



## THE CITY OF SAN DIEGO

DATE: August 23, 2013  
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 2012

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Article V, Section 55.2, of the City Charter requires that the San Diego City Auditor shall report annually the extent and nature of the Mission Bay and the San Diego Regional Parks Improvement Funds' revenues, expenses, and improvements generated. To comply with this requirement and in accordance with the City Auditor's Fiscal Year 2013 Annual Audit Work Plan, we have performed an audit of the Mission Bay and the Regional Parks Improvement Funds' financial activity in fiscal year 2012.

### **Audit Scope and Methodology**

Annually, Mission Bay Park lease revenues in excess of a threshold, currently \$23 million, are distributed to the San Diego Regional Parks and the Mission Bay Improvement Funds for allowable capital improvement projects. 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. All references in this memorandum to the Mission Bay and San Diego Regional Parks Improvement Funds exclude these pre Charter funds. Additional background information on Mission Bay lease revenue distributions can be found in the March 2012 Performance Audit of the Mission Bay Improvement Fund posted to the Office of the City Auditor web site at:

<http://www.sandiego.gov/auditor/pdf/report/audit/2012/120316missionbayaudit.pdf>.

The audit objectives, scope and methodology used to perform this audit can be found in Attachment B to this memorandum. The Administration's response to our audit recommendations can be found after page 12 of the report.

We would like to thank the Office of the City Comptroller, Park and Recreation, Facilities Financing, City Treasurer, and Real Estate Assets management and staff, as well as representatives from other departments for their assistance and cooperation during this audit. The Audit staff responsible for this audit is Judy Zellers, Danielle Knighten, and Kyle Elser.



### Fiscal Year 2012 Financial Activity

The Mission Bay and San Diego Regional Parks Improvement Funds' financial activity for fiscal years 2012 is shown in **Exhibit 1** below. The Mission Bay Improvement Fund (MBIF) had revenues, including transfers and investment earnings, totaling \$2,449,130 and no expenditures were made during fiscal year 2012. The ending fund balance was \$2,632,607. San Diego Regional Parks Improvement Fund (SDRPIF) had revenues, including transfers and investment earnings, of \$2,534,109 and expenditures of \$313,640 during fiscal year 2012. The ending fund balance was \$5,063,188.

#### EXHIBIT 1

#### Mission Bay and San Diego Regional Parks Improvement Funds Financial Activity Fiscal Year 2012

	Mission Bay Improvement Fund	Regional Parks Improvement Fund
Ending cash balance, 6/30/11	\$ 157,412	\$ 3,459,932
Adjustments [Note 1]	\$ 26,065	\$ (617,213)
Beginning Fund Balance, 7/1/11	\$ 183,477	\$ 2,842,719
Revenue, including investment earnings	\$ 2,449,130	\$ 2,534,109
Expenses, net of depreciation	\$ -	\$ (313,640)
Ending fund balance, 6/30/2012	\$ 2,632,607	\$ 5,063,188
Unrealized loss on investments	\$ (1,725)	\$ (7,906)
Available fund balance, 6/30/2012	\$ 2,630,882	\$ 5,055,282

Source: Auditor analysis of general ledger and Comptroller schedules, amounts rounded to the nearest dollar

Note 1: Adjustments have been made to correct receivables erroneously included as post charter monies in the 2010 beginning balances and to convert the presentation from a cash to a modified accrual basis. The fiscal year 2011 report was on a cash basis; the 2012 report is presented on a modified accrual basis that ties to the City financial reporting records.

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 investment income or losses. Mission Bay Park lease revenue is deposited to a separate general fund account during the year and distributed to the improvement funds after the fiscal year-end. At the implementation of Charter Section 55.2, there were cash balances in Mission Bay and the San Diego Regional Parks Improvement Funds. This cash had been committed to projects and is not subject to Charter 55.2 provisions according to the City Attorney's staff. However, all revenues, including interest, earned after the Charter Section 55.2 implementation date of July 1, 2009 are subject to the charter provisions.

**Mission Bay Park Lease Revenue**

The fiscal year 2012 distribution from the Mission Bay Lease Revenue was \$2,500,000 to the SDRPIF and \$2,449,147 to the MBIF. Total Mission Bay Lease Revenues were \$27,949,147 as shown in Attachment B of this memorandum. Mission Bay Lease Revenues increased by \$3,253,323 between fiscal year 2011 and 2012.

The revenues in excess of the \$23,000,000 threshold were distributed to the SDRPIF and MBIF based on the Charter formula for distribution, as shown in [Exhibit 2](#).

**EXHIBIT 2****Mission Bay Lease Revenue Allocation to Funds**

Fund Name	Allocation Breakdown in excess of the threshold	FY 2012 Allocation Amounts
San Diego Regional Parks Improvement Fund	25% or \$2.5 million, whichever is greater, in excess of the \$23 million threshold	\$2,500,000
Mission Bay Park Improvement Fund	75% of the excess over the \$23 million threshold, if less than the 75% then, the remainder after the San Diego Regional Parks allocation	\$2,449,147

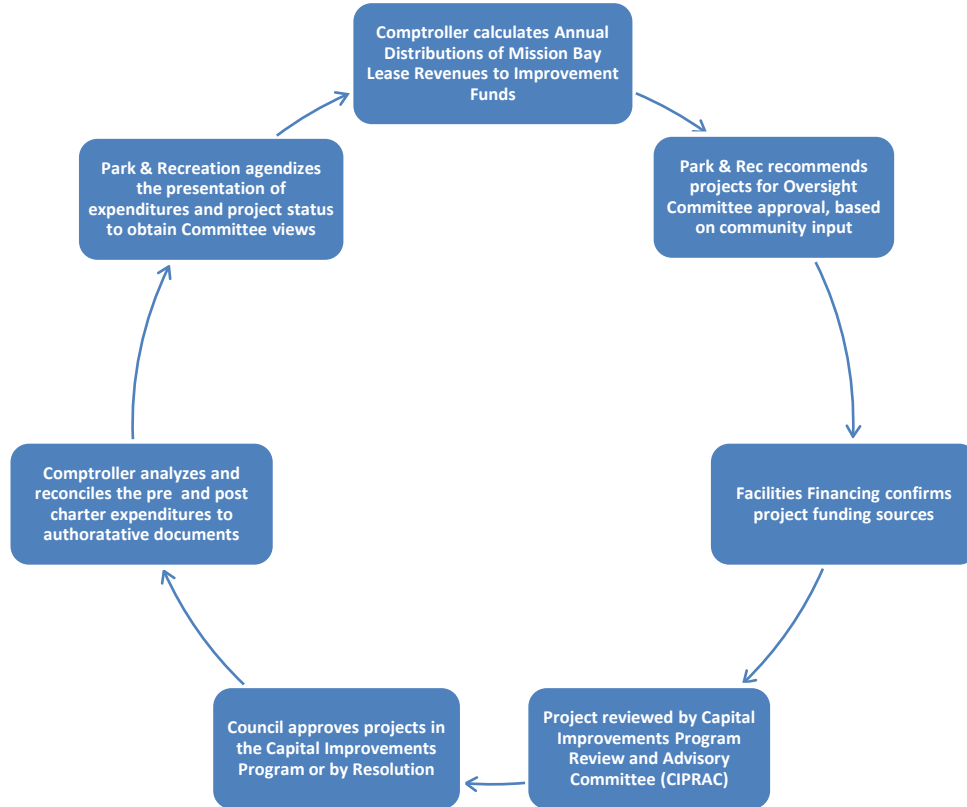
*Source: San Diego City Charter, Article V, Section 55.2(b)*

**Expenditures**

We found that the fiscal year 2012 SDRPIF expenditures of \$313,640 were for allowable purposes under the Charter. However in fiscal year 2012, we found that there was not a clear process in place to report charter fund expenditures to the Oversight Committees. The purpose of the report to the Committee is to obtain each Committee's views on whether the expenditures have been consistent with the priorities and provisions of the charter. After discussions during the audit process, this report was made on June 20, 2013. Additionally, it is unclear if the budget process provides enough detail for Council's approval of the priority of projects selected by the SDRPIF Oversight Committee. The processes to approve, monitor, and report charter revenues and expenditures are shown in [Exhibit 3](#).

**EXHIBIT 3**

**APPROVAL & REPORTING ON CHARTER SECTION 55.2 FUNDED PROJECTS**



*Source: Auditor's summary of key processes.*

During fiscal year 2012, SDRPIF project expenditures, subject to the provisions of Charter Section 55.2, totaled \$313,640. This was the first year that expenditures were made from the SDRPIF. There were no MBIF expenditures subject to the provisions of Charter Section 55.2 during fiscal year 2012.

The fiscal year 2012 SDRPIF project charter expenditures<sup>1</sup> were as follows.

- \$248,046 was expended to complete construction of the Ocean Beach Comfort Station.
- \$65,595 was expended to perform required mitigation and pursue long-term dredging permits for the Old Mission Dam Preservation project.

We selected a major contract for each of the two projects and reviewed the authorizations by the Oversight Committee and Council. Also, on a test basis, we traced the invoiced amounts to the contract terms. Finally, we reviewed the minutes of the Oversight Committee meetings

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<sup>1</sup> Source: City Comptroller analysis of SDRPIF expenditures for fiscal year 2012

to determine if the actual expenditures and project status were reported to the Oversight Committee in order to obtain their views on expenditures. We found that (1) the process of identifying and reporting charter expenditures to obtain the Oversight Committees' opinions on expenditures, could be improved and (2) in some cases, the Capital Improvements budget presented for Council's approval may lack sufficient detail to satisfy the charter requirement that Council approve the priority of these projects.

#### Reporting of Expenditures

The process of reporting charter expenditures to the Oversight Committees, in order to obtain their views on expenditures, could be improved by establishing procedures to communicate charter expenditures verified by the Comptroller staff, to the Park and Recreation Department Director.

During our audit, we noted that a report of 2012 fiscal year charter expenditures had not been made to the Oversight Committee. The charter requires a report of expenditures to the Oversight Committees to obtain each committee's views of whether the expenditures have been consistent with the priorities and provisions of the charter. We discussed this requirement during the audit and a report was presented to the RPIF Oversight Committee On June 20, 2013. The Committees accepted the expenditures as reported.

Currently, the improvement funds combine monies received prior to the charter implementation (pre-charter) and funds received subsequent to the charter (post charter). The improvement funds were not created by the charter; the funds existed and were governed by the San Diego Municipal Code (SDMC) prior to the passage of the charter. The SDMC improvement fund balances (pre-charter) at June 30, 2009 are expected to be fully expended in the near future. Once the SDMC funds are expended, the charter funds deposited into the improvement funds after June 30, 2009 (post charter) will be separately accounted for in SAP. In the interim, the Comptroller established a method to analyze the fund activity and identify the improvement fund revenues and expenditures subject to charter provisions. Usually, this type of analysis would not be reported to the departments. In this case, the Comptroller's expenditure analysis would facilitate accurate reporting to the Committees.

As an example, the 2012 project expenditures reported in SAP for the Ocean Beach Comfort Station were \$731,995.98. Of that, \$483,949.98 was expended from pre charter monies not requiring a report to the Oversight Committees; \$248,046 was expended from post charter monies which requires a report.

Financial Management, Facilities Financing and the Comptroller's Office have been working to establish a means of separating the funds in SAP on a budgetary basis. In fiscal year 2013,

Financial Management agreed to design a reporting mechanism in SAP to separate the budget for these funds into pre and post charter groups. However, this will not be in place until fiscal year 2014 and the current design does not segregate projects with multiple funding sources. Projects funded by both Mission Bay revenues received prior to July 1, 2009 and after the charter implementation on July 1, 2009 will be classified in SAP as post charter projects, regardless of the funding. Therefore, a process of expenditures analysis and reporting by the Comptroller is necessary until all improvement funds received prior to July 1, 2009 are expended.

### Project Approval

It is unclear if the current process to approve SDRPIF projects during the budget process has sufficient detail to meet the charter requirement that Council approve the priority of projects. In fiscal year 2012, additional funding was necessary to complete the Ocean Beach Comfort Station project and a mid-year budget adjustment was made to appropriate \$250,000 from the annual allocation of Charter monies to the San Diego Regional Parks Improvement Fund. This mid-year adjustment was not approved by Council resolution.

Usually, mid-year adjustments for small City projects are acceptable. Projects are presented to Council for approval in the annual Capital Improvement Plan (CIP) budget. Large projects are individually presented in the CIP budget. Smaller projects, expected to be completed in less than a year, are not individually presented. Instead, an annual allocation is approved by Council for these small projects. In a City Attorney's Memorandum of Law issued July 6, 1995, the Attorney concluded that generally Council approval of the budget was sufficient approval of the projects funded by the CIP annual allocation.

However, the SDRPIF is unique in that the Charter states the priority for SDRPIF Capital Improvements shall be recommended by the SDRPIF Oversight Committee and approved by the City Council. No project information (name, description, anticipated expenditure amount) is presented in conjunction with the annual allocation for smaller projects; therefore, it is not clear that the priority of the SDRPIF projects funded by annual allocations has been approved by Council during the budget process.

### **Recommendations**

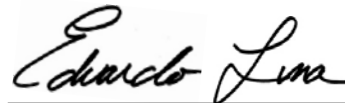
1. The Park and Recreation Director and City Comptroller should create a process for reporting expenditures to the Oversight Committee to include:
  - a. Following the end of the fiscal year, the Comptroller provides a report of charter fund expenditures to the Park and Recreation, Public Works and Facilities Financing Departments.

- b. Park and Recreation agenda a meeting prior to March 1 each fiscal year in which the departments who are managing a CIP charter funded project can provide an expenditure report to the Committee to obtain their views on the expenditures. (Priority 3)
2. The Park and Recreation Director should request clarification from the City Attorney's office to determine if the Council's authorization of general annual allocations in the CIP budget is sufficiently detailed to meet the Charter requirement that Council should approve the SDRPIF Capital Improvements priority. If not, appropriate steps should be taken to obtain the necessary approval. (Priority 3)

### Conclusion

We found that \$2,500,000 was transferred from Mission Bay Lease Revenue to the Regional Parks Improvement Fund for capital improvements and \$2,449,147 was transferred to the Mission Bay Improvement Fund. There were SDRPIF expenditures of \$313,640 in fiscal year 2012. There were no MBIF expenditures in fiscal year 2012. Also, we found that there was not a clear process in place to report charter fund expenditures to the Oversight Committees.

Respectfully submitted,



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Eduardo Luna

City Auditor

cc: Jan Goldsmith, City Attorney  
Walt Ekard, Interim Chief Operating Officer  
Greg Bych, Interim Chief Financial Officer  
Scott Chadwick, Assistant Chief Operating Officer  
Andrea Tevlin, Independent Budget Analyst  
James Barwick, Director, Real Estate Assets Department  
Ken Whitfield, City Comptroller  
Jeff Sturack, Director, Financial Management Department  
Stacey LoMedico, Director, Park and Recreation Department  
John Tracanna, Supervising Management Analyst, Facilities Financing  
Ken So, Deputy City Attorney

## ATTACHMENT A: FOLLOW UP ON PRIOR AUDIT RECOMMENDATIONS

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**We made three recommendations in the audit report issued March 16, 2012 that have not been fully implemented.**

Recommendation #1: In conjunction with the Park and Recreation Department and Development Services Facilities Financing Division, the Financial Management Department should continue to deappropriate the unfunded and abandoned projects in the Mission Bay Improvement Fund and San Diego Regional Parks Fund to eliminate the negative balances. The appropriate Oversight Committee should approve any projects using funding received subsequent to fiscal year 2010.

Recommendation #2: The City Comptroller should establish a methodology to separately account for the financial transactions within the Mission Bay Improvement Fund and San Diego Regional Parks Fund that are required by the City charter effective July 1, 2009.

Recommendation #3: The City Comptroller should establish comprehensive process narrative procedures, process flow diagrams and departmental guidance to properly document the processes specific to the unique nature of Mission Bay Park lease revenues. These procedures should include but are not limited to:

- How the requirements outlined in the City Charter will be administered
- Procedures to reconcile SAP and REportfolio records
- The methodology used for year-end accruals, which should be based on an analysis of actual payment received after year end
- The methodology used for budgeting revenue
- The methodology used by the Oversight Committees for budgeting specific projects based on prior year's distributions

Facilities Financing, Financial Management and the Comptroller advised the recommendations are in the process of being implemented. The narrative process has not been documented and all budgetary shortfalls had not been resolved as of June 30, 2012.



## **ATTACHMENT B: AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

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The City Charter requires that the City Auditor perform an annual audit of the distribution of Mission Bay lease revenues. Specifically, we are required to establish and oversee a mechanism to ensure public accountability by effectively reporting and communicating the extent and nature of revenues, expenses and improvements generated and in compliance with City Charter requirements. This shall include, at a minimum, an annual audit report to the Mayor, City Council and public. Each annual report shall, at a minimum, contain the following: 1) a complete accounting of all revenues received; 2) the amount and nature of all expenditures; and, 3) a report as to whether in each committee's view the expenditures have been consistent and compliant City Charter requirements.

The audit's objectives were to verify that fiscal year 2012 collection, allocation, and use of Mission Bay Park lease revenues are in compliance with City Charter requirements. After analyzing financial and oversight information gathered during the audit, we expanded our audit scope to address two risk areas that the City faces:

The accuracy and appropriateness of the amount and nature and proper accounting of all Mission Bay Park lease-related revenues and expenditures.

The Mission Bay Park and San Diego Regional Parks Oversight Committees provide appropriate and timely oversight of Mission Bay Park lease revenues and expenditures including consistency with the priorities and provisions of the City Charter.

To accomplish our objectives we performed the following audit procedures:

- Reviewed pertinent laws, policies and regulations related to Mission Bay Park lease revenues;
- Gathered and analyzed agreements and information related to Mission Bay Park lease revenues;
- Identified, collected, analyzed financial information including transaction adjustments and management reports related to Mission Bay Park lease revenues;
- Interviewed management and key staff in charge of managing and monitoring information related to Mission Bay Park lease revenues;
- Reviewed Mission Bay Park and San Diego Regional Parks Improvement Fund Oversight Committee minutes, agendas and related bylaws
- Analyzed the quality and effectiveness of the reporting related to Mission Bay Park lease revenues; and
- Verified the calculation and reporting of project expenditures.

We reviewed data for fiscal year 2012. We performed data reliability testing of the financial data provided to us and which we relied on in this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ATTACHMENT C: Mission Bay Park Lease Revenue for Fiscal Years 2012 and 2011**

Lessee	Revenue Amount FY 2012	Revenue Amount FY 2011	Change
Sea World Inc	\$ 12,721,343	\$ 10,987,278	\$ 1,734,065
Kencal Ownership, Inc	\$ 2,886,218	\$ 2,600,648	\$ 285,570
LHO Mission Bay Hotel, L.P.	\$ 3,047,217	\$ 2,617,414	\$ 429,803
LHO Mission Bay Rosie Hotel	\$ 2,110,427	\$ 1,825,970	\$ 284,457
Campland, LLC	\$ 1,509,921	\$ 1,500,117	\$ 9,804
Bartell Hotels	\$ 1,033,117	\$ 912,953	\$ 120,164
BH Partnership	\$ 1,278,119	\$ 1,240,923	\$ 37,196
Seaforth Sportfishing Corporation	\$ 617,057	\$ 656,297	\$ (39,240)
Retirement Fund Trust Of Plumbing	\$ 698,637	\$ 677,780	\$ 20,857
Driscoll Mission Bay LLC	\$ 365,795	\$ 358,311	\$ 7,484
Wesco Sales Corp	\$ 259,789	\$ 278,018	\$ (18,229)
Mission Bay Yacht Club	\$ 299,059	\$ 248,422	\$ 50,637
Mission Bay Boat & Ski Club	\$ 99,755	\$ 97,594	\$ 2,161
Bahia Sternwheelers Inc/02	\$ 75,900	\$ 95,388	\$ (19,488)
SD Visitor Information Center	\$ 0	\$ 3,858	\$ (3,858)
Everingham Bros Bait Co	\$ 48,000	\$ 48,000	\$ 0
Mission Bay Sports Center	\$ 53,675	\$ 60,567	\$ (6,892)
Sportsmen's Seafood Co Inc	\$ 69,734	\$ 53,875	\$ 15,859
Bahia Sternwheelers Inc/01	\$ 33,362	\$ 33,302	\$ 60
Braemar Partnership 9th & A LP	\$ 34,074	\$ 24,945	\$ 9,129
Associated Students SDSU/Regents Of San Diego Rowing Club/Intercollegiate Rowing	\$ 31,814	\$ 29,321	\$ 2,493
Hanohano Outrigger Canoe Club	\$ 25,360	\$ 11,872	\$ 13,488
Canoe & Kayak Team	\$ 3,505	\$ 3,288	\$ 217
Canoe & Kayak Team	\$ 2,808	\$ 1,124	\$ 1,684
<b>Grand Total</b>	\$ 27,304,686	\$ 24,367,265	\$ 2,937,421
Adjustments to accrue June lease revenue*	\$ 644,461		
Adjusted total lease revenue	\$ 27,949,147		
Threshold	\$ (23,000,000)		
Revenues exceeding the threshold	\$ 4,949,147		

Source: OCA generated based on information from the Office of the City Comptroller

\* Lease revenues collected and deposited in the Mission Bay Lease Revenue account were \$27,304,686 during fiscal year 2012. However, this amount does not include rents collected in July for June rent and other accounting adjustments. Therefore, an additional \$644,461 was added to the rents earned in fiscal year 2012

**ATTACHMENT D: Definition of Audit Recommendation Priorities**

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**DEFINITIONS OF PRIORITY 1, 2, AND 3  
AUDIT RECOMMENDATIONS**

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class <sup>2</sup>	Description <sup>3</sup>	Implementation Action <sup>4</sup>
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

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<sup>2</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

<sup>3</sup> For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

<sup>4</sup> The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.



THE CITY OF SAN DIEGO  
M E M O R A N D U M

DATE: August 20, 2013

TO: Eduardo Luna, City Auditor

FROM: Stacey LoMedico, Park and Recreation Director  
Ken Whitfield, City Comptroller

SUBJECT: Management Response to Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2012

The Park and Recreation Department and Office of the City Comptroller have reviewed the City Auditor's recommendations in the audit report examining the Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2012. Our response to each of the audit recommendations is documented below.

Recommendation #1: The Park and Recreation Director and City Comptroller should create a process for reporting expenditures to the Oversight Committee to include:

- a. Following the end of the fiscal year, the Comptroller provides a report of charter fund expenditures to the Park and Recreation, Public Works and Facilities Financing Departments.
- b. Park and Recreation agenda a meeting prior to March 1<sup>st</sup> each fiscal year in which the departments who are managing a CIP charter funded project can provide an expenditure report to the committee to obtain their views on the expenditures.

Recommendation #1 Management Response: **Agreed**

Item (a) will be completed by October 2013 and item (b) will be completed by February 2014.

Recommendation #2: The Park and Recreation Director should request clarification from the City Attorney's office to determine if the Council's authorization of general annual allocations in the CIP budget is sufficiently detailed to meet the Charter requirement that Council should approve the SDRPIF Capital Improvements priority. If not, appropriate steps should be taken to obtain the necessary approval.

Recommendation #2 Management Response: **Agreed**

A request has already been made to the City Attorney's Office and it is anticipated this recommendation will be completed by October 2013.