

# Performance Audit of the Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2024

*This audit is conducted annually in accordance with the requirements of City of San Diego Charter Section 55.2*

## Why OCA Did This Study

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 and compliance with the requirements of Section 55.2. To comply with the Charter and in accordance with the City Auditor's Fiscal Year 2025 Annual Audit Work Plan, we have performed an audit of the Mission Bay and the Regional Parks Improvement Funds' financial activity in fiscal year 2024.

## What OCA Found

A payment application issue impacted our review of the Mission Bay revenue for FY2024, however, the Economic Development Department (EDD) appears to have taken steps to subsequently resolve the issue. Expenditures appeared to be in compliance with the requirements of Charter Section 55.2.

### Fiscal Year 2024 Financial Activity:

We found that the \$20 million assigned to the General Fund was made as required by City Charter, and the revenues in excess of the \$20 million threshold were distributed to the San Diego Regional Parks Improvement Fund (SDRPIF) and Mission Bay Improvement Fund (MBIF) based on the Charter formula for distribution, as shown in Exhibit 2.

We found that \$5,944,964 was transferred from Mission Bay Lease Revenue to the SDRPIF for capital improvements and \$11,040,647 was transferred to the MBIF.

During the course of this audit, the City's Annual Report on Internal Controls for 2024 stated there were issues with EDD's lease invoicing and payment processing, which resulted in a large backlog of unresolved lease payment discrepancies.

Therefore, at the time of this audit, we could not confirm that all Mission Bay Lease Revenue payments in FY2024 have been applied appropriately and the correct amount of funds were transferred to the MBIF and SDRPIF.

### Exhibit 2: FY2024 Mission Bay Lease Revenue Allocation to the Mission Bay and San Diego Regional Parks Improvement Funds

Mission Bay Lease Revenue Allocation to Fund	Allocation Breakdown in Excess of Threshold	FY2024 Allocation Amounts	FY2023 Allocation Amounts
San Diego Regional Parks Improvement Fund	35% or 3.5 million, whichever is greater, of the amount in excess of the \$20 million threshold	\$5,944,964	\$6,608,581
Mission Bay Park Improvement Fund	65% of the excess over the \$20 million threshold, if less than the 65%, then the remainder after the San Diego Regional Parks allocation	\$11,040,647	\$12,273,079

Source: OCA generated based on San Diego City Charter, Article V, Section 55.2(b)

We also included 4 findings in our report detailing other issues we encountered:

### Finding 1: The Office of the City Treasurer could not formally issue potential audit findings from the required percentage lease revenue audits for FY2024 due to a City Management-directed moratorium on revenue audits, which increases the risk of loss of revenue and reduces transparency and oversight for the City.

- City Council Policy 700-10 requires the Office of the City Treasurer to conduct revenue audits of each percentage lease every five years.
- During FY2025, the Office of the City Treasurer could not complete and formally close all planned audits, which included lease revenue for FY2024, due to a lease audit moratorium that City Management stated was implemented to improve business processes.
- According to the EDD, the department is in process of resolving these issues, and we will review the department's resolution of this matter further during our FY2025 audit of the funds.

**Finding 2: The Economic Development Department did not impose lease penalty fees for Mission Bay rental accounts for FY2024.**

- The City did not assess any late penalty fees for FY2024 due to a large backlog of unapplied payments of \$8 million for all City lease revenue—including Mission Bay lease revenue.
- While no late fees were assessed on Mission Bay leases, late fees were assessed for some non-Mission Bay leases, and the funds were incorrectly transferred to the Improvement Funds.
- As a result, we were unable to determine if revenue from the late payments were accurately included in the split of revenue and complied with City Charter Section 55.2.

**Finding 3: Of 31 Mission Bay rental agreements, 11 (or 35 percent) are in “holdover” status, which may be leading to foregone revenue for the City and potential or perceived favoritism amongst lessees.**

- Of Mission Bay’s 31 leases, 11 (or 35 percent) are expired and are currently in “holdover” status, as of July 2025.
- While in holdover status, leases and permit agreements require appraisals to be conducted. These appraisals are to ensure the lease rate is of fair market value and to seek Council approval to extend the lease beyond the agreement terms.
- Allowing leases to remain in holdover, the City may be losing out on potential revenue that could be generated from appraising a property and renewing a lease with the current market value, or entering into a new tenancy under a competitive bidding process.

**Finding 4: The City should provide additional project information to the improvement fund oversight committees to strengthen transparency and maximize project delivery.**

- In FY2024 City staff provided high level project status reports to the both the Mission Bay Park and San Diego Regional Park Improvement Fund Oversight Committees (Oversight Committees), however both Oversight Committees stated the information was insufficient to execute their responsibilities.

- There is no guidance document stating which project information the departments should provide the Oversight Committees regularly. This guidance would ensure project status reports are comprehensive and standardized to allow the Oversight Committees to more easily analyze the project information against previous reporting periods.

**Recommendation Follow Up: We found that the two remaining audit recommendations from the FY2021 Performance Audit of Mission Bay and San Diego Regional Parks Improvement Funds have been implemented.****What OCA Recommends**

We made five recommendations and City Management agreed to all five. Key recommendation elements include:

- City Management should issue a memorandum or other written guidance that discourages future audit moratoria and which requires promptly informing the Office of the City Auditor and Audit Committee if the ability to perform lease revenue audit functions is restricted in the future;
- EDD should develop and utilize a lease management process that includes annual verification of lease terms and agreements;
- EDD should document department procedures to reconcile system payment data with SAP in accordance with existing City policy;
- EDD should ensure that leases that are in holdover status receive the required City Council approval and property appraisals; and
- The Parks and Recreation and Engineering and Capital Projects Departments should work with the Oversight Committees to reach an agreement on which project elements should be shared regularly.

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