stairway beach access was approved by the committee for repair of the Orchard Avenue, Capri by the Sea and Old Salt Pool Projects. The budget document indicated three stairway projects would be completed yet the project names were not clearly identified.
- The ranger station was mentioned in the CIP goals and then funded through an annual allocation for open space improvements. The budget page did not describe the project.

We met with the Park & Recreation department and the City Attorney's staff to discuss the approval process and reach a consensus on the issue and the solutions. The budget ordinance does not directly state that Council's budget approval incorporates approval of the recommendations for RPIF projects, required by the Charter. Staff concurred that the process could be clearer. The department has proposed, and is working with the City Attorney's Office, to implement the following steps for the fiscal year 2016 budget:

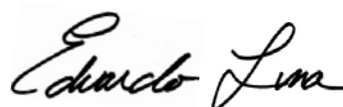
- Modify the appropriation ordinance language to clarify that the RPIF projects incorporated into the budget are approved by Council in accordance with the City Charter;
- Attach the SD Regional Park Oversight Committee approved project list to the budget ordinance;
- Obtain Council resolutions as necessary; and
- Minimize the use of annual allocations.

The City Charter requires this audit to be performed annually, and this approval process will be re-evaluated. We made a recommendation in a prior audit report to address the issue of obtaining council approval of the SDRPIF Capital Improvements priority. Once the proposals above are fully implemented, it will resolve the one outstanding recommendation made in fiscal year 2012, as shown in Attachment A. We appreciate the time and effort of the Park and Recreation Department and the Office of the City Attorney's staff who worked to resolve this issue to ensure clarity and transparency in the approval 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 \$4,260,442 was transferred to the Mission Bay Improvement Fund. There were SDRPIF expenditures of \$742,897 in fiscal year 2014. There were no MBIF expenditures in fiscal year 2014. The Council approval of Regional Park Improvement Fund projects could be improved by modifying the language in the appropriation ordinance and attaching the San Diego Regional Park Oversight Committee's project approvals to the ordinance.

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
Cybele Thompson, Director, Real Estate Assets Department
Rolando Charvel, City Comptroller
Tracy McCraner, Director, Financial Management Department
Herman Parker, Park and Recreation Director
John Tracanna, Supervising Management Analyst, Facilities Financing
Ken So, Deputy City Attorney

ATTACHMENT A: FOLLOW UP ON PRIOR AUDIT RECOMMENDATIONS

We made the following recommendation in the audit report issued March 16, 2012 that was in process and is now 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 – Implemented: Financial Management and the City Comptroller created process narratives describing the Comptroller's processes which cover the requirements specified in this recommendation.

We made the following recommendation in the audit report issued August 23, 2013, and it has not yet 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: As discussed in the report, the Park and Recreation Department in conjunction with the Office of the City Attorney, has proposed modifications to the approval process which will resolve this recommendation when implemented.

ATTACHMENT B: AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Article V, Section 55.2 of 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 2014 collection, allocation, and use of Mission Bay Park lease revenues are properly budgeted, authorized and expended 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 to the Oversight Committees; and
- Verified the calculation and reporting of project expenditures.
- Followed up on related recommendations still in process as of the last report.

We reviewed data for fiscal year 2014. We performed data reliability testing of the financial data provided to us and which we relied on in this report.

All references in this memorandum to the Mission Bay and San Diego Regional Parks Improvement Funds exclude these pre Charter funds.

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:

**Prior Years Mission Bay and San Diego Regional Parks Improvement Funds
 Financial Activity, As of June 30, 2013**

Fiscal Year	Mission Bay Revenues		Regional Park Revenues	
	Revenues [1]		Revenues [1]	
2010	\$	115,603.30	\$	1,708,236.34
2011	\$	62,743.92	\$	1,747,023.02
2012	\$	2,452,534.60	\$	2,553,335.95
2013	\$	5,378,627.48	\$	2,539,403.29
Total as of June 30, 2013	\$	8,009,509.30	\$	8,547,998.60
	Expenditures [2]		Expenditures [2]	
2010	\$	-	\$	-
2011	\$	-	\$	-
2012	\$	-	\$	313,640.25
2013	\$	-	\$	408,679.85
Total as of June 30, 2013	\$	-	\$	722,320.10
Available balance June 30, 2013	\$	8,009,509.30	\$	7,825,678.50

[1] Excludes unrealized gains and losses.

[2] Excludes depreciation.

ATTACHMENT D: Fiscal Year 2014 and 2013 Mission Bay Park Lease Revenue

Lessee	Revenue Amount FY 2014	Revenue Amount FY 2013	Change
Sea World Inc	\$ 13,506,216	\$ 13,981,490	\$ (475,274)
CHSP Mission Bay [1]	\$ 2,958,519	\$ 4,364,668	\$ (1,406,149)
LHO Mission Bay Hotel, L.P.	\$ 3,434,000	\$ 3,222,233	\$ 211,767
LHO Mission Bay Rosie Hotel	\$ 2,396,163	\$ 2,333,629	\$ 62,534
Campland, LLC	\$ 1,701,789	\$ 1,591,079	\$ 110,710
Bartell Hotels	\$ 1,233,532	\$ 1,137,302	\$ 96,230
BH Partnership	\$ 1,721,123	\$ 1,469,470	\$ 251,653
Seaforth Sportfishing Corporation	\$ 881,286	\$ 753,276	\$ 128,010
Marina Village	\$ 685,618	\$ 676,852	\$ 8,766
Driscoll Mission Bay LLC	\$ 368,419	\$ 363,306	\$ 5,113
Wesco Sales Corp	\$ 273,864	\$ 247,801	\$ 26,063
Mission Bay Yacht Club	\$ 347,063	\$ 307,747	\$ 39,316
Mission Bay Boat & Ski Club	\$ 113,035	\$ 103,153	\$ 9,882
Everingham Bros Bait Co	\$ 51,840	\$ 48,640	\$ 3,200
Mission Bay Sports Center	\$ 174,546	\$ 114,924	\$ 59,622
Sportsmen's Seafood Co Inc	\$ 78,271	\$ 59,990	\$ 18,281
Braemar Partnership 9th & A LP	\$ 50,745	\$ 39,799	\$ 10,946
Associated Students SDSU/Regents Of	\$ 42,262	\$ 37,242	\$ 5,020
San Diego Rowing Club/Intercollegiate Rowing	\$ 21,140	\$ 24,995	\$ (3,855)
Hanohano Outrigger Canoe Club	\$ 7,018	\$ 3,635	\$ 3,383
Canoe & Kayak Team	\$ 6,122	\$ 2,971	\$ 3,151
Verizon Wireless VAW	\$ 9,579	\$ 9,300	\$ 279
SD Alliance for Asian Pacific	\$ 1,395	\$ 0	\$ 1,395
Rell Sun Educational Fund Inc	\$ 775	\$ 0	\$ 775
Kai Elua Outrigger Canoe Club	\$ 1,240	\$ 0	\$ 1,240
Grand Total	\$ 30,065,560	\$ 30,893,502	\$ (827,942)
Adjustments to accrue June lease revenue paid in Fiscal Year 2015	\$ (305,118)	\$ (36,416)	\$ (268,702)
Adjusted total lease revenue	\$ 29,760,442	\$ 30,857,086	\$ (1,096,644)
Threshold	\$ (23,000,000)	\$ (23,000,000)	
Revenues exceeding the threshold	\$ 6,760,442	\$ 7,857,086	\$ (1,096,644)

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.

ATTACHMENT E: Regional Park Improvement Fund Project Expenditures for Fiscal Year 2014

Projects	Purpose	Expenditures FY 2014 [1]
New project expenditures:		
Beach Access - Pescadero & Diamond Street	This project provides for coastal improvements by stabilizing stairways for beach access. Construction and consulting contracts totaled \$153,436. The remaining expenditures were administrative costs incurred by City labor.	\$ 161,906.48
Beach Access - Orchard Avenue, Capri by the Sea and Old Salt Pool	This project replaces damaged sections of stairways at 3 locations; Orchard Avenue, Capri by the Sea, and Old Salt Pool. Other than mailings and fees, expenditures were incurred by City labor for contract administration.	\$ 61,375.91
Palisades Park Comfort Station	This project provides for the removal and replacement of the existing comfort station at the foot of Law Street. Primarily, expenditures were incurred for contractual services for the design and construction of the facility. There were no City labor charges.	\$ 170,035.30
Sunset Cliffs Hillside Improvements	This project is for improvements to the hillside portion of the Sunset Cliffs Natural park. Miscellaneous fees were \$4,977. The remaining costs were incurred by City labor for design, permitting and contract award costs.	\$ 74,900.18
Trail for All People	This project is for the design and construction of a 1,300 foot trail which will accommodate people of all physical abilities. \$4,694 was expended for contractual engineering services. Remaining expenditures were City labor incurred for permitting, design, and procurement of consultant services.	\$ 28,765.81
Chollas Lake Park Playground Improvements	This project provides for the design and construction of two playgrounds at Chollas Lake park to improve safety at the playgrounds. Expenditures were incurred by City labor for preliminary engineering, design, and permitting.	\$ 22,367.03
Continuing Projects Expenditures:		
Los Penasquitos Canyon Preserve Ranger Station	This project provides for the purchase and installation of an 800 square foot Ranger Station with bathroom facilities at the corner of Mercy Road and Black Mountain Road. City labor charges of \$12,329.96 were incurred for permitting, design, and contract award costs.	\$ 13,633.52
California Tower Electric Room	This project provides for the seismic retrofit of the California Tower in Balboa Park which includes relocation of the SDG&E facilities. \$5,890 was for SDG&E engineering costs. The remaining expenditures are City labor costs incurred for project design.	\$ 81,366.35
Old Mission Dam Dredging Project	This project provides for dredging behind the Old Mission Dam to remove silt buildup, the required mitigation and monitoring, and obtaining permits for long term preservation measures. Contractual services were \$29,319.13. \$32,037.42 was expended for City labor.	\$ 61,356.55

Projects	Purpose	Expenditures FY 2014 [1]
Cowles Mountain Trail Rehabilitation	This project provides for design, engineering, construction and installation of structures as well as the rehabilitation and installation of appropriate material to re-establish approximately 2,000 feet of trail. Expenditures were for contractual services for the trail rehabilitation.	\$ 28,259.00
Museum of Man Roof Replacement	This project restores the interior of the Museum of Man by repairing water damaged walls, domes, and entrance doors. City labor charges were incurred for construction site mitigation and warranty administration.	\$ 38,930.71
Total Fiscal Year 2014 expenditures		\$ 742,896.84

[1] The expenditures are for projects funded by Mission Bay rents collected after June 30, 2009. Monies in the fund collected prior to July 1, 2009 and expended on projects are outside the scope of the audit.