

City of Austin



**A Report to the
Austin City Council**

Mayor
Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
Chris Riley
Mike Martinez
Kathie Tovo
Laura Morrison
Bill Spelman

**Office of the
City Auditor**

City Auditor
Kenneth J. Mory
CPA, CIA, CISA, CRMA

Deputy City Auditor
Corrie E. Stokes
CIA, CGAP, CFE

AUDIT REPORT

Real Estate Asset Management Audit

April 2013



REPORT SUMMARY

We found that the Office of Real Estate Services (ORES) has established controls for the acquisition and sale of City's real estate. However, we found that ORES does not communicate the acquisition of donated real estate and the sale of real estate to the Financial Services Department for recording in the City's Fixed Asset Accounting System. Additionally, monthly reports provided to department Project Managers are not complete and accurate. ORES also does not have a comprehensive inventory of City-owned real estate.

TABLE OF CONTENTS

BACKGROUND 1

OBJECTIVES, SCOPE, AND METHODOLOGY 1

AUDIT RESULTS 2

RECOMMENDATIONS 6

Appendices

Appendix A: Management Response 8

Appendix B: Inventory Data Elements 10

Appendix C: Real Estate Acquisition Process 11

Exhibits

Exhibit 1: Results of Department Project Managers Survey 2

Exhibit 2: Real Estate Inventories Maintained by City Departments 5

Exhibit 3: Test of Real Estate Acquired by the City 6

Exhibit 4: Test of Real Estate Sold by the City 6

GOVERNMENT AUDITING STANDARDS COMPLIANCE

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.

AUDIT TEAM

Walton Persons, CPA, CICA, Assistant City Auditor
Neha Sharma, CPA, CIA, CISA, Auditor-in-Charge
Andrew Keegan, CIA, CGAP, Auditor

Office of the City Auditor
Austin City Hall
phone: (512)974-2805
email: oca_auditor@austintexas.gov
website: <http://www.austintexas.gov/auditor>

Copies of our audit reports are available at <http://www.austintexas.gov/auditor/reports>



Printed on recycled paper
Alternate formats available upon request

April 2013



Audit Report Highlights

Why We Did This Audit

This audit was conducted as a part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2013 Strategic Audit Plan.

What We Recommend

ORES should ensure that all real estate transactions are disclosed to Financial Services, develop and implement controls to ensure monthly reports are accurate and complete, and create a team to identify and implement a comprehensive solution to track City-owned real estate efficiently and effectively.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

REAL ESTATE ASSET MANAGEMENT AUDIT

Mayor and Council,

I am pleased to present this audit on Real Estate Asset Management.

BACKGROUND

- The Office of Real Estate (ORES) acquires real estate as needed by City departments and is responsible for coordinating the sale of City's real estate. It is also a single point of contact for citizen inquiries about real estate owned by the City.
- City-owned real estate had a book value of more than \$2 billion as of September 30, 2012.

OBJECTIVES AND SCOPE

The objectives of the audit were to:

- evaluate the City's policies and procedures for the acquisition and sale of real estate, and
- review the City's real estate inventory management.

The audit scope included City's practices for real estate inventory management and real estate acquisitions and sales conducted by ORES in FY 2012. The scope did not include certain enterprise departments, such as Austin Energy, which manage their own real estate.

WHAT WE FOUND

ORES has implemented policies and procedures for acquiring and selling real estate. However, improvements are needed in certain areas of the process.

ORES does not report all real estate transactions to the Financial Services Department, which results in inaccurate financial records. Two properties donated to the City that were not reported to FSD resulting in an understatement of \$87,444. In addition, ORES did not disclose all property sales, resulting in an overstatement of \$172,535.

Monthly reports prepared by ORES for department Project Managers are not accurate and complete, and they could improve communication with department Project Managers.

There is no City-wide comprehensive inventory maintained for City-owned real estate. Without a central, comprehensive real estate inventory, there is an increased risk that the City may not be able to manage its real estate assets effectively.

We appreciate the cooperation and assistance we received from the Office of Real Estate Services and Financial Services Department employees during this audit.


Kenneth J. Mory, City Auditor

BACKGROUND

The Office of Real Estate Services (ORES) acquires real estate as needed by City departments and is responsible for coordinating the sale of City's real estate. ORES is also a single point of contact for citizen inquiries about any real estate owned by the City.

The City acquires real estate through purchase or by donation. Real estate is acquired for many different uses, including parks, water lines, drainage, or office space. ORES uses a public bid process to sell City-owned real estate. As of September 30, 2012, City-owned real estate had a book value of more than \$2 billion.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Real Estate Asset Management Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2013 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objectives

The objectives of the audit were to:

- evaluate the City's policies and procedures for the acquisition and sale of real estate and
- review the City's real estate inventory management.

Scope

The audit scope included City's practices for real estate asset inventory management and real estate acquisitions or sales conducted by ORES in FY 2012. The scope also included the accounting of real estate assets for financial statement purposes. The scope did not include certain enterprise departments, such as Austin Energy, which manage their own real estate. In addition, acquisitions and sales related to Federal Programs and Parkland were not included in the scope since acquisitions of real estate under federal programs require compliance with City Code, program requirements, and other applicable policies. In addition, OCA is conducting a separate audit of Parkland Dedication.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Identified and reviewed best practices criteria applicable to real estate inventory management
- Conducted interviews with City employees in ORES, Building Services Department, Human Resources Department - Risk Management Section, and Financial Services Department
- Examined ORES policies and procedures for acquisition and sale of real estate
- Selected and tested a judgmental sample of six real estate acquisitions, out of a population of 39, for compliance with ORES policies and procedures for acquisitions
- Selected and tested two of three real estate sales for compliance with ORES policies and procedures for sales
- Traced the above samples to the City's Fixed Asset Accounting System
- Conducted a survey of 21 Project Managers for City departments
- Conducted a survey of ORES staff
- Reviewed monthly status reports for the sampled real estate acquisitions
- Reviewed real estate inventory records maintained by four City departments
- Considered the risk of fraud, waste, or abuse occurring that is significant to the audit objective
- Considered the reliability of information systems significant to the audit objective

AUDIT RESULTS

ORES has implemented and employees follow policies and procedures for acquiring and selling real estate. However, improvements are needed in certain areas of the process. For instance, ORES reporting on the completion of key steps in the real estate acquisition process is not complete and accurate. We also found that the acquisition of donated real estate and sale of City-owned real estate are not communicated to the Financial Services Department for recording in Fixed Asset Accounting System (System). In addition, there is no central and comprehensive inventory maintained for City-owned real estate.

Finding 1: ORES has implemented policies and procedures for acquiring and selling real estate. However, improvements are needed in certain areas of the process.

ORES has established procedures and checklists as suggested by industry best practices¹ to facilitate the acquisition and sale of real estate and has appropriate segregation of duties for the acquisition and sale of real estate. Additionally, department Project Managers are satisfied with the overall level of service provided by ORES. However, ORES should improve its communication with the Financial Services Department (FSD), and the accuracy and completeness of reporting on key steps in the real estate acquisition process.

Policies and Procedures

ORES uses checklists for each phase, such as reviewing appraisals and closings, of the acquisition process. ORES employees followed the procedures, completed required checklists for all tested transactions, and responded in a survey that the procedures and checklists help them ensure compliance with laws, regulations, and City policies. In addition, the phases are adequately segregated among employees.

Auditors surveyed 21 department Project Managers who purchased real estate with the support of ORES during FY 2012. The survey results indicated that 85% of the 13 Project Managers who responded were at least satisfied with the overall level of service provided by ORES. See Exhibit 1 for survey results.

EXHIBIT 1
Results of Department Project Manager Survey

Category	Unsatisfied	Needs Improvement	Satisfied	Above Average	Excellent
Overall Level of Service	0.0%	15.4%	53.8%	23.1%	7.7%
Communication	0.0%	30.8%	23.1%	38.5%	7.7%
Timeliness	7.7%	38.5%	30.8%	15.4%	7.7%

SOURCE: OCA analysis of survey results, April 2013

The Real Estate Officer indicated that she is aware of the risks involved in the various real estate transactions her office is involved in and has taken steps, including establishing procedures and checklists, to minimize those risks. Additionally, ORES employees expressed a commitment to comply with the procedures and checklists. Using procedures and checklists help to ensure that

¹ Guidebook on real property asset management for local governments by Urban Institute (refer to Appendix B for full citation)

ORES handles acquisitions and sales in a consistent manner. Further, segregation of duties helps to reduce the risk of fraud.

Communication with FSD

ORES does not always inform FSD when real estate is acquired through donations or when it sells City's real estate, which results in inaccurate financial records.

Auditors tested six real estate acquisitions, including two properties that were donated to the City. Neither property was recorded in the System. As a result, land cost is understated in the financial records by \$87,444. In addition, the general fund is understated for the value of the donated real estate.

In addition, ORES initiated the sale of three City-owned properties during FY 2012. Auditors tested two of the sales and found that ORES did not communicate either sale to FSD. As a result, FSD did not remove one property from the System, resulting in an overstatement of the City's assets by \$172,535. In addition, the gain on the sale of this property is not accounted for in financial records. FSD was unable to provide sufficient information for the auditors to verify that the other sold property was accounted for properly.

According to Government Accounting Standard Board (GASB) Statement No. 33, "donated properties must be recorded at its estimated fair market value on the date of acquisition." In addition, GASB Statement No. 34 states that "the proceeds from sale of land are reported as revenue (as a special item) in the government funds. In addition, the cost of land is removed from the capital asset account in the statement of net assets and offset against the sale proceeds resulting in a "gain on sale of land" in the statement of activities."

Reporting

ORES tracks the completion of key steps in the real estate acquisition process and prepares a monthly report comparing the estimated completion dates to the actual dates for each step. Appendix C shows the part of the acquisition process tracked by the report. ORES makes this report available to department Project Managers to inform them of the completion of acquisition steps for individual projects.

Auditors tested the monthly reports for five acquisitions and found that four appeared to have been acquired after the date estimated by ORES. However, the monthly reports did not include all amendments to the timelines. In addition, the reports contained errors causing misleading dates for the completion of key steps.

Additionally, the surveyed department Project Managers reported that timeliness of service should be improved. In the survey of department Project Managers (Exhibit 1), 46% responded that they were unsatisfied with the timeliness of service or that ORES needed to improve in this area. When asked how ORES could improve its support of their operations, responses included:

- "Need to stop overpromising on timelines for problematic property acquisitions"
- "Reduce the amount of time needed to acquire easements"
- "Provide timely updates on status of acquisition phases"

Much of the acquisition process depends on factors that are beyond the control of ORES, such as a property owner who submits multiple counter offers or the need to involve the Law Department. These factors can be difficult to predict accurately at the beginning of the process, resulting in unanticipated delays. However, according to ORES employees, the estimated dates are not based on recent experience. Additionally, ORES does not have procedures for informing Project Managers about delays in the acquisition process. Without realistic acquisition dates or timely communication of delays, Project Managers may not be able to adequately plan for the completion of their projects.

Finding 2: Without a comprehensive inventory of City-owned real estate, the City may not be able to manage its real estate assets effectively.

There is no comprehensive inventory of City-owned real estate. Without this inventory, there is an increased risk that the City may not be able to manage its real estate assets effectively. For instance, information crucial to decisions regarding the sale or retention of real estate and expenditure of capital funds for major renovations may not be available.

Creation of a comprehensive inventory of real estate assets is a crucial first step for establishing effective asset management.² Organizations should determine what they own, what they need, and what it costs for them to manage their real estate. Appendix B includes a list of information suggested for inclusion in a real estate inventory.

Auditors determined that at least four different departments track the City's real estate assets, not including enterprise fund departments, such as Austin Energy, which manage their own real estate. Exhibit 2 shows details about the four separate inventories maintained by City departments. Those four departments only track information that is relevant to their operations, resulting in duplication of efforts and an inefficient use of City resources. As an example, the ORES database includes fields such as location and size of the property, but does not contain information related to the cost. The inventory of fixed assets maintained by FSD includes cost information, but does not include details about the size of the property.

² Guidance for Improved Asset Management, Federal Real Property Council, and Guidebook on real property asset management for local governments, Urban Institute; refer to Appendix B for full citation.

EXHIBIT 2
Real Estate Inventories Maintained by City Departments

Department	Inventory System	Information Tracked	Real Estate Types
ORES	Microsoft Access Database	<ul style="list-style-type: none"> ▪ TCAD³ number ▪ Address ▪ Department ▪ Property Size 	Land (Fee Simple), Buildings
Building Services	Integrated Workplace Management System	<ul style="list-style-type: none"> ▪ Address ▪ Department ▪ Property Size ▪ Year Built ▪ Current Replacement Value ▪ Building Use 	Buildings supported by Building Service Department
Human Resources – Risk Mgmt.	Microsoft Excel	<ul style="list-style-type: none"> ▪ Address ▪ Department ▪ Property Size ▪ Year Built ▪ Building Value 	Insured Buildings
FSD	Fixed Asset Accounting System (AIMS)	<ul style="list-style-type: none"> ▪ Address ▪ Department ▪ In-service Date ▪ Cost ▪ Useful Life ▪ Depreciation 	Buildings, Land (including Easements)

SOURCE: OCA analysis of inventories received from four City Departments, April 2013

The ORES inventory system may not include information on real estate acquired before 2005. In addition, ORES maintains a Geographic Information Systems (GIS) map book of City-owned real estate, which was created in 2008 at the request of a City Council Member. Communication and Technology Management supports ORES by updating the map book with new acquisitions.

Auditors tested 6 of 39 (15%) real estate acquisitions made by the City in FY 2012 and found that inventory records maintained by ORES and FSD were not always updated when the City acquired real estate. Three of the six acquisitions tested were easements, which ORES does not record in its database. None of the inventories had all six properties, as shown in Exhibit 3. The most accurate was the Fixed Asset Accounting System, which had four of the six properties.

Auditors also tested the GIS map book and found that it does not tie individual City-owned easements to specific acquisitions. However, three of the six tested acquisitions were for easements. As a result, auditors could not determine whether these acquisitions were included in the map book.

³ Travis County Appraisal District (TCAD)

EXHIBIT 3
Test of Real Estate Acquired by the City

Address	ORES Access Database	ORES GIS Map Book	Fixed Asset Acct. System
1700 Red River	N/A	Could not determine	No
1219 Delano St.	No	No	No
811 Barton Springs	N/A	Could not determine	Yes
706 & 708 E. 4 th St.	Yes	No	Yes
1202 Fort Branch	No	Could not determine	Yes
130 Cumberland Rd.	N/A	Yes	Yes

SOURCE: OCA analysis of acquired property traced to department inventories, April 2013

Auditors also tested two of three properties sold by the City in FY 2012⁴, as shown in Exhibit 4. One of the two properties was still recorded in both the ORES database and the Fixed Asset Accounting System. In addition, the GIS map book showed that both properties were still owned by the City.

EXHIBIT 4
Test of Real Estate Sold by the City

Address	ORES Access Database	ORES GIS Map Book	Fixed Asset Acct. System
4602 Shoalwood Dr.	Yes	Yes	Yes
1001-1105 E. 12 th St.	No	Yes	Could not determine

SOURCE: OCA analysis of sold property traced to department inventories, April 2013

RECOMMENDATIONS

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

- 1. ORES should work with FSD to ensure that all acquisitions by donation and real estate sales are recorded in the Fixed Asset Accounting System.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

- 2. ORES should develop controls to ensure monthly reports are accurate and complete. In addition, ORES should develop and implement procedures to ensure it communicates the status of acquisitions to the City's department Project Mangers.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

⁴ The closing for one of the two sold properties did not take place until October of 2012.

- 3. ORES should create a team of stakeholders involved in real estate to identify and implement a comprehensive solution for tracking City-owned property efficiently and effectively.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

MANAGEMENT RESPONSE



MEMORANDUM

TO: Ken Mory, City Auditor
FROM: Lauraine Rizer, Officer of Real Estate Services
DATE: April 23, 2013
SUBJECT: Real Estate Asset Management Audit – Management Response

I have reviewed the draft report of the Real Estate Asset Management Audit provided by your office, and I appreciate the opportunity to provide a response to your findings and recommendations. We concur with the recommendations provided in the report, and have developed an Action Plan (see attached) in response. Our response is summarized below.

Your office found that some real estate transactions, including property donations, were not reported to the Financial Services Department (FSD). As of today we have initiated a series of meetings with FSD and will develop an action plan in conjunction with their staff on the reporting of all sales and donations. By September 2013, we will have tested and implemented a system to ensure it meets the needs of FSD.

We concur that some acquisition reports provided to Project Managers (PMs) by ORES staff have been inaccurate, unclear, or incomplete. The different timelines between voluntary real estate acquisitions and acquisitions under threat of eminent domain are not always communicated clearly to PMs. As of May 3, 2013, we will send more regular and updated reports to all Project Managers that provide updated information on staff compliance with our given timeline for their projects. No later than October 2013 we will have developed and tested our new reporting system in line with currently ongoing projects, to ensure the accuracy and completeness of our information.

In light of the finding that there is no City-wide comprehensive inventory for City-owned real estate, ORES will identify a team of stakeholders involved in real estate and develop a plan with them through a series of meetings. Once this plan has been developed, ORES will implement and test our new system for accuracy and compliance with your recommendations. Full implementation shall be completed no later than January 2014.

ORES strives for best practices in real estate management and acquisition, and welcomes any input that can help us improve procedures and maintain a high performance level. Thank you for meeting with us and providing sensible recommendations.

Please contact me at 974-7078 if you have any additional questions or concerns.

ACTION PLAN

Real Estate Asset Management Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
<p>1. ORES should work with FSD to ensure that all acquisitions by donation and real estate sales are recorded in the Fixed Asset Accounting System.</p>	<p>1. Concur with recommendation and will meet with FSD.</p> <ul style="list-style-type: none"> • Devise action plan with FSD to record sale of property and donations in fixed assets accounting system. • Implement plan. • Test the system for accuracy and compliance. 	<p>Initial meeting with FSD 4-23-13.</p>	<p>September 2013</p>
<p>2. ORES should revise the acquisition time estimates to reflect recent experience. In addition, ORES should develop and implement procedures to ensure it communicates the status of acquisitions to the City's department Project Managers.</p>	<p>2. Concur with recommendation.</p> <ul style="list-style-type: none"> • Develop plan and reporting. • Revision of schedules for Eminent Domain (SB18) and Voluntary Acquisitions. • Implement plan. • Test the system for accuracy and compliance. 	<p>As of May 3, 2013 we will be sending status reports every month to Project Managers</p>	<p>October 2013</p>
<p>3. ORES should create a team of stakeholders involved in real estate to identify and implement a comprehensive solution for efficiently and effectively tracking City-owned property</p>	<p>3. Concur with recommendation.</p> <ul style="list-style-type: none"> • Identify and meet with stakeholders to devise plan. • Implement plan. • Test the system for accuracy and compliance. 	<p>Not Yet begun</p>	<p>January 2014</p>

INVENTORY DATA ELEMENTS

Federal Real Property Council⁵ – Guidance for Improved Asset Management

This document identifies and defines mandatory data elements that federal agencies are required to capture and report. Some of data elements are:

- Real estate type – land, building, or structure
- Real estate use – vacant, park, office
- Legal interest – owned, leased
- Status – active, inactive, excess, out leased
- Unique identifier
- Main location
- Size
- Utilization
- Condition
- Value – replacement value
- Annual operating and maintenance costs

Urban Institute⁶ - Guidebook on Real Estate Asset Management for Local Government

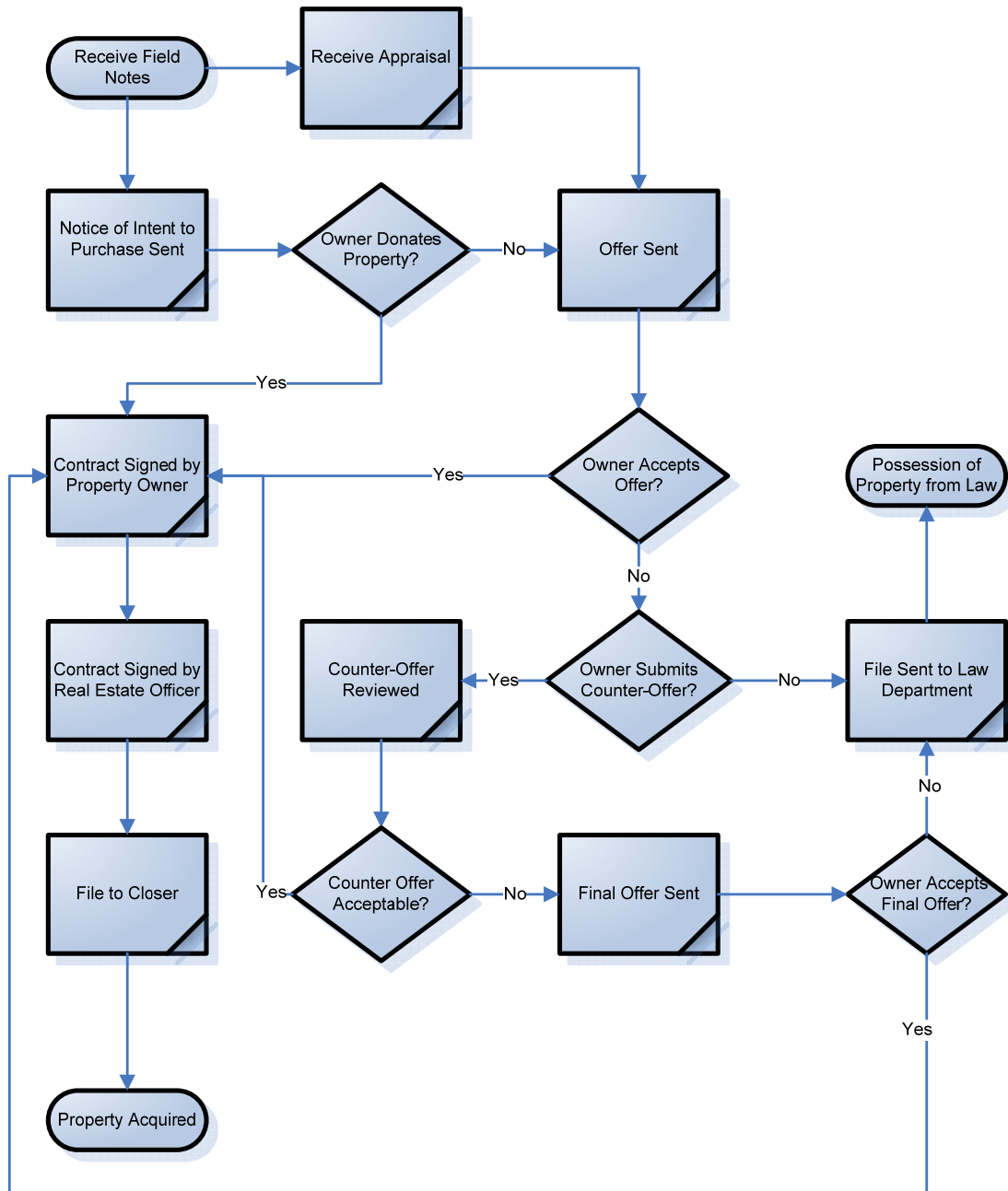
This guidebook provides example of elements of an effective real estate inventory. Some of the data elements are:

- Inventory number
- Address
- Type
- Current use of real estate
- Surface of the facility
- Surface of the land
- Condition of building or premises
- Entity responsible for property management and maintenance
- Functional role
- Original cost of acquisition
- Depreciated value
- Appraised value

⁵ Federal Real Property Council was created according to provisions in Executive Order 13327 “Federal Real Property Asset Management.” The role of this council is to develop guidance, serve as a clearing house for best practices, and facilitate the efforts of the Senior Real Property Officers.

⁶ Urban Institute (UI) is a nonprofit policy and research organization established in Washington, DC in 1968 to investigate social and economic problems confronting the U.S. and government policies and program designated to alleviate them. UI is internationally known and respected as an objective, nonpartisan source of expertise and analysis.

REAL ESTATE ACQUISITION PROCESS⁷



Source: OCA analysis of the ORES sampled Monthly reports, April 2013

⁷ This flowchart only represents the part of the acquisition process for which ORES established timelines, April 2013