



REPORT NO. 301

THE CITY OF SAN DIEGO

DATE: May 26, 2016
TO: Audit Committee Members, Honorable Mayor and Members of the City Council
FROM: Eduardo Luna, City Auditor
SUBJECT: Audit of Mission Bay and San Diego Regional Parks Improvement Funds,
Fiscal Year 2015

Results in Brief

The City Charter requires that the City Auditor report annually the extent and nature of the Mission Bay and the San Diego Regional Parks Improvement Funds' revenues, expenses, and improvements. To comply with this requirement and in accordance with the City Auditor's Fiscal Year 2016 Annual Audit Work Plan, we have performed an audit of the Mission Bay and the Regional Parks Improvement Funds' financial activity in fiscal year 2015.

Annually, Mission Bay Park lease revenues in excess of \$23 million have been distributed to the San Diego Regional Parks and the Mission Bay Improvement Funds for allowable capital improvement projects. Per the City Charter, in fiscal year 2015 and thereafter, revenues in excess of \$20 million are transferred. In fiscal year 2015:

- **\$2,500,000** was transferred to the Regional Parks Improvement Fund for capital improvements.
- **\$7,025,879** was transferred to the Mission Bay Improvement Fund.
- **\$1,554,596** was the total post San Diego Regional Parks Improvement Fund expenditures (see Attachment E for a list of expenditures).
- **\$171,848** was the total post Charter Mission Bay Improvement Fund expenditures (see Attachment F for a list of expenditures). Allocations to the fund are to support the dredging of Mission Bay.

We found that the expenditures complied with the charter requirements. We also found that a prior year recommendation was fully implemented. However, expenditure information was not provided to the Mission Bay Improvement Fund Oversight Committee during the project to date presentation. It is imperative for the Oversight Committee to have all applicable project information to ensure proper compliance with the Charter and accountability for the fund's activity.



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We made one recommendation to address the issue identified and the Administration agrees with the recommendation included in this report. We would like to thank the Office of the City Comptroller, Park and Recreation, City Treasurer, and Real Estate Assets management and staff, as well as representatives from other departments for their assistance and cooperation during this audit. The Audit staff responsible for this audit is Shoshana Aguilar, Judy Zellers, Rod Greek, Danielle Knighten, and Kyle Elser.

Background

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

Monies deposited into Mission Bay and San Diego Regional Parks Improvement Funds prior to the implementation of City Charter Section 55.2 are excluded from our audit scope. The audit objectives, scope and methodology used to perform this audit can be found in [Attachment B](#) to this memorandum.

Fiscal Year 2015 Financial Activity

The Mission Bay and San Diego Regional Parks Improvement Funds' financial activity for fiscal year 2015 is shown in [Exhibit 1](#) below. The Mission Bay Improvement Fund (MBIF) had revenues, including transfers and interest, totaling \$7,100,046 and post Charter expenditures of \$171,848. The allocations to the MBIF will support the dredging of Mission Bay as identified as the number one priority per City Charter, Section 55.2. The balance at June 30, 2015 was \$19,240,460. San Diego Regional Parks Improvement Fund (SDRPIF) had revenues, including transfers and interest, of \$2,555,608 and post Charter expenditures of \$1,554,596 during fiscal year 2015. The available balance at June 30, 2015 was \$10,622,791. Prior years' revenue and interest, as of June 30, 2014, is shown in Attachment C of this memorandum and summarized in Exhibit 1.

EXHIBIT 1**Mission Bay and San Diego Regional Parks Improvement Funds Financial Activity Fiscal Year 2015**

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Charter 55.1 revenues exceeding expenditures as of June 30, 2014	\$ 12,312,262	\$ 9,621,779
Revenue, excluding unrealized gains and losses	\$ 7,100,046	\$ 2,555,608
Expenses, net of depreciation	\$ <171,848>	\$ <1,554,596>
Revenue exceeding expenditures as of June 30, 2015	\$ 19,240,460	\$ 10,622,791

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

Mission Bay Park Lease Revenue

Total adjusted Mission Bay Lease Revenues were \$29,525,879¹. The revenues in excess of the \$20,000,000 threshold were distributed to the SDRPIF and MBIF based on the Charter formula for distribution, as shown in [Exhibit 2](#). The fiscal year 2015 distribution from the Mission Bay Lease Revenue was \$2,500,000 to the SDRPIF for capital improvements and \$7,025,879 to the MBIF. Mission Bay Lease Revenues decreased by \$517,808 between fiscal year 2014 and 2015. General increases in lessee revenue were offset by continued decreased rents from Sea World.

EXHIBIT 2

Mission Bay Lease Revenue Allocation to Funds

Fund Name	Allocation Breakdown in excess of the threshold	FY 2015 Allocation Amounts
San Diego Regional Parks Improvement Fund	25% or \$2.5 million, whichever is greater, in excess of the \$20 million threshold	\$2,500,000
Mission Bay Park Improvement Fund	75% of the excess over the \$20 million threshold, if less than the 75% then, the remainder after the San Diego Regional Parks allocation	\$7,025,879

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

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

Revenue generated by the Mission Bay RV Resort near the De Anza Cove Mobile Home Park has been excluded from Mission Bay lease revenues in the past. During the course of this audit the Park and Recreation Department issued a Legal Services Request to the City Attorney's Office to determine whether that revenue should be deposited into the Mission Bay Park and San Diego Regional Parks Improvement Funds. If so, the City Attorney also would need to determine whether funds totaling \$7,453,863 collected since inception of the Charter moneys have to be repaid. Our office will review any determinations made during the next Mission Bay audit.

¹ See Attachment D for a detailed list of revenues.

Office of the City Auditor

Performance Audit of the Mission Bay and San Diego Regional Parks Improvement Funds for Fiscal Year 2015

Presentation to the Mission Bay Oversight Committee
July 12 2016





Background

- In 2002, a City Council ordinance established two special funds:
 - Mission Bay Improvement Fund
 - Regional Park Improvement Fund
- These funds received revenue from the Mission Bay leases in excess of \$20 million
- Proposition C passed in 2008, bringing new City Charter requirements:



Audit Objectives

- 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 Fiscal Year 2015:
 - collection,
 - allocation, and
 - use of Mission Bay Park lease revenues are in compliance with City Charter requirements.



FY 2015 Mission Bay Park Lease Revenue

The adjusted Mission Bay lease revenue totaled \$29,525,879.

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Mission Bay Park Improvement Fund	75% of the excess over the \$20 million threshold, if less than the 75% then, the remainder after the San Diego Regional Parks allocation	\$7,025,879



FY 2015 Financial Activity

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Charter 55.2 revenues exceeding expenditures as of June 30, 2014	\$ 12,312,262	\$ 9,621,779
Revenue, excluding unrealized gains and losses	\$ 7,100,046	\$ 2,555,608
Expenses, net of depreciation	\$ <171,848>	\$ <1,554,596>
Revenue exceeding expenditures as of June 30, 2015	\$ 19,240,460	\$ 10,622,791



Mission Bay RV Resort

- Mission Bay RV Resort near the De Anza Cove Mobile Home Park has generated \$7,453,863 in revenue since inception of the Charter.
- During the audit it was unclear if the revenue should be included as part of the Mission Bay and San Diego Regional Parks Improvement Funds
- The City Attorney's Office will provide a legal opinion determining whether this revenue should be deposited into the Mission Bay Park and San Diego Regional Parks Improvement Funds



Conclusion

- The expenditures complied with the Charter requirements.
- Prior recommendation to obtain Council's approval of the priority of projects was implemented.
- We found that the FY 2015 Mission Bay Improvement Fund post charter expenditures of \$171,848 were allowable and appropriate.
- We found the Park and Recreation Department in coordination with Public Works should provide to the Oversight Committee a report of expenditures at least annually.



Recommendation

- The Park and Recreation Department in coordination with the Public Works Department should either modify their quarterly report to include the amount of expenditures by project, or they should modify the PowerPoint presentation that accompanies the report to include this information. This should be done as part of their next project report to the Oversight Committee in the Fall of 2016. (Priority 3)
- **Management agreed to implement the recommendation and we found the proposed implementation schedule to be reasonable.**



Office of the City Auditor

Questions?