

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

NOVEMBER 2025 | OCA-26-04

Audit Results

A payment application issue impacted our review of Mission Bay revenue for FY2024; however, Economic Development appears to have taken steps to subsequently resolve the issue.

Expenditures appeared to be in compliance with Charter Section 55.2, although the City should provide additional project information to the improvement fund oversight committees to strengthen transparency and maximize project delivery, as discussed in Finding 4.

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.

Finding 2

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

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.

Finding 4

The City should provide additional project information to the improvement fund oversight committees to strengthen transparency, ensure expenditures are appropriate, and maximize project delivery.

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CITY OF SAN DIEGO



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The Office of the City Auditor would like to thank staff from the following departments and committees for their assistance during this audit:

- Economic Development Department Real Estate Assets Division
- Office of the City Treasurer
- Department of Finance
- Parks & Recreation Department
- Engineering & Capital Projects Department
- Mission Bay Park Improvement Fund Oversight Committee
- San Diego Regional Park Improvement Fund Oversight Committee



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600 B Street, Suite 1350, San Diego, CA 92101

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.

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.

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Background

The City Charter requires that the City Auditor report annually the extent and nature of the Mission Bay and San Diego Regional Parks Improvement Funds' revenues, expenses, and improvements, and compliance with the requirements of Charter Section 55.2. To comply with the Charter, and in accordance with the City Auditor's Fiscal Year 2025 Audit Work Plan, we performed an audit of the Mission Bay and San Diego Regional Parks Improvement Funds' financial activity in fiscal year (FY) 2024.

The Mission Bay and San Diego Regional Parks Improvement Funds have two sources of revenue: (1) transfers from lease revenue collected from tenants in Mission Bay Park; and (2) 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.

Annually, beginning in FY2010, Mission Bay Park lease revenues in excess of \$23 million have been distributed to the Mission Bay and San Diego Regional Parks Improvement Funds for allowable capital improvement projects. Per the City Charter, in FY2015 and thereafter, revenues in excess of \$20 million are transferred. A minimum of \$3.5 million, or 35 percent, of revenues in excess of \$20 million (whichever is greater) is transferred to the San Diego Regional Parks Improvement Fund (SDRPIF), with the remainder of the excess going to the Mission Bay Improvement Fund (MBIF).

The Mission Bay Park Improvement Fund's Oversight Committee and the San Diego Regional Parks Improvement Fund's Oversight Committee are responsible for carrying out oversight responsibilities on the revenues and expenditures associated with leases and capital projects within the boundaries of Mission Bay Park and San Diego Regional Parks. They use information presented to them to make recommendations to City Council on projects to be funded and any concerns that they believe need further scrutiny. They are also responsible for verifying that the appropriate funds are collected, segregated, retained, allocated, and prioritized in compliance with the City Charter. The audit objectives, scope, and methodology used to perform this audit can be found in **Appendix B** of this report.

Audit Results

A payment application issue impacted our review of Mission Bay revenue for FY2024; however, Economic Development appears to have taken steps to subsequently resolve the issue.

Expenditures appeared to be in compliance with Charter Section 55.2, although the City should provide additional project information to the improvement fund oversight committees to strengthen transparency and maximize project delivery, as discussed in Finding 4.

Fiscal Year 2024 Financial Activity

The recorded fiscal year (FY) 2024 activities of the Mission Bay Improvement Fund (MBIF) and San Diego Regional Parks Improvement Fund (SDRPIF) are shown in **Exhibit 1**.

Exhibit 1

The FY2024 Ending Balances of the Mission Bay Improvement Fund and San Diego Regional Parks Improvement Fund Were Higher Than the Ending Balances for FY2023

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Charter 55.2 Beginning Balance as of June 30, 2023	\$ 41,227,040	\$ 18,221,553
Revenue, excluding unrealized gains and losses	\$ 12,126,627	\$ 6,409,543
Expenditures, net of depreciation	\$ (9,526,261)	\$ (6,373,720)
Ending Balance as of June 30, 2024	\$ 43,827,406	\$ 18,257,376

Source: OCA generated based on general ledger and Department of Finance schedules, amounts rounded to the nearest dollar, excluding unrealized gains and losses and depreciation.

The MBIF had revenues, including transfers and interest, of \$12.1 million and expenditures of \$9.5 million, as shown in **Exhibit 1**. The MBIF balance on June 30, 2024, was \$43.8 million, which is an increase of \$2.6 million.

SDRPIF had revenues, including transfers and interest, of \$6.4 million, and expenditures of almost \$6.4 million. The available SDRPIF balance on June 30, 2023, was \$18.3 million. Prior fiscal years' financial activity through June 30, 2024, is shown in **Appendix C** of this report.

Mission Bay Park Lease Revenue

The total adjusted Mission Bay Lease Revenues were approximately \$36.2 million. Adjusted lease revenue decreased 7 percent from FY2023 to FY2024. Revenue decreased by \$2.6 million and totaled \$36.2 million. The first \$20 million remains in the General Fund, which left an initial \$16.3 million to be distributed to the Improvement Funds. The amounts allocated to MBIF and SDRPIF in FY2024 and FY2023 are presented in **Exhibit 2**.

We did find 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 SDRPIF and MBIF based on the Charter formula for distribution, as shown in **Exhibit 2**.

Of note, during the course of this audit, the City's Annual Report on Internal Controls for 2024 stated there were issues with the Economic Development Department's (EDD) lease management as well as invoicing and payment processing, which resulted in a large backlog of unresolved lease payment discrepancies and an understatement of City lease revenue.¹ Due to this understatement of lease revenue, 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. Our primary reservation is that the lease revenue collection process issues identified and detailed in Findings 1 (lease revenue audit moratorium) and 2 (late fee accounting issues) may have contributed to a lower revenue distribution to the SDRPIF and MBIF funds. Those findings summarize related issues and provide recommendations for the City to be able to provide assurance in future fiscal years.

¹ Annual Report on Internal Financial Control, Calendar Year 2024: <https://www.sandiego.gov/sites/default/files/2025-02/2024-annual-report-on-internal-financial-control-march-1-2025.pdf#page=18>

Notably, the City's Annual Report on Internal Financial Control, published in March 2025, noted that EDD has worked to resolve a backlog of lease payment discrepancies and we found they appear to have made significant progress. According to EDD, the payments will be applied to the appropriate funds as the backlog is reconciled and will be reflected in the next reporting period of FY2025. OCA will continue to monitor this situation as part of our Charter-mandated annual audit of these fund activities.

The FY2024 distribution from the Mission Bay Lease Revenue was \$5,944,964 to the SDRPIF and \$11,040,647 to the MBIF. Mission Bay adjusted total Lease Revenues decreased by approximately \$2.6 million between FY2023 and FY2024. The revenue shown in **Exhibit 1** is slightly higher due to interest income.

Exhibit 2

FY2024 Mission Bay Lease Revenue Allocation to the MBIF and SDRPIF Decreased Compared to FY2023 Allocations

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).

Deferred Revenue Amounts in FY2024

We reviewed the annual Mission Bay revenue allocations and identified \$933,834 in deferred revenue to the City for FY2024.² OCA will continue to monitor the deferred revenue amounts as part of the Mission Bay performance audit for FY2025. This issue is discussed further in Finding 2.

² "Deferred revenue" is revenue that the City has not received for lease agreements for the FY2024 reporting period.

Mission Bay Improvement Fund and San Diego Regional Park Improvement Fund Expenditures

The expenditures charged to both the MBIF and SDRPIF appear to be appropriate and in accordance with the provisions of Charter Section 55.2. The majority of the MBIF expenditures continue to be for improvements to playgrounds, comfort stations, and parking lots at various Mission Bay Parks. The largest group of SDRPIF expenditures were for the Balboa Park Botanical Building Improvements. The FY2024 SDRPIF Charter expenditures by project are listed in **Appendix E** of this report. The FY2024 MBIF Charter expenditures by project are listed in **Appendix F** of this report.

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.

The Office of the City Treasurer is required to conduct revenue audits of each percentage lease.

City of San Diego Council Policy 700-10 requires the Office of the City Treasurer to conduct an audit of each percentage lease for the first year of operation and at least once every five years. The Office of the City Treasurer may conduct more frequent audits if deemed necessary.³

The Treasurer's revenue auditing role was hindered by a moratorium implemented by City Management.

The Office of the City Treasurer noted that during FY2025 it had been unable to complete, formally close, and issue all planned lease revenue audits, which would have reviewed some revenue received in FY2024, to the Economic Development Department (EDD). The lease audit moratorium began July 2024; and the City Treasurer's access to the revenue reporting software, REPortfolio, was removed as of December 2024. Therefore, many planned audits could not begin and completed audits by the Treasurer could not be issued. According to EDD, a moratorium was necessary to allow for a true opportunity to improve business processes for accurate reporting, improve customer experience, and improve resource allocation of affected City staff.

The Office of the City Treasurer made an inquiry to EDD in December 2024 to determine why access to REPortfolio was removed and to emphasize the importance of completing the audits in progress.

³ "Percentage lease" means a lease of a City property requiring the lessee's payment to the City of both: (a) established minimum rent; and (b) rent based on specified percentages of gross revenues derived by the lessee and sublessees from all revenue-producing activities conducted on the leased City property.

The Office of the City Treasurer continued efforts to obtain access to the REPortfolio lease revenue tracking system during the FY2025 fiscal year.

The lease audit moratorium for FY2024 ended as of April 2025, but the Treasurer's REPortfolio access and revenue auditing function was not restored until August 2025. Restricting access and the revenue auditing function, such as with this moratorium, can potentially create a backlog of future audits from being completed and create additional strain on City staff to complete audits for upcoming fiscal years. Additionally, the City can potentially lose revenue if the Treasurer is unable to review revenue for accuracy.

Additionally, at the time of audit fieldwork, EDD declined to provide the Office of the City Auditor access to REPortfolio due to the cost of additional licenses. This impacted our ability to verify the reliability of the billing terms and revenue received for the annual review of Mission Bay revenue. The Performance Audit of the Mission Bay Improvement Fund must be completed annually. We and Office of the City Treasurer relied on data from SAP and reports provided by EDD to support our analysis. However, without direct access to the system, both we and the Office of the City Treasurer could not determine if the billing terms agreed to in the Mission Bay agreements reflect what has been used in the REPortfolio system to ensure that revenue that the City received was accurate and in compliance with the lease agreement payment terms and Charter Section 55.2.

According to City Management, the lease audit moratorium was implemented because of the need to improve business processes, perform accurate financial reporting, improve the customer experience, and allocate City staff resources.

EDD limited REPortfolio access to only its staff and removed access from the Office of the City Treasurer. EDD believed it was counterproductive to allow access to leasing management software containing inaccurate information while it was actively working to reconcile accounts so that accurate payments could be applied and correct revenue could be realized. According to EDD, it provided all data and information to the City Treasurer upon request to continue revenue audits, despite not providing access to the software. However, the City Treasurer indicated that its ability to complete revenue audits was limited by the moratorium, which explicitly instructed the City Treasurer to pause audits and restrict contact with EDD.

Such restriction hinders oversight and transparency. It also prevents the Office of the City Treasurer and Office of the City Auditor from performing an accurate analysis of revenue to the City during revenue audits and from ensuring that unapplied payments are applied to the correct accounts.

EDD stated that providing a license to the external departments would be too costly. Additionally, the Office of the City Treasurer indicated that it was at the request of the Director of EDD to pause most audits so that the department could correctly apply revenue to the correct accounts from the large backlog of unapplied payments, conduct process improvements to prevent reoccurring issues from an aging software system, and make staffing changes.

Limiting the Treasurer’s revenue auditing role weakens an important financial control, and can result in lost revenue to the City, as well as the City not identifying money it may owe to tenants.

The City can experience a loss in revenue if EDD revokes access and impairs the revenue auditing function performed by the Office of the City Treasurer. Revenue audits are an important internal control for oversight, transparency, and maintaining the City’s financial strength. Limiting an important internal control hinders oversight and transparency, and could damage the City’s reputation and credibility for billing practices and financial reporting.

Additionally, Section 39.1 of the City Charter mandates the Audit Committee to provide oversight of City internal controls—which includes revenue audits.⁴ The City’s Annual Report on Internal Controls for 2024 was presented to Audit Committee in March 2025, and included information about the revenue audit moratorium. However, the report issuance and presentation took place approximately 8 months after the issue happened.

Notably, the revenue audits performed by the City Treasurer can uncover discrepancies in revenue received by the City in terms of money owed to the City, as well as money the City owes to tenants. As shown in **Exhibit 3** below, the Office of the City Treasurer identified payment variances in audit reports from recent fiscal years.

⁴ Section 26.1704 (b) of the San Diego Municipal Code also requires departments to provide results of significant investigations that Audit Committee should be aware of: “Directors and heads of mayoral departments, non-mayoral departments, and City component units shall notify the Committee chair and City Auditor of the results of any significant investigations, examinations, or reviews performed by government and regulatory authorities of all City departments, related entities, and City component units within the Committee’s purview and any management response thereto.”

*Exhibit 3***Revenue Audits Performed by the Office of the City Treasurer for Audit Reports from Recent Fiscal Years Identified Numerous Instances of Money Owed Both to and by the City for Inaccurate Billing and Reporting Practices**

Fiscal Year	No. of Mission Bay Audits	City Owed	Owed to City
2022	3	\$ (163,756)	\$19,586
2023	6	—	\$10,889,262*
Total	9	\$ (163,756)	\$10,908,848

* \$9,717,778.39 of this was from the City's rent dispute with SeaWorld over COVID-related restrictions.

Source: OCA generated based on documentation provided by the Office of the City Treasurer.

Recommendation

Recommendation 1.1

(Priority 1)

The Chief Financial Officer or other City Executive leadership should issue a memorandum or other written guidance that discourages future audit moratoria and requires promptly informing the Office of the City Auditor and the Chair of the Audit Committee if the ability to perform lease revenue audit functions is restricted in the future.

Management Response: Agree [See full response beginning on page 35.]

Target Implementation Date: December 2025

Finding 2

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

Tenant leases generally require timely payment of rent to the City, with late payments subject to penalty.

City of San Diego City Charter Article V section 55.2 (e) requires the Office of the City Auditor to ensure public accountability and effective reporting by producing an annual report of complete accounting of all revenues received for Mission Bay. Additionally, individual rental agreements for Mission Bay property contain terms and agreements for payment terms and the collection of lease penalty fees.

Apart from the Office of the City Treasurer's (City Treasurer) audits, Process Narrative #1 PN-0446 (Use of an Alternate Billing or Interfacing System) includes a post process review section that requires an alternate billing or interfacing system (REPortfolio) to be reconciled by the Economic Development Department (EDD) to the general ledger and collections system (SAP) monthly to ensure lease revenues are received and recorded accurately. EDD creates invoices for lease payments and lease payments are monitored by the City Treasurer and posted to SAP. Since EDD uses an alternate system to invoice and record revenue and SAP is the City's general revenue collection system, the two systems' invoice and payment data must be reconciled to ensure the correct amounts for lease payments have been received by the City.

Additionally, Process Narrative PN-0404 Record Mission Bay Park Lease Revenue process review requires the Department of Finance to reconcile a report detailing the revenue received to the City to a report of deferred revenue that indicates the remaining lessees who have not paid for the fiscal year. Furthermore, the process narrative indicates how revenue from late payments must be recorded using a specific accounting code that helps ensure the revenue from the late payments is correctly allocated in the annual split of revenue to the San Diego Regional Parks Improvement Fund (SDRPIF) and Mission Bay Improvement Fund (MBIF).

The City did not assess any late fees for Mission Bay lease agreements in FY2024.

EDD is responsible for ensuring revenue from Mission Bay agreements and lease penalties have been received accurately and timely to the City. The Department of Finance verifies and ensures all revenue is received by reconciling revenue reports from SAP and REPortfolio and identifying any discrepancies and deferred revenue to the City. City revenue that has been received within the available reported period is recognized as revenue for the City's financial statement.⁵ When anticipated revenue is not received or recognized within the available reporting period, the revenue is recognized as deferred revenue to the City. The unreceived revenue can be related to payments not received for rental agreements, or from payments that were not correctly applied to invoices before the reporting period end. However, when revenue has not been received to the City timely, late fees should be imposed for late payments.

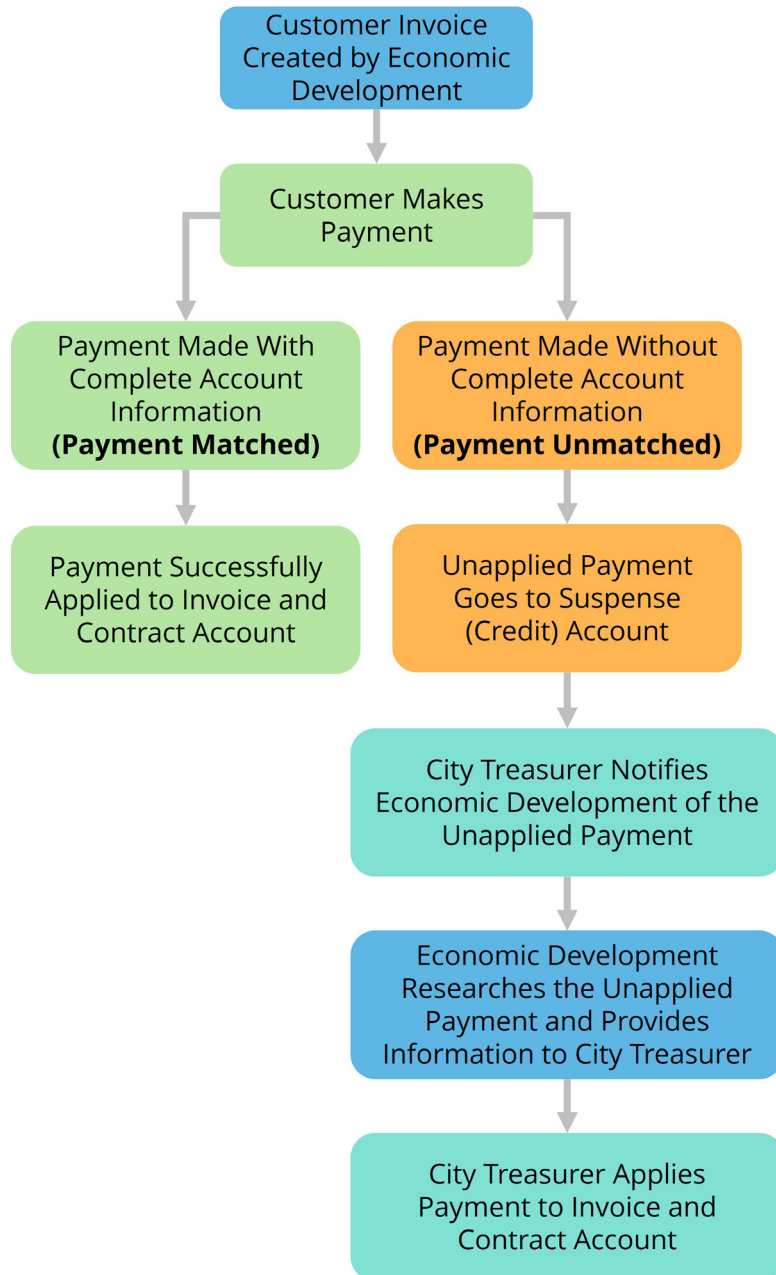
We reviewed the annual Mission Bay revenue allocations and identified \$933,834 in deferred revenue to the City for FY2024. OCA will continue to monitor the deferred revenue amounts as part of the Mission Bay performance audit for FY2025.

The City's rental revenue recording process requires accurate information from the customer and review by the City.

Payments made by lessees that do not have an invoice generated by EDD to support the payment post to an SAP credit account until an invoice is created by EDD and matched to the unapplied payment to apply to the correct account. According to EDD, it did not assess lease penalty fees for FY2024 due to a large backlog of unapplied payments totaling \$8 million for all City lease revenue, including Mission Bay lease revenue for FY2024.

According to EDD, when a lessee makes a rental payment, the rental payment must note the accurate contract invoice number to ensure the payments are applied to the correct contract account. When these lease payments do not include or do not have accurate contract invoice numbers, the payments post to a credit account. The credit account is reviewed by the City Treasurer and EDD. The review is conducted to research and apply the payments timely to the correct invoices that were posted to the credit account. **Exhibit 4** below provides a high-level overview of the lease payment process.

⁵ "Availability period" is 60 days immediately following the close of the fiscal period, during which cash must be collected for revenue recognition purposes.

*Exhibit 4***The City's Rental Revenue Recording Process for Various Fund Splits Requires Accurate Customer Information and Both Internal and External Review**

Source: OCA generated based on documentation provided by EDD and the Office of the City Treasurer.

EDD stated that costs prevented the department from providing an additional software license for us to directly verify the accuracy of billing terms noted in the lease agreements within REPortfolio. However, we reviewed REPortfolio payment data to identify potential late payments that may have warranted late fees and identified up to \$71,478 in potential late fees for FY2024.

While no late fees were reported for Mission Bay lease agreements, we found that \$58,121 in lease penalties were included in the split of revenue to the SDRPIF and MBIF using an incorrect accounting code. Late fees were assessed for some non-Mission Bay leases, and the funds were incorrectly transferred to the MBIF and SDRPIF. Revenue received from Mission Bay agreements have specific accounting codes to track and separate revenue from other Citywide lease revenue to ensure that all revenue generated from Mission Bay lease agreements is accurately included in the annual revenue split amongst the SDRPIF, MBIF, and General Fund. When the incorrect accounting codes are used to complete the revenue split, revenue may be unintentionally pulled from the General Fund or incorrectly added to the SDRPIF and MBIF. Additionally, if payments are made late and late payment revenue is not collected, late payment revenue will not be included in the annual split of revenue. As a result, we were unable to determine if revenue from late payments were accurately included in the split of revenue and complied with City Charter Section 55.2.

EDD cited a variety of reasons for why no late fees were assessed, including payments received with incomplete information, staffing changes, and software limitations.

EDD did not have a documented procedure to ensure staff were routinely reviewing unapplied payments or applying late fees. However, EDD created policies and procedures for researching and applying unapplied payments as of June 2025.

Due to customer clerical errors, staffing changes, and a software system that has not been updated in eight years, EDD was unable to apply payments timely, creating the backlog of unapplied lease payments. EDD indicated that a lessee could have made a payment, but if the payment did not reference the account number or the invoice number, the payment could have been deemed late. When this occurs, it often results in significant staff time to investigate and apply the payment to the proper account and invoice.

In such cases, EDD would not issue a late fee, as doing so would have amounted to penalizing tenants who had, in good faith, made the payment but fell short on documentation. Other instances where late fees were not charged included when the check was en route, there was an audit dispute, or there were misapplied payments.

As of September 2025, according to EDD, a backlog of unapplied lease payments has been significantly decreased from around \$8 million to around \$1 million, with Mission Bay properties accounting for just \$12,134. However, EDD indicated that this \$12,134 lease payment was a payment made in advance by one tenant and it will be applied during the applicable payment period.

Not assessing late fees when warranted results in a potential loss in revenue for the City and undermines the importance of timely payment.

The City can lose revenue by not collecting late fees for late rental payments or ensuring lease agreements are billing at the accurate rate—for example, up to \$71,478 in late fees may have been warranted for late payment in FY2024. Though a relatively modest dollar figure, not assessing late fees when payments are past due also sends a message that undermines the importance of timely payment and prudent property management. If payments are not applied timely, accounts can become delinquent in error; City revenue may not be recorded timely, accurately, or in the correct period; and credits can be improperly refunded.

Recommendations

Recommendation 2.1

(Priority 1)

The Economic Development Department should develop and utilize a lease management process narrative that includes the verification of lease terms and agreements at least annually and a process for lease renewal. Additionally, a process narrative should be developed and utilized that includes a periodic quality control check of revenue received from lease concessions to ensure the revenue received is complete, accurate, and timely. The process narrative(s) should include, but not be limited to, the following lease agreement areas:

- Lease Terms;
- Payment Terms;
- Holdover Terms; and
- Late Fee Assessments.

Management Response: Agree [See full response beginning on page 36.]

Target Implementation Date: June 2026

Recommendation 2.2

(Priority 1)

The Economic Development Department should create and document procedures to reconcile REPortfolio payment data to SAP in accordance with the City policy process narrative #1 PN-0446 Use of an Alternate Billing or Interfacing System to strengthen internal controls and ensure revenue is accurately accounted for and received timely.

Management Response: Agree [See full response beginning on page 37.]

Target Implementation Date: October 2025

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.

Leases with tenants should be active and reflect market rental conditions.

The City of San Diego City Charter Article V section 55.2 (e) requires the Office of the City Auditor to ensure public accountability and effective reporting by producing an annual report of complete accounting of all revenues received for Mission Bay. Additionally, individual lease agreements for leases within Mission Bay contain terms and agreements for lease compliance (e.g., lease terms, payment terms, holdover status, use of permits, and land use). However, many of them require Council approval for leases that exceed the terms of their permit after a certain number of years.

Additionally, Council Policy 700-10 requires each revenue-generating lease of a City property, whether the lease is a percentage or flat lease, to:

- Reflect the terms and conditions consistent with prevailing trends in the lease market;
- Require the lessee to pay initial rent equal to or greater than current market rent; and
- Ensure the City’s receives a market rate of return throughout the lease term.

Of 31 Mission Bay leases, 11 are expired and are currently in “holdover” status.

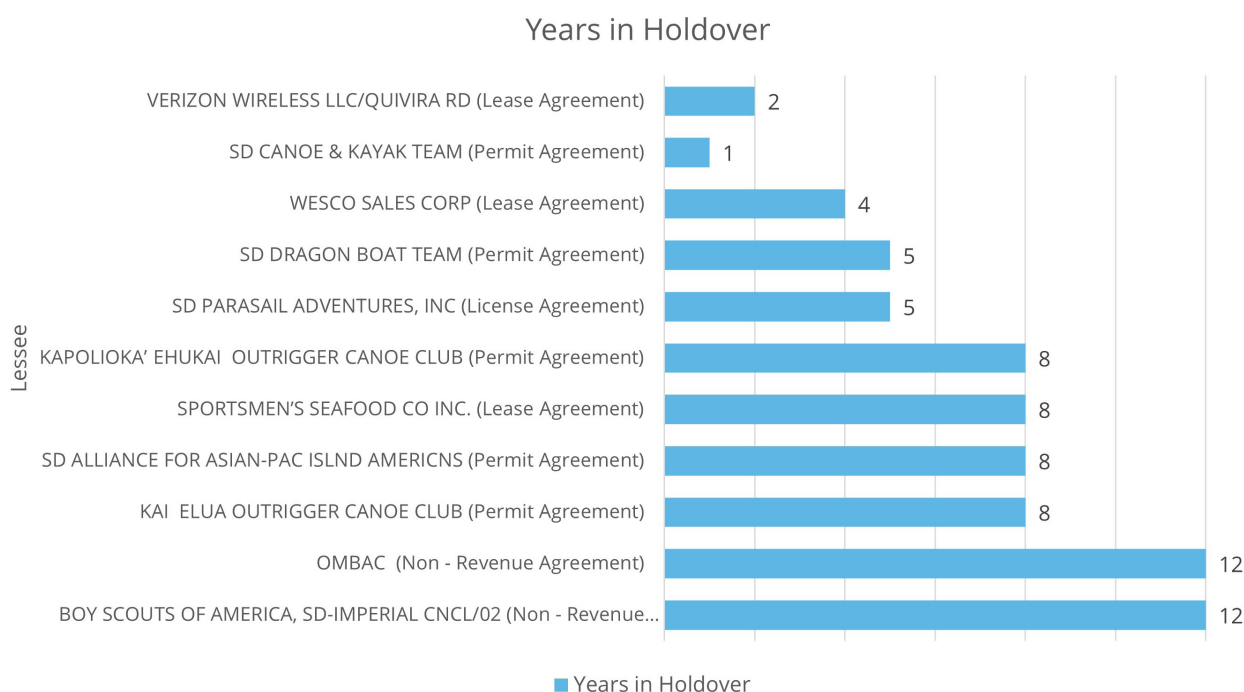
The Economic Development Department (EDD) is responsible for managing 31 lease agreements that contribute revenue to the Mission Bay Park and Regional Parks Improvement Funds.

Of Mission Bay’s 31 leases, 11 (or 35 percent) are expired and are currently in “holdover” status, as of July 2025. A holdover tenant is a tenant who continues to pay rent by the agreement terms after the lease has expired.

Mission Bay agreements have differing requirements for holdover clauses. Some of the agreements allow holdover while others specifically indicate that holdover is not allowed. Additionally, some agreements call for the assessment of two-times fair market rent. Holdover clauses generally indicate that tenants are month-to-month with the ability of the City to terminate the agreement at will. Some of the lease agreements have a maximum number of years the lease can be renewed or can be placed in a holdover status unless Council approval has been granted to continue leasing to the tenant. Economic Development and the benefitting department of the land asset should proactively prevent agreements from entering holdover to ensure fair market rent is correctly received for all agreements. **Exhibit 5** below identifies the expired agreements and the number of years that have occurred between the last formal approval for holdover status and the current review period.

Exhibit 5

The 11 Mission Bay Lease Agreements in Holdover Status Have Been in Holdover for 1–12 Years, With Most in Holdover for 8 Years or More



Source: OCA generated based on documentation provided by the Economic Development Department.

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.

However, EDD has not renewed the expired leases, sought Council approval, or conducted site appraisals to ensure the expired lease agreements have provided revenue to the City at fair market rent rate. As a result, the City is potentially receiving less than fair market rent rate for Mission Bay properties, which could result in less overall revenue for the annual split for the San Diego Regional Parks Improvement Fund (SDRPIF) and Mission Bay Improvement Fund (MBIF).

EDD currently has a Valuation Team that is responsible for creating and managing appraisals. When an appraisal is required, the Valuation Team must first determine if a City-approved appraiser can complete the process or if the appraisal can be done by City staff. Additionally, the appraisal process should take approximately 90 days. EDD indicated that efforts have been conducted to ensure the Mission Bay agreements are currently leased at fair market rate. However, evidence was not provided to the Office of the City Auditor that all leases currently in holdover had appraisals completed by the Valuation Team to reflect fair market rent.

Additionally, some agreements state that the City can assess two-times fair market rent if a property enters holdover status. EDD did not provide evidence that all agreements in holdover aligned with the varying holdover agreement terms to ensure all revenue due to the City was received as defined in the agreements.

Multiple factors appear to be contributing to the share of leases in holdover, including not having a well-defined renewal prioritization process for lease agreements.

EDD does not have a well-defined or documented prioritization process to ensure lease agreement terms are routinely reviewed for accurate lease management and billing, and does not have a documented process for renewing an expired lease. However, EDD does have a documented process for creating a new lease agreement. EDD indicated that tenants in holdover have indefinite month-to-month tenancy, which allows the City to increase rental fees and revoke tenancy at any moment. However, EDD has not increased fees

for month-to-month tenancy for most lessees. EDD is currently seeking to renew lease agreements, seek new operators, and monitor tenants in holdover with past due accounts until their lease payment balances are settled. However, EDD added that the Parks and Recreation Department has not wanted to pursue new agreements for non-revenue leases.

Notably, a 2022 audit from OCA found that in the City's total portfolio, including properties beyond Mission Bay, 101 of 421 (24 percent) of active leases as of July 15, 2021 were in holdover, including many for over a decade.⁶

A high share of leases in holdover may be leading to foregone revenue for the City and potential or perceived favoritism.

By allowing leases to fall into and remain in holdover, the City may be losing out on potential revenue that could be generated from appraising a property and renewing or entering into a new lease with the current tenant at current market value, or by entering into new tenancies using a competitive bidding process.

Additionally, the City may potentially be conferring an unfair benefit to the current tenant, creating unnecessary uncertainty for both the City and lessees, and limiting the City's ability to enact and enforce updated contract provisions.

Recommendation

Recommendation 3.1

(Priority 2)

The Economic Development Department should ensure that leases in holdover status receive the required Council approval and appraisal to ensure lease agreements are binding and fair market rental rate is received for the leased property.

Management Response: Agree [See full response beginning on page 37.]

Target Implementation Date: October 2025

⁶ Performance Audit of the City's Lease Management and Renewal Process. February 2022. Available at: https://www.sandiego.gov/sites/default/files/22-007_lease_mgmt_renewal_process.pdf. As of October 2025, approximately 24 percent remain in holdover according to EDD.

Finding 4

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

The City Charter requires two committees to oversee the use of the improvement funds on capital projects.

The City Charter states that the Mission Bay Park Improvement Fund (MBIF) Oversight Committee and the San Diego Regional Parks Improvement Fund (SDRPIF) Oversight Committee are responsible for auditing and reviewing the implementation of the use of the improvement funds for capital projects and verifying that the appropriate funds are allocated in compliance with the City Charter guidelines.

Both Committees expressed that they do not receive sufficient information on the prioritization of projects and project expenditures.

Both the MBIF Oversight Committee and the SDRPIF Oversight Committee expressed that they do not receive sufficient information on the prioritization of projects and project expenditures to execute their responsibilities. Specifically, the MBIF Oversight Committee stated it needs to see specific project expenses, including contractors' costs, material costs, and department overhead in order to fulfill its Charter-mandated responsibilities. The SDRPIF Oversight Committee stated it needs to see line-item breakdowns that include planned versus actual expenditures. Additionally, the SDRPIF Oversight Committee requested more specific information on project status and the risks for cost overruns or delays.

A previous Mission Bay Performance Audit found more detailed project information would benefit the oversight committees' decision making. In response to that audit's recommendation, in FY2024, City staff provided both oversight committees with project update presentations, which included high-level information on project scope, status, total funding allocated to date, and improvement fund allocated to date. However, we found the presentations did not include the detailed expenditure elements the oversight committees stated they need to execute their responsibilities.

Notably, in the middle of FY2024, both oversight committees received staff reports that included proposed FY2025 allocations for specific projects, including the project scopes, the total allocations to date, the improvement fund allocations to date, and more detailed project statuses. Additionally, the staff reports included recommended allocations for the next five years (FY2025–FY2029), as well as the City Charter Priority ranking (for MBIF projects), the Council Policy 800-14 CIP project ranking, the estimated project cost, the total MBIF allocations to date, other funding allocations, FY2025 proposed funding allocations, and funding projections for FY2026 through FY2029. This additional project information allows the oversight committees to better understand the progress of each project. We also found that at the FY2024 MBIF and SDRPIF oversight committee meetings, City staff were available to answer committee members' questions on project expenditures and status. However, these reports did not include the comprehensive expenditure information the oversight committees stated they need to ensure projects have the appropriate funding to move forward and to question why certain projects have not progressed.

There is no guidance stating which project information departments should provide to the committees.

Project information provided by the Parks and Recreation Department (Parks & Rec) and the Engineering and Capital Projects Department (E&CP) has often not aligned with the oversight committees' requests because there is no guidance document stating which project information the departments should provide regularly to ensure the committees can effectively oversee project expenditures and outcomes. The Government Finance Officers Association of the United States and Canada (GFOA) states that meaningful capital project reports include, at a minimum, project information, such as a specific project scope, project budget, current expenditure activity, and progress on project milestones (such as project phases). GFOA also states that reports should include significant changes to project scope, costs, or schedules.

A formal agreement between the oversight committees and Parks & Rec would help ensure that the committees receive the information that is needed to fulfill their responsibilities. Such an agreement should be updated periodically to reflect changes in oversight committee preferences. For example, we found that information requested by the oversight committees has changed when oversight committees'

board membership changed. At times, the departments provided more detailed project information at the request of the oversight committees, while at other times, the committees requested less project information from the departments.

Regularly reporting comprehensive project budget allocation and expenditure information allows the oversight committees to ensure improvement funding is spent in compliance with the City Charter.

Additional project allocation information will also allow the oversight committees to ensure projects effectively progress towards completion. Also, a standardized report would allow both oversight committees to more easily analyze project information against previous reporting periods.

Additionally, with each changing project information request, Parks & Rec and E&CP must use staff time and resources to collect and add the new information as well remove project information that is no longer desired. Therefore, a standardized report for both oversight committees would allow Parks & Rec and E&CP to more efficiently generate and share project expenses and status.

Recommendation

Recommendation 4.1

(Priority 3)

To ensure that the oversight committees have sufficient information to execute their responsibilities per City Charter, and that they are able to review and verify the allocation and use of improvement funds in compliance with City Charter, the Parks and Recreation Department and Engineering and Capital Projects Department should work with both the Mission Bay Improvement Fund and San Diego Regional Parks Improvement Fund Oversight Committees to reach an agreement and mechanism to specify which specific project elements should be provided and the frequency that the departments should generate and share the reports. For example:

- a. A well-defined project scope and, when a project scope has changed since the previous reporting cycle, an explanation on why the project scope changed;
- b. Project cost estimates and, when a project cost estimate has materially changed since the previous reporting cycle, an explanation on why the cost estimate changed;
- c. Estimated timelines for the current project phase completion and the final project completion and, when current project phase and final project completion timelines have been significantly extended, an explanation on why timelines were extended;
- d. Project expenditures to date, specifying total contractor, overhead, City personnel, and relevant permit or inspection expenditures; and
- e. Project expenditures by project phase (i.e., Bid/Award, Construction, Design, Planning, Post-Construction).

Management Response: Agree [See full response beginning on page 37.]

Target Implementation Date: June 2026

Recommendation Follow-Up

We reviewed the status of the two outstanding recommendations from the FY2021 Performance Audit of Mission Bay and San Diego Regional Parks Improvement Funds report issued August 2, 2022. **We found that all two remaining audit recommendations have been implemented:**

Recommendation 5

(Priority 2)

The Department of Real Estate and Airport Management should include a Facility Condition Inspection clause in future leases involving in-water improvements to ensure that docks, piers, or marinas are being properly maintained.

Implemented

This recommendation is implemented. The Economic Development Department Real Estate Division is now including the following lease language requiring facility condition inspections for in-water improvements to ensure that docks, piers, or marinas are being properly maintained: In Lease Year 2, Tenant will cause the In-Water Improvements to be inspected by a consultant with the qualifications described in ASCE Manual 130 Waterfront Facilities Inspection and Assessment ("Inspector") selected by Tenant and approved by Landlord in writing and cause the Inspector to prepare a written report containing all of the Inspector's findings about the conditions of the In-Water Improvements ("Inspection Report"), all at Tenant's sole cost and expense. Tenant will deliver the Inspection Report to Landlord within ninety (90) days after the first day of Lease Year 2, along with a letter addressed to Landlord from the Inspector that prepared the Inspection Report authorizing Landlord to rely on the Inspection Report as though Landlord contracted with the Inspector for preparation of the Inspection Report.

Recommendation 7

(Priority 3)

To ensure Committees are properly staffed in compliance with the City Charter, we recommend: The Office of Boards and Commissions should bring appointment and reappointment resolutions to City Council on a routine basis and in a timely manner to maintain proper active standing of the members on both the Mission Bay Park Committee and the Park and Recreation Board.

Implemented

This recommendation is implemented. The committees that oversee the Mission Bay and San Diego Regional Parks Improvement Funds are both fully staffed. As of February 2025, all 11 members of the Parks and Recreation Board are serving under active terms, and the Mission Bay Park Committee has 10 members with active terms with only 1 serving under an expired term. The Director of Appointments is currently vetting candidates to replace the one member with an expired term.

Appendix A

Definition of Audit Recommendation Priorities

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below.

While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

PRIORITY CLASS*	DESCRIPTION
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent nonfiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

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

Appendix B

Audit Objectives, Scope, and Methodology

Objective

In accordance with the Office of the City Auditor's Fiscal Year 2025 Audit Work Plan, we conducted a performance audit of the Mission Bay and San Diego Regional Parks Improvement Funds for fiscal year (FY) 2024. Our audit objectives were:

1. Determine whether the Oversight Committees are being properly informed consistent with the criteria in Charter Section 55.2 and municipal code requirements.
2. Determine whether the revenues subject to Charter Section 55.2 are being properly recorded and accounted for in the financial records of the City of San Diego.
3. Determine whether the expenditures charged against the Mission Bay Park and San Diego Regional Parks Improvement Funds are consistent with the requirements of Charter Section 55.2.

Scope

Our scope included lease revenues received during FY2024 from properties located on Mission Bay Park lands, and expenditures recorded during FY2024 to capital projects charged to the Mission Bay Improvement Fund and the San Diego Regional Parks Improvement Fund. In addition, we reviewed the composition and communications during FY2024 of the Mission Bay Improvement Fund Oversight Committee and the San Diego Regional Parks Improvement Fund Oversight Committee. We also reviewed each committee member's Form 700 (Statement of Economic Interest) in order to identify any potential for a conflict of interest.

Methodology

To accomplish our objectives and test internal controls to determine if they are functioning as intended, 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, and 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 and Form 700's;
- Analyzed the quality and sufficiency of the reporting to the Oversight Committees;
- Verified the calculation and reporting of project expenditures; and
- Followed up on any outstanding recommendations from prior reports.

Data Reliability

We did not test the reliability of the City's financial reporting system as it is the system of record for preparation of the Annual Comprehensive Financial Report and is therefore audited each year by the independent audit firm for those annual statements.

Internal Controls Statement

Our review of internal controls was limited to those controls relevant to the audit objectives described above. Specifically, we reviewed City Charter and Municipal Code requirements; reviewed policies and procedures documents; interviewed department management; reviewed financial reports and exported data from City systems; and reviewed minutes from Oversight Committees to ensure compliance with laws and procedures.

Compliance Statement

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.

Appendix C

Prior Year's Mission Bay and San Diego Regional Parks Improvement Funds Financial Activity, As of June 30, 2023

Fiscal Year	Mission Bay Revenues	Regional Park Revenues
	Revenues [1]	Revenues [1]
2010	\$115,603	\$1,708,236
2011	40,859	1,753,292
2012	2,449,130	2,534,109
2013	5,373,254	2,525,338
2014	4,302,753	2,538,998
2015	7,100,046	2,555,608
2016	10,531,043	3,511,501
2017	6,622,302	3,595,326
2018	8,654,483	4,604,147
2019	8,176,992	4,315,001
2020	3,333,430	3,831,994
2021	646,377	2,000,841
2022	10,843,520	5,774,310
2023	12,801,956	6,814,165
Total as of June 30, 2023	\$80,991,748	\$48,062,866
Fiscal Year	Expenditures [2]	Expenditures [2]
	Expenditures [2]	Expenditures [2]
2010	\$ -	\$ -
2011	-	-
2012	-	313,640
2013	-	408,680
2014	-	742,897
2015	171,848	1,554,596
2016	73,479	1,250,638
2017	472,168	1,040,585
2018	6,266,591	2,756,468
2019	3,596,424	3,363,902
2020	7,346,290	7,487,376
2021	4,844,552	6,413,688
2022	9,314,621	3,001,231
2023	7,678,735	1,507,612
Total as of June 30, 2023	\$39,764,708	\$29,841,313
Available balance June 30, 2023	\$41,227,040	\$18,221,553

[1] Excludes unrealized gains and losses.

[2] Excludes depreciation.

Source: OCA generated based on SAP financial data

Appendix D

Fiscal Years 2024 and 2023 Mission Bay Park Lease Revenue and Location Map

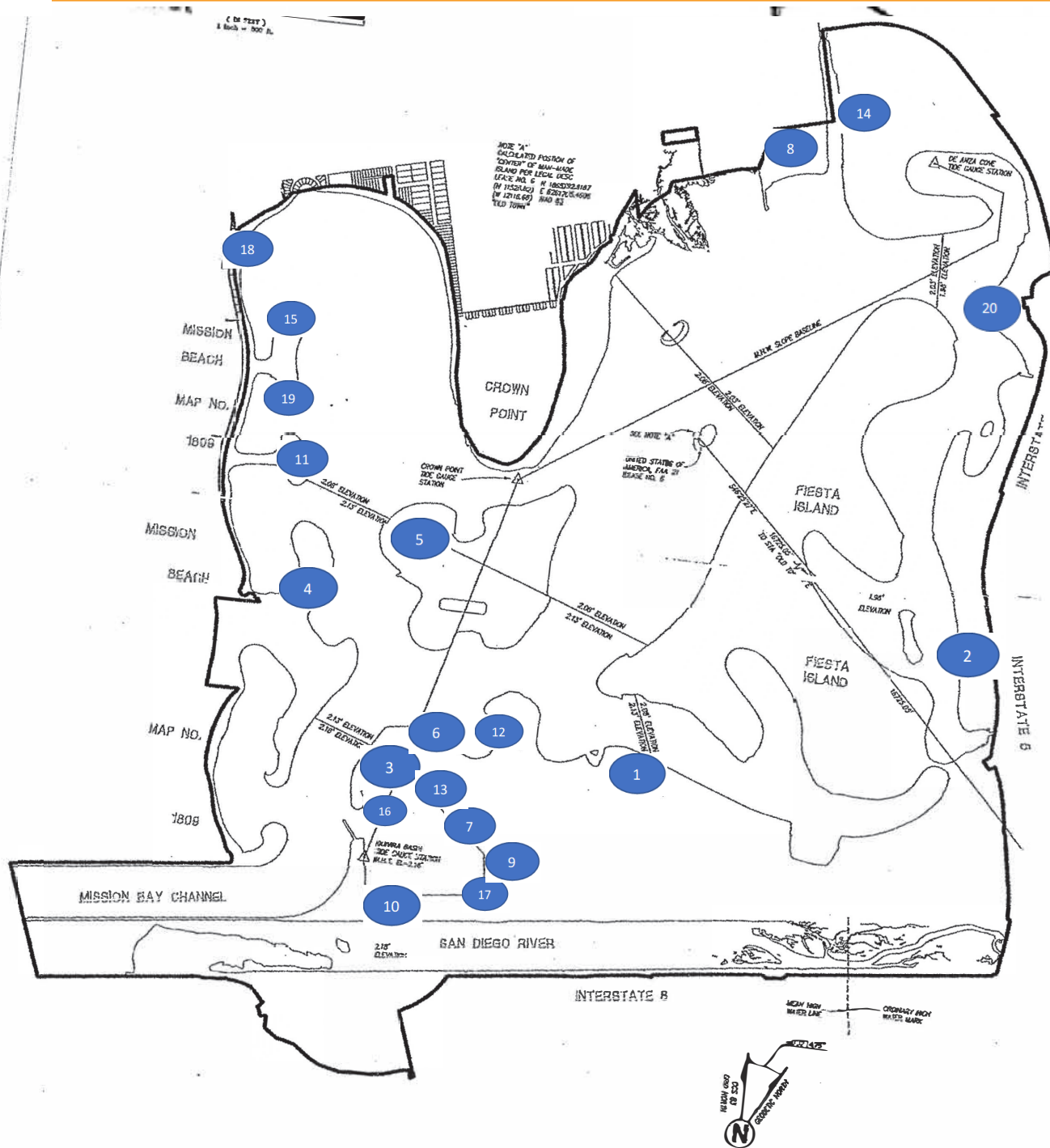
Lessee	Revenue Amount FY2024	Revenue Amount FY2023	Change
SEA WORLD LLC	\$ 13,301,239.20	\$ 24,831,407.33	\$ (11,530,168.13)
LHO MISSION BAY ROSIE HOTEL LP	\$ 4,567,294.28	\$ 5,149,384.22	\$ (582,089.94)
DBA CHESAPEAKE LODGING TRUST	\$ 4,493,560.00	\$ 4,556,077.21	\$ (62,517.21)
PEBBLEBROOK HOTEL TRUST	\$ 3,233,716.07	\$ 3,327,135.55	\$ (93,419.48)
BAHIA STERNWHEELERS INC	\$ 2,859,082.16	\$ 3,379,330.46	\$ (520,248.30)
BARTELL HOTELS	\$ 1,892,060.94	\$ 2,022,447.15	\$ (130,386.21)
CAMPLAND LLC	\$ 1,597,534.30	\$ 1,588,734.64	\$ 8,799.66
SEAFORTH SPORTFISHING CORP	\$ 1,566,217.50	\$ 1,661,551.24	\$ (95,333.74)
MISSION BAY SPORTS CENTER	\$ 1,284,209.06	\$ 151,092.57	\$ 1,133,116.49
SCPT MARINA VILLAGE LLC	\$ 1,000,508.88	\$ 973,570.97	\$ 26,937.91
DRISCOLL MISSION BAY LLC	\$ 971,129.03	\$ 713,944.96	\$ 257,184.07
MISSION BAY YACHT CLUB	\$ 592,591.12	\$ 571,141.46	\$ 21,449.66
WESCO SALES CORP	\$ 526,988.98	\$ 548,045.58	\$ (21,056.60)
SPORTSMENS SEAFOOD CO INC	\$ 246,577.10	\$ 275,737.76	\$ (29,160.66)
SD MISSION BAY BOAT & SKI CLUB	\$ 222,828.32	\$ 197,966.68	\$ 24,861.64
EVERINGHAM BROS BAIT CO	\$ 98,954.40	\$ 98,954.40	\$ -
SAN DIEGO PARASAIL ADVENTURES INC	\$ 97,620.28	\$ 80,501.82	\$ 17,118.46
SAN DIEGO STATE UNIVERSITY ASSOCIATED ST	\$ 61,330.45	\$ 63,786.10	\$ (2,455.65)
SHORLINE MISSION BAY LLC	\$ 60,000.00	\$ 60,000.00	\$ -
EVANS HOTELS	\$ 54,129.01	\$ 63,810.38	\$ (9,681.37)
SD ROWING CLUB/INTERCOLLEGIATE ROWING	\$ 53,852.70	\$ 49,965.64	\$ 3,887.06
VERIZON WIRELESS VAW LLC	\$ 50,038.74	\$ 48,346.61	\$ 1,692.13
SPRINT PCS ASSETS LLC		\$ 47,653.20	\$ (47,653.20)
VERIZON WIRELESS VAW LLC ROW	\$ 12,498.42	\$ 12,498.42	\$ -
SD DRAGON BOAT RACING TEAM	\$ 7,170.60	\$ 6,842.21	\$ 328.39
SAN DIEGO CANOE & KAYAK TEAM	\$ 5,967.22	\$ 6,772.48	\$ (805.26)
KAPOLIOKA EHUKAI OUTRIGGER CANOE	\$ 3,330.00	\$ 3,142.50	\$ 187.50
SD ALLIANCE FOR ASIAN PACIFIC	\$ 3,330.00	\$ 3,392.50	\$ (62.50)
KAI ELUA OUTRIGGER CANOE CLUB	\$ 2,664.00	\$ 2,714.00	\$ (50.00)
Credit Adjustments		\$ (1,542.21)	
Grand Total	\$ 38,866,422.76	\$ 50,494,405.83	\$ (11,629,525.28)
Adjustments to Accrual Entries & Penalties	\$ (2,615,363.86)	\$ (11,612,745.54)	\$ 8,997,381.68
Adjusted Total Lease Revenue	\$ 36,251,058.90	\$ 38,881,660.29	\$ (2,630,601.39)
General Fund Thresold	\$ (20,000,000.00)	\$ (20,000,000.00)	
Revenues Exceeding the Threshold	\$ 16,251,058.90	\$ 18,881,660.29	\$ (2,630,601.39)
Transfer to San Diego Regional Park Improvement Fund	\$ 5,687,870.62	\$ 6,608,581.10	\$ (920,710.49)
Transfer to Mission Bay Improvement Fund	\$ 10,563,188.29	\$ 12,273,079.19	\$ (1,709,890.90)

Source: OCA generated based on information from the Department of Finance.

Appendix D Continued

Mission Bay Park Land Boundary – Lease Location Map

(Numbers correspond with numbering of leases from the table on previous page)



Source: OCA generated based on google map search of lease locations.

Appendix E

San Diego Regional Park Improvement Fund Project Expenditures for Fiscal Year 2024

Projects	Purpose	Expenditures FY2024
New project expenditures:		
Balboa Park International Cottages Study	This project is to provide a survey and system upgrade design of the electrical service to the older international cottages in Balboa Park.	\$ 55,918.51
Crystal Pier Improvements	This project is to replace damaged wooden pier piles at Crystal Pier.	\$ -
Ongoing project expenditures:		
Kellog Comfort Station Improvements	Scope consists of installing a trench drain to prevent water from running across the boardwalk and extending the roof line by 3.5 feet.	\$ 10,069.87
Camino De La Costa Stairs	This original project was to provide for the replacement of concrete sidewalls, handrails, and patching lower steps to restore function and safety to existing stairs. Also includes ADA and adjacent parking improvements. During FY24 this project changed to a feasibility study to replace the beach access stairway.	\$ 62,868.20
Ocean Beach Full Pier Replacement	This project includes the design and construction for the demolition and replacement of the Ocean Beach Pier.	\$ 188,604.50
Old Salt Pool Access Stairs	This project is to provide a safe and compliant access to the beach. The scope of work of this project includes the design and construction of a new set of access stairs that generally follows the footprint of the previous design.	\$ 66,708.67
Air & Space Museum Roof Replacement	This project provides for Comic-Con building roof replacement and the replacement of the Air & Space Museum Roof. Air & Space Museum Building is located in Palisades area of Balboa Park.	\$ 188,340.00
Demolition of Loma Land Structures and Hillside Drainage Improvements	This project provides for the removal of existing houses located on parkland.	\$ 201,410.26
Chollas Lake Electrical Service Improvements	The first priority project is to provide electrical service to the park which will allow extended use of the park and provide a higher level of security.	\$ 123,965.08
Narragansett Avenue Access	This project is for repairing Narragansett Avenue Beach Access.	\$ 101,611.36
Santa Cruz Avenue Access Stairs and Walkway	This project is for Santa Cruz Avenue Beach Access stairs and walkway.	\$ 27,209.55
Mohnike Adobe & Barn Restore	This project provides for the rehabilitation/restoration of the historic adobe and hay barn located within the 14-acre Rancho Penasquitos Equestrian Center on the eastern end of the Los Penasquitos Canyon Preserve.	\$ 70,284.19
Bermuda Ave Coastal Access Replacement	This project provides reconstruction of stairway and seawall.	\$ 318,172.12
Junipero Serra Museum ADA Improvements	This project provides ADA access to the Junipero Serra Museum within Presidio Park.	\$ 114,103.39

Projects	Purpose	Expenditures FY2024
EB Scripps Park Comfort Station Replacement	This project provides for a replacement comfort station located in EB Scripps Park adjacent to La Jolla Cove.	\$ -
Sunset Cliffs Natural Park Ph II Trail & Revegetation	This project will complete improvements to the hillside portion of the Sunset Cliffs Natural Park, consisting of construction of trails, habitat restoration, erosion control, removal of houses within the park, and the removal and return to natural vegetation of the softball field.	\$ 42,327.33
Balboa Park Club Renovations	This project provides for improvements at Balboa Park Club, including stucco repairs, and replacement of damaged wood windows and peeler logs.	\$ 12,992.38
Black Mountain Mine Remediation	Closure and remediation of mine.	\$ -
West Sycamore Staging Area	This project provides for improvements including a prefab comfort station, shade structure, ADA accessible parking, and new portable office trailer.	\$ 88,467.08
Chicano Park Improvements Phase III	The project provides for improvements for storm drains, lighting, paths of travel at Chicano Park.	\$ 32,510.42
Quince Dr. Runoff and Erosion Control	The project provides roadway and storm drain replacement as well as repair of the eroded slope.	\$ 1,727,000.00
Spindrift Dr Walkway	The project provides improvements to walkway.	\$ 58,431.60
Cowles Mountain Comfort Station Accessibility Upgrades	The project provides for the replacement of a comfort station and the addition of a sewer lateral to eliminate an existing sewer pump.	\$ 93,716.50
Balboa Park Botanical	The project provides for the restoration of the existing building to the original design as much as possible.	\$ 2,789,009.07
Total Fiscal Year 2024 expenditures		\$ 6,373,720.08

Appendix F

Mission Bay Improvement Fund Project Expenditures for Fiscal Year 2024

Projects	Purpose	Expenditures FY2024
Ongoing project expenditures:		
Bahia Parking Lot and Comfort Station	This project will provide for the slurry seal of Bahia Point and Ventura Cove parking Lots. Existing Restrooms will be replaced with new single family stall comfort station. ADA Path to a fire ring, ADA accessible Table and a path to travel to Bahia Parking Lot.	\$ -
Mission Bay Navigational Safety Dredging	This project provides for dredging of Mission Bay.	\$ 2,715.94
Mission Bay Projects EIR	This project is for the Environmental Impact Report for Mission Bay Projects.	\$ 219,516.62
Hospitality Point Parking Lot Improvement	Parking lot improvements	\$ 1,723,355.34
Robb Field Parking Lot Improvements	Parking lot improvements	\$ 35,250.64
Dusty Rhodes Parking Lot Improvements	Parking lot improvements	\$ 34,757.27
Mission Bay Athletic - Comfort Station	Replacement and upgrade of comfort station.	\$ 947,477.01
DeAnza North Parking Lot Imp	Parking lot improvements	\$ 139,713.46
Robb Field Turf & Irrigation Improvement	Turf & Irrigation Improvements	\$ 143,192.00
Adult Fitness Course East Shore	Construct the fitness course improvements.	\$ 116,201.70
El Carmel Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 293,558.95
Ventura Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 183,029.55
Tecolote North Parking Lot Imp	Parking lot improvements	\$ 41,334.69
Tecolote North Playground Imp	Improvements and Replacement of playground equipment	\$ 132,349.54
Tecolote North Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 61,632.06
North Cove Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 191,560.78
Tecolote South Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 280,344.37
Tecolote South Playground Improvements	Improvements and Replacement of playground equipment	\$ 938,904.77
Tecolote South Parking Lot Improvements	Parking lot improvements	\$ 281,786.09
Crown Point Playground Improvements	Improvements and Replacement of playground equipment	\$ 87,562.55
Crown Point Parking Lot Improvements	Parking lot improvements	\$ 59,068.74
Santa Clara Playground Improvements	Improvements and Replacement of playground equipment	\$ 115,639.70
Santa Clara Comfort Station Improvements	Replacement and upgrade of comfort station.	\$ 91,998.97
Beautification of Traffic Island Group 1	This project provides for the study of signage (monument and wayfinding) and associated landscaping for Mission Bay Park.	\$ 83,684.56

Projects	Purpose	Expenditures FY2024
Ongoing project expenditures:		
Sunset Point Parking Lot Improvements	Parking lot improvements	\$ 92,369.10
Santa Clara Pt South Parking Lot Improvements	Parking lot improvements	\$ -
S De Anza Parking Lot	Parking lot improvements	\$ 74,907.37
Rose Marie Starns Parking Lot Improvements	Parking lot improvements	\$ -
S De Anza Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 191,008.16
Sunset Point Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 111,179.73
Bonita Cove East Comfort Station Imp	Replacement and upgrade of comfort station.	\$ -
Bonita Cove East Playground	Improvements and Replacement of playground equipment	\$ -
Hospitality Point Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 266,644.04
Dusty Rhodes Comfort Station Improvement	Replacement and upgrade of comfort station.	\$ 39,558.36
Dusty Rhodes Playground	Improvements and Replacement of playground equipment	\$ 46,034.38
S De Anza Basketball Courts and Play Ar	Playground and Basketball Court Improvements	\$ 214,173.30
Robb Field Comfort Station Imp	Replacement and upgrade of comfort station.	\$ 48,985.58
Robb Field Playground	Playground Improvements	\$ 7,908.30
Robb Field Recreation Center	Upgrade and replacement of the Recreation Center	\$ 60,570.15
Robb Field Gateway Path	Complete walkway	\$ 153,492.59
DeAnza North East Parking Lot	Parking lot improvements	\$ 2,014,794.90
	Total Fiscal Year 2024 expenditures:	\$ 9,526,261.26



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: November 7, 2025

TO: Andy Hanau, City Auditor, Office of the City Auditor

FROM: Mayor Todd Gloria 

SUBJECT: Management Response to the Office of the City Auditor's Performance Audit of the Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2024

This memorandum serves as the management response to the Performance Audit of the Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2024 (Performance Audit). At the time this response was written, the draft Performance Audit provided to management contained four findings and five recommendations. Department staff and management appreciate the Performance Audit prepared by the Office of the City Auditor and thank the staff involved.

Management agrees with the recommendations within the Performance Audit and this management response highlights those recommendations that need additional resources to implement.

Implementation of several recommendations require additional resources within both the Economic Development Department's Real Estate and Business Operations and Support Services (BOSS) Divisions. Additional staffing, technical support, and system enhancements are needed to strengthen project tracking and coordination, ensure timely fund utilization, and maintain accurate reporting of capital improvement and land management activities funded through the Mission Bay and Regional Parks allocations. In particular, the Real Estate Division will require support to manage the volume and complexity of lease compliance, revenue reconciliation, and reporting functions identified in the Performance Audit. Likewise, BOSS will require enhanced data management tools, improved integration between financial systems, and dedicated analytical capacity to meet the recommended reporting and oversight requirements. Without these additional resources, implementation of certain audit recommendations may be constrained or delayed, limiting the City's ability to achieve the full intended benefits of the audit.

RECOMMENDATION 1.1: The Chief Financial Officer or other City Executive leadership should issue a memorandum or other written guidance discouraging future moratoria and which requires promptly informing the Office of the City Auditor and the Chair of the Audit Committee if the ability to perform lease revenue audit functions is restricted in the future.

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November 7, 2025

Management Response: Agree with the recommendation. Formal direction will be issued in writing to the Economic Development Department to continue implementing internal control improvements associated with this audit, as well as any additional enhancements needed identified through the Office of the City Treasurer's lease revenue audits. These actions will further strengthen the internal control framework established under Council Policy 700-10 *Disposition of City-Owned Real Property* to prevent the need for any future moratoriums on lease audits.

Management recognizes that in rare circumstances, it may be necessary to temporarily suspend or defer lease audit activity when doing so is in the City's overall best interest. However, should a moratorium or suspension be required in the future, City Management will promptly notify both the Office of the City Auditor and the Chair of the Audit Committee, consistent with the governance expectations established under Council Policy 700-10.

Target Implementation Date: December 31, 2025

RECOMMENDATION 2.1: The Economic Development Department should develop and utilize a lease management process narrative that includes the verification of lease terms and agreements at least annually and a process for lease renewal. Additionally, a process narrative should be developed and utilized that includes a periodic quality control check of revenue received from lease concessions to ensure the revenue received is complete, accurate, and timely. The process narrative(s) should include, but not be limited to, the following lease agreement areas:

- Lease Terms;
- Payment Terms;
- Hold Over Terms; and
- Late Fee Assessments.

Management Response: Agree with the recommendation. EDD recognizes the importance of maintaining comprehensive lease management documentation and strong internal controls to ensure accurate and timely revenue collection. Lease terms generally remain unchanged unless amended or renewed; therefore, EDD considers targeted reviews at key points in the lease lifecycle, such as rent adjustment dates, extension options, and terminations to be a more effective and efficient control than conducting annual verifications when no changes have occurred. EDD currently utilizes the real estate management system to track these key dates and generate advance notifications for upcoming renewals or rent adjustments. The Department also maintains established procedures to ensure accurate entry of lease information during contract set-up.

EDD has implemented periodic reviews of revenue received from lessees, along with documented follow up and escalation protocols, and will continue to strengthen these practices. EDD is committed to diligently monitoring tenant accounts and enforcing lease terms and concurs with the recommendation to further formalize the processes for lease renewal in accordance with adopted Council Policies and late fee assessments pursuant to lease terms.

The Department agrees with the recommendation to develop a process for lease renewal and late fee assessments.

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Target Implementation Date: June 30, 2026

RECOMMENDATION 2.2: The Economic Development Department should create and document procedures to reconcile REPortfolio payment data to SAP in accordance with the City policy process narrative #1 PN-0446 *Use of an Alternate Billing or Interfacing System* to strengthen internal controls and ensure revenue is accurately accounted for and received timely.

Management Response: Agree with the recommendation. In a concerted effort to strengthen internal controls, EDD has developed and implemented documented procedures to reconcile REPortfolio payment data to SAP in alignment with City policy process narrative PN-0446. These reconciliations are performed daily and include a review of system interfaces, open FI-CA items and depository transactions to ensure prompt resolution and accurate accounting. With the implementation of these documented procedures and the support of a consultant, EDD has made substantial progress in clearing prior reconciliation backlogs and strengthening overall internal controls.

Target Implementation Date: Implemented as of October 2025.

RECOMMENDATION 3.1: The Economic Development Department should ensure that lease agreements which have extended beyond lease agreement terms receive the required Council approval and appraisal to ensure lease agreements are binding and fair market rental rate is received for the leased property.

Management Response: Agree with the recommendation. EDD is committed to ensuring compliance with all applicable Council Policies and City procedures governing lease renewals and new agreements requiring Council approval. The Department will continue to obtain Council approval as required to ensure that lease agreements remain binding and that fair market rental rates are achieved.

EDD also maintains due diligence in monitoring leases that have been extended beyond their original terms to ensure that fair market rates are applied, consistent with holdover provisions. In some cases, a holdover period may be appropriate and mutually beneficial—for example, when it allows uninterrupted occupancy while new terms are being negotiated or Council action is pending. In these instances, EDD ensures that the City's financial interests are protected through rent adjustments and termination rights consistent with lease.

Target Implementation Date: Implemented as of October 2025.

RECOMMENDATION 4.1: To ensure that the oversight committees have sufficient information to execute their responsibilities per City Charter, and that they are able to review and verify the allocation and use of improvement funds in compliance with City Charter, the Parks and Recreation Department and Engineering and Capital Projects Department should work with both the Mission Bay Park Improvement Fund and San Diego Regional Park Improvement Fund Oversight Committees to reach an agreement and mechanism to specify which specific project elements should be provided and the frequency that the departments should generate and share the reports. For example:

- a. A well-defined project scope and, when a project scope has changed since the previous reporting cycle, an explanation on why the project scope changed;

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- b. Project cost estimates and, when a project cost estimate has materially changed since the previous reporting cycle, an explanation on why the cost estimate changed;
- c. Estimated timelines for the current project phase completion and the final project completion and, when current project phase and final project completion timelines have been significantly extended, an explanation on why timelines were extended;
- d. Project expenditures to date, specifying total contractor, overhead, City personnel, and relevant permit or inspection expenditures; and
- e. Project expenditures by project phase (i.e., Bid/Award, Construction, Design, Planning, Post-Construction).

Management Response: Agree with the recommendation. The Engineering & Capital Projects Department will develop and present project status reports on a quarterly basis to the Oversight Committees. These reports will include information on:

- A well-defined project scope and, when a project scope has changed since the previous reporting cycle, an explanation on why the project scope changed;
- Project cost estimates showing estimated construction (hard) costs and estimated soft costs. When a project cost estimate has materially changed since the previous reporting cycle, an explanation on why the cost estimate changed will be provided;
- Estimated timelines for the current project phase completion and the final project completion and, when current project phase and final project completion timelines have been significantly extended, an explanation on why timelines were extended;
- Project expenditures to date, specifying both hard (contractor construction) and soft (personnel, permits, inspection) costs; and
- Project expenditures by project phase (i.e., Bid/Award, Construction, Design, Planning, Post-Construction).

Target Implementation Date: June 30, 2026

Thank you for the opportunity to provide responses to these recommendations. Management appreciates your team's professionalism throughout this review.

Thank you,



TODD GLORIA
Mayor

cc: Honorable City Attorney Heather Ferbert
Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Rolando Charvel, Chief Financial Officer
Alia Khouri, Deputy Chief Operating Officer
Kris McFadden, Deputy Chief Operating Officer
Kristina Peralta, Deputy Chief Operating Officer
Casey Smith, Deputy Chief Operating Officer
Robert Logan, Chief, Fire-Rescue Department

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Scott Wahl, Chief, Police Department

Jeff Peelle, Assistant Director, Department of Finance

Matt Yagyagan, Director of Policy, Office of the Mayor

Emily Piatanesi, Policy Advisor, Office of the Mayor

Trisha Tacke, Program Manager, Compliance Department



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