

Office of the City Auditor

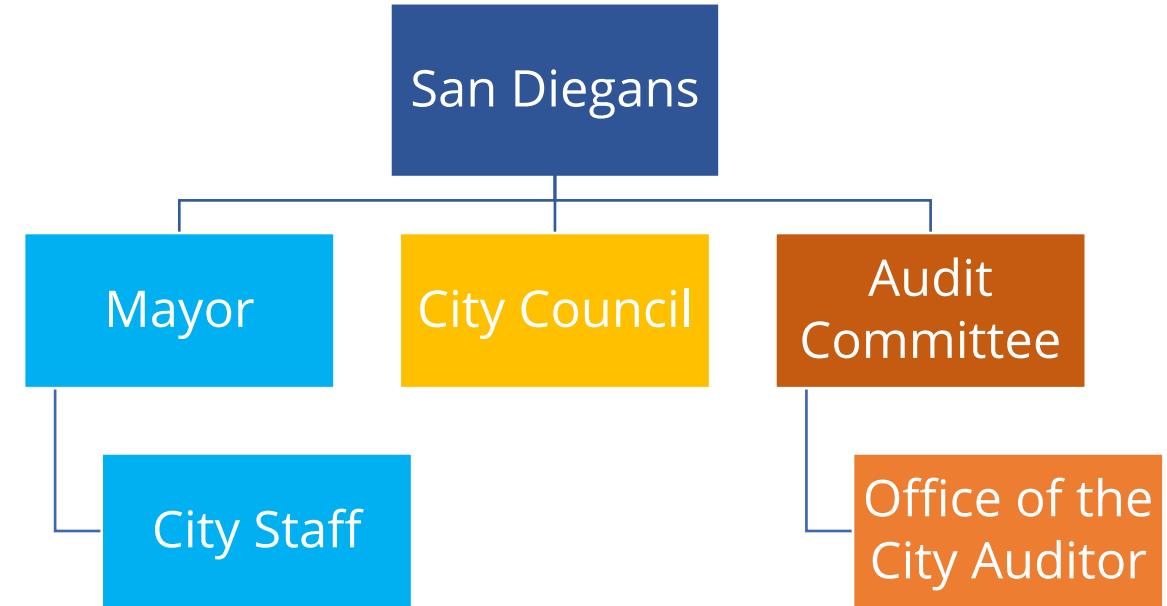
Performance Audit of the Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2024

Presentation to the Regional Park Improvement Fund Oversight Committee
January 15, 2026



Overview of OCA

- The Office of the City Auditor (OCA) is an **independent office** that reports to the Audit Committee
- We do not report to the Mayor or the full City Council
- Our independence allows us to **review City work** without an angle or agenda



Acknowledgments



This audit involves the cooperation and assistance of many departments and entities, including:

- Economic Development Department
- The Office of the City Treasurer
- Department of Finance
- Engineering and Capital Projects
- Parks and Recreation
- City Executive leadership
- San Diego Regional Parks and Mission Bay Park Improvement Fund Oversight Committees

Why OCA Did This Audit



The **City Charter** requires an annual audit. Each audit report must contain:

- A complete accounting of all revenues received;
- The amount and nature of all expenditures; and
- Whether expenditures were consistent and compliant with City Charter requirements.

Audit objectives include verification that:

- The **collection, allocation, and use of the FY2024 Mission Bay Park lease revenues** are in compliance with City Charter requirements, and
- **Improvement Fund Oversight Committees are properly informed** consistent with City Charter requirements.

Background

- In 2002, a City Council ordinance established two special funds:
 - Mission Bay Improvement Fund
 - Regional Park Improvement Fund
- Mission Bay Park lease revenue is deposited into a general fund throughout the Fiscal Year, and after the fiscal year, the funds are allocated to the improvement funds.

FY2010

Revenues in excess of \$23 million were transferred to the improvement funds

FY2015 and thereafter

Revenues in excess of \$20 million are transferred to the improvement funds

Audit Results

- The total adjusted revenues from Mission Bay lease revenues was approximately \$37 million, a decrease of 7 percent from FY2023.
- The first \$20 million was assigned to the General Fund as required. Revenues in excess of this \$20 million threshold were distributed to the two improvement funds.

Mission Bay Lease Revenue Allocation to Fund	Allocation Breakdown in Excess of Threshold	FY2024 Allocation Amounts
San Diego Regional Parks Improvement Fund	35% or 3.5 million, whichever is greater, of the amount <u>in excess</u> of the \$20 million threshold	\$5,944,964
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

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

- 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.
- As noted in the 2024 report on Internal Controls for 2024, there were **issues with EDD's lease invoicing and payment processing**, which resulted in a **large backlog of unresolved lease payment discrepancies**.
 - While EDD appeared to make substantial progress over the course 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.
- FY2024 Expenditures appeared to be in compliance with City Charter, although we did include a recommendation.

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.

- 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.
- The 2024 Annual Report on Internal Controls presented to the Audit Committee in March 2025 highlighted the lease moratorium. However, this was eight months after the moratorium was implemented.
- EDD stated it is in process of resolving these issues, and our office will review their resolution further during our FY2025 audit of the funds.

Recommendation 1.1

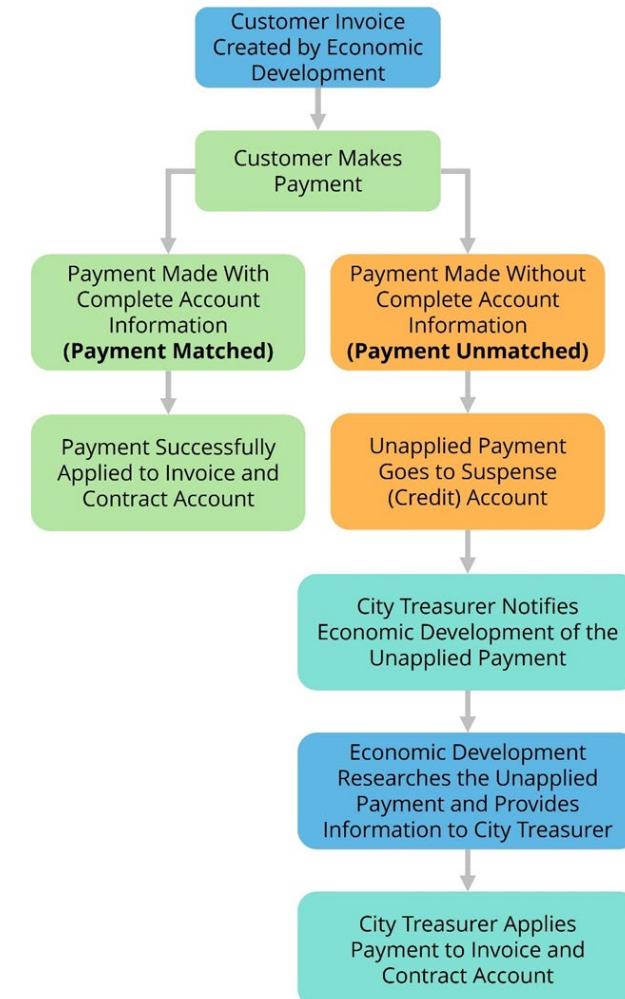
The Chief Financial Officer or other City Executive leadership should issue a memorandum or other written guidance that **discourages future audit moratoria** and **requires promptly informing the Office of the City Auditor and the Chair of the Audit Committee** if the ability to perform lease revenue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

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.
- The Department of Finance reported \$933,834 in deferred revenue, or unreceived payments, for Mission Bay rental accounts for FY2024.
- 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 2

- To record lease revenue, the City needs accurate information from the customer.
- 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 San Diego Regional Parks and Mission Bay Park Improvement Funds.



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

Finding 2 Recommendations



Economic Development Department should:

Recommendation 2.1

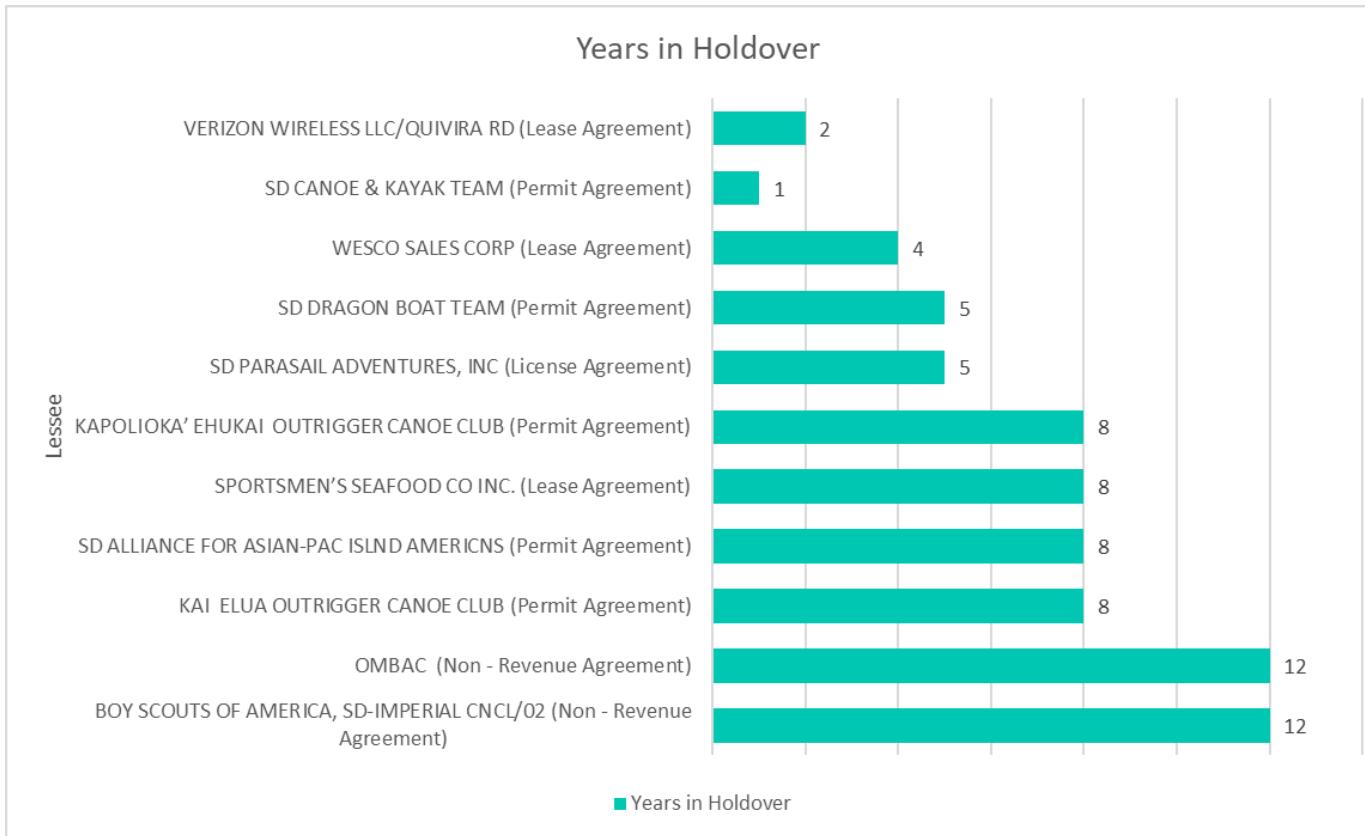
- Develop and utilize a lease management process narrative that includes **verification of lease terms and agreements** at least annually as well as develop and utilize a process narrative that includes a **periodic quality control check of revenue received** to ensure the revenue received is complete, accurate, and timely.

Recommendation 2.2

- Document **department procedures to reconcile Economic Development Department's system payment data with SAP** in accordance with existing City policy.

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.



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

- **While in holdover status, generally lease 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.
- EDD stated it has worked to ensure the Mission Bay agreements are currently leased at fair market rate and it is currently seeking to renew lease agreements and monitor tenants in holdover.

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.

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 both oversight committees, however the oversight committees stated the **information was insufficient to execute their responsibilities.**
- We found that information requested by the oversight committees has changed when oversight committees' board membership changed.
- There is **no guidance stating the project information the departments should regularly provide** the oversight committees. This guidance would ensure project status reports are comprehensive and standardized - to allow an easier analysis of project status against previous reporting periods.

Finding 4 Recommendation



Parks and Recreation Department and Engineering and Capital Projects Departments should:

Recommendation 4.1

- **Work with both 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.

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.
 - Recommendation 5 – **Future leases involving in-water improvements should include a Facility Condition Inspection clause**
 - Recommendation 7 – To ensure the Oversight Committees are properly staffed, **the Office of Boards and Commissions should bring appointment and reappointment resolutions to the City Council on a routine basis**
- **We found that both of these prior audit recommendations have been implemented.**

Responses and Requested Action



City Management **agreed** to implement all five recommendations.

Questions?



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