

Final Audit Follow Up

As of September 30, 2005



“Real Estate”

(Report #0510, Issued October 29, 2004)

Report #0609

February 17, 2006

Summary

The Real Estate Division, with assistance from the City Attorney’s Office and Accounting Services, has addressed and completed all 28 action plan steps that were identified in audit report #0510 “Real Estate.” The completion of those steps has enhanced the City’s real estate policy, procedures, and processes, as well as, accountability over City-owned land. Notwithstanding the successful completion of those 28 action plan steps, real estate recorded in the City’s fixed asset records has not been completely reconciled to records maintained by the Real Estate Division.

In audit report #0510, we identified issues related to the acquisition, disposition, and accounting for City-owned real estate. Actions have been taken to address those issues. Those actions included:

- *Revising the City real estate policy to provide for more independent reviews of land acquired through the eminent domain process;*
- *Revising the City real estate policy to provide for improved documentation of real estate acquisitions;*
- *Revising the City real estate policy to clarify the circumstances under which environmental audits are appropriate;*
- *Revising the City real estate policy to ensure real estate dispositions are fair and in the best interest of the City;*
- *Improving document retention practices*

for dispositions; and

- *Enhancing accountability for City-owned real estate.*

Notwithstanding the successful action plan steps in regard to the above, City-owned land recorded in Accounting Services’ records has not been completely reconciled to the records maintained by the Real Estate Division. As initially noted in report #0510, the difficulty in completing that reconciliation is likely attributable to discrepancies and inaccuracies occurring in prior years and differences over the years between the descriptions used by Accounting Services and the Real Estate Division. While we acknowledge the difficulty in completing a reconciliation of those records under these circumstances, not completing one makes it difficult for the City to demonstrate accurate and proper accountability of land within the City’s accounting system. We recommend resolution of this issue be further pursued by management.

We commend the Real Estate Division, City Attorney’s Office, and Accounting Services for their efforts in addressing and resolving issues identified in the initial audit.

Scope, Objectives, and Methodology

The original audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate. This follow up audit was for the period April 1, 2005, through September 30, 2005.

Report #0510

The scope of the original audit included a review of selected: (1) real estate acquisitions during the period October 1, 1999, through May 28, 2003, and (2) real estate dispositions during the period January 1, 1999, through July 10, 2003. The adequacy of the City real estate policy also was reviewed as it pertains to real

estate acquisitions and dispositions. In addition, the audit addressed the accuracy of the fixed asset records maintained by Accounting Services for City-owned real estate.

Report #0609

This audit follow up is to report on the progress and status of efforts by the Real Estate Division, City Attorney's Office, and Accounting Services to complete action plan steps identified in the audit report. This is our first and final follow up on action plan steps identified in audit report #0510. To obtain information, we interviewed staff and reviewed the relevant documentation provided by the Real Estate Division and Accounting Services.

Background

The City owns approximately 11,000 acres of real estate, comprised of land for various City facilities and programs including, but not limited to, City Hall and satellite office buildings; Fire and Police Department facilities; City municipal complex; airport; power plants; utility substations and facilities; spray fields; parks; flood mitigation; green space; economic development; and remnants from property acquired for road or other City projects.

Pursuant to the City Commission Policy 136, "Real Estate Policy," the Real Estate Division within the Public Works Department is responsible for all functions associated with acquisition, management, and disposal of real estate utilized within the operation of the City.

The Real Estate Division is also responsible for activities other than land acquisition and disposition. Those activities include management of City-owned properties (e.g., leasing activities and contracts for certain City parking garages) and administration and operation of City cemeteries. These other activities were not included in the scope of the original audit nor were they addressed in this audit follow up.

Previous Conditions and Current Status

In report #0510, we identified the following areas where improvements could be made in regard to acquisitions, dispositions, and fixed asset records.

Acquisitions of Real Estate:

- Settlements for the acquisition of land through the eminent domain process should be reviewed and approved by the City's Real Estate Committee and not approved solely by the City Attorney's Office.
- For recommended land acquisitions, the City real estate policy should require that appraised values be included in information provided by staff to the City Commission and/or City Manager as the final approving authorities.
- The Real Estate Committee's review and approval of proposed land acquisitions should always be documented.
- Reviews of closing and title documents by the City Attorney's Office should be documented.
- A second independent appraisal should be obtained when required by City policy.
- The criteria for requiring environmental audits should be revised.

Disposition of Real Estate:

- The City real estate policy should be revised and clarified to ensure the most appropriate and equitable dispositions of City property.
- The Real Estate Division should improve document retention practices for real estate dispositions.

Fixed Asset Records:

- Enhancements are needed to ensure that the City's fixed asset records maintained by Accounting Services are properly and accurately updated for real estate transactions.

As of September 30, 2005, 100% of the action plan steps identified in this audit were completed. Table 1 identifies the action plan steps and describes the current status.

**Table 1
Action Plan Steps from Report #0510 and Current Status**

Action Plan Steps	Current Status
Ensure independent review of eminent domain acquisitions.	
<ul style="list-style-type: none"> The Real Estate Committee will independently review proposed settlements (except for those defined below – see 5th action step) for eminent domain acquisitions negotiated by the City Attorney’s Office and other City staff. Based on those reviews, the Real Estate Committee will approve (or disapprove) those settlements. 	<ul style="list-style-type: none"> √ The revised real estate policy provides for proposed settlements negotiated by the City Attorney’s Office and/or other City staff, which are in excess of a pre-designated threshold, to be reviewed by the Real Estate Committee. The revised policy provides that after that review, the Real Estate Committee shall present the proposal to the City Commission for final approval (or disapproval) as an agenda item. This revised process effectively provides for independent and appropriate review and approval of negotiated eminent domain acquisitions that exceed a pre-designated threshold. (Note: The pre-designated threshold is \$500,000 regardless of circumstances, or \$250,000 in the event the proposed settlement amount is 25% or more above the City’s last approved appraisal.)
<ul style="list-style-type: none"> The Real Estate Committee will determine if proposed settlements (except those defined below – see 5th action step) for eminent domain acquisitions should be presented to the City Commission for approval. 	<ul style="list-style-type: none"> √ As noted in the preceding action step, the revised policy provides that all proposed negotiated settlements for eminent domain acquisitions exceeding the pre-designated threshold shall be presented to the City Commission for final approval (i.e., after review and recommendation by the Real Estate Committee).
<ul style="list-style-type: none"> The Treasurer-Clerk (or Deputy Treasurer-Clerk) will be added to the Real Estate Committee. 	<ul style="list-style-type: none"> √ The City Treasurer-Clerk has been included as a member of the Real Estate Committee.
<ul style="list-style-type: none"> The City Attorney’s role on the Real Estate Committee will be changed from a voting to a non-voting capacity. 	<ul style="list-style-type: none"> √ The City Attorney is no longer a member of the Real Estate Committee but attends meeting in an advisory capacity, as needed.
<ul style="list-style-type: none"> Thresholds (dollar and percentage) will be established for determining which eminent domain acquisitions may be settled and approved by the City Attorney’s Office and which ones must be reviewed and approved by the Real Estate Committee. Acquisitions that are less than those thresholds may be settled solely by the City Attorney’s Office (or other applicable staff) and will not require review and approval by the Real Estate Committee. 	<ul style="list-style-type: none"> √ The revised policy establishes thresholds for determining the appropriate approving authorities for eminent domain acquisitions. Acquisitions where the negotiated settlement price is below \$250,000 (or below \$500,000 when the settlement price is no more than 25% above the last appraisal) shall be approved by the City Manager (pre-suit negotiations), the City Attorney (condemnation settlements), or the applicable department head (settlement price less than \$50,000) as the final approving authority. In addition, the City Attorney shall serve as the final approving authority for legal settlements subject to court-ordered binding mediation or trial proceedings (i.e., regardless of settlement amounts). For all other eminent domain acquisitions, the City Commission serves as the final approving authority after review and recommendation by the Real Estate Committee.
<ul style="list-style-type: none"> The City real estate policy will be revised to reflect the actions and requirements included in the above action steps. 	<ul style="list-style-type: none"> √ The real estate policy has been revised to reflect the above changes.

Ensure complete information is provided to approving authorities.	
<ul style="list-style-type: none"> Revisions will be made to the real estate policy to require the communication of appraised values to the applicable approving authorities. This communication will be documented through the inclusion of the appraised value(s) in documentation provided to the approving authorities. 	<ul style="list-style-type: none"> √ The revised real estate policy specifically requires appraisal information to be disclosed to all parties involved in the approval process.
Ensure required reviews are documented.	
<ul style="list-style-type: none"> Required reviews by the Real Estate Committee of proposed acquisitions will be documented. The real estate policy will be revised to require that documentation. 	<ul style="list-style-type: none"> √ The revised real estate policy requires that appropriate documentation be retained for all acquisitions, including recommendations (i.e., to the final approving authority) of the Real Estate Committee.
<ul style="list-style-type: none"> Required reviews by the City Attorney’s Office of closing and title documents associated with acquisitions will be documented. The real estate policy will be revised to require that documentation. 	<ul style="list-style-type: none"> √ The revised real estate policy requires the City Attorney or his/her designee to document the review of all closing documents and title work conducted prior to the real estate closing.
Ensure fair and appropriate amounts are paid for land.	
<ul style="list-style-type: none"> Staff will follow the policy requirement to obtain a second independent appraisal for land acquisitions where the values exceed \$300,000. 	<ul style="list-style-type: none"> √ The requirement to obtain two appraisals for acquisitions in excess of \$300,000 was reinforced to Real Estate Division staff.
Clarify the circumstances under which an environmental audit is appropriate.	
<ul style="list-style-type: none"> The real estate policy will be revised to: (1) define an environmental audit; (2) specify that the type of audit (scope or coverage) to request/perform should be based on specific factors; (3) define the specific factors to consider such as location, land type, known past use, current use, and intended use; (4) provide for professional judgment in the determination if and what type of environmental audit is necessary; and (5) eliminate the dollar threshold as a controlling factor in determining if an environmental audit is required. 	<ul style="list-style-type: none"> √ The revised real estate policy includes a definition of “environmental audit.” The revised policy allows for discretion on whether an environmental audit should be obtained, after considering such factors such as active or known past uses, limited strip taking, and other issues. In addition, the revised policy provides that the project manager in conjunction with the Environmental Resources Division will determine the scope of any environmental audit deemed necessary. A dollar threshold has been eliminated as the sole controlling factor in determining the need for an environmental audit.
<ul style="list-style-type: none"> The real estate policy will be revised to require that documentation be prepared and retained for each acquisition to explain/justify: (1) the determination to obtain or not obtain an environmental audit and (2) the type of environmental audit obtained. 	<ul style="list-style-type: none"> √ The real estate policy was revised to provide that any determination not to obtain/perform an environmental audit on an acquisition must be reviewed and approved by the Environmental Services Director or his/her designee and the City Attorney or his/her designee, and that review and approval shall be documented and retained in the applicable project file. For any environmental audit performed, the type/scope should be documented by the corresponding report.
Ensure real estate dispositions are fair and in the best interest of the City.	
<ul style="list-style-type: none"> The real estate policy will be revised to require the use of competitive bid solicitation in the disposal of all City-owned real estate, unless exempted by defined exclusions. 	<ul style="list-style-type: none"> √ The revised real estate policy requires use of a competitive bid process for the disposal of City-owned real estate, unless exempted under certain circumstances as defined in the policy.

<ul style="list-style-type: none"> • In connection with competitive bid solicitations, the policy will allow the City to: (1) reject all bids in the event none are found favorable; (2) negotiate with responding parties to obtain a favorable sale in the event that no bids are found to be satisfactory/favorable; and, (3) in the event no bids are found favorable and the City is unable to negotiate a favorable deal with a responding party, allow the City to negotiate with any party for a favorable sale up to a specified period of time (to be determined and included in the policy). At the end of that period, the policy will provide that new bids must be solicited if the City elects to continue efforts to sell the property. 	<ul style="list-style-type: none"> √ The revised real estate policy provides that if no acceptable bids are received in response to a competitive solicitation, staff may reject all bids and: <ul style="list-style-type: none"> – Negotiate with responding parties to obtain a favorable sale; or – In the event that a satisfactory and favorable sale could not be negotiated with a responding party, negotiate with any party to obtain a favorable sale as long as a the negotiations and contract is written within 30 days of the closing date of the initial bid; or – Re-bid the property for sale.
<ul style="list-style-type: none"> • The policy will be revised to allow for the disposition of City-owned real estate without using competitive bid solicitation under certain defined circumstances. Those defined exclusions will be addressed in the policy and will include instances where: (1) the value of the property is below a specified dollar threshold (to be determined and included in the policy); (2) the property is being sold to a specific party for economic development purposes; (3) the property is being sold to another governmental unit; (4) the property is being sold to a specific party that intends to use the property to foster a City-sponsored or supported program/endeavor; (5) there is only one adjacent landowner and an offer is received from that adjacent landowner, and the property is determined to be of no significant value to any other party; (6) an unsolicited offer is received from an adjacent landowner and the property is considered to be of no significant value to any party other than the solicitor and other adjacent landowners, and the other adjacent landowners have been notified and provided the opportunity to comment and also make offers; and (7) any other unique circumstances where the use of the competitive bid process is determined not to be appropriate and in the best interest of the City/citizenry. 	<ul style="list-style-type: none"> √ The revised real estate policy provides for the following circumstances where City-owned real estate may be offered for sale without using a competitive bid process: <ul style="list-style-type: none"> – Fair market value of the property is less than \$25,000. – The property is being sold to a specific party for economic development purposes. – The property is being sold to another governmental unit. – The property is being sold to a specific party that intends to use the property to foster a City-sponsored or supported program/endeavor. – The property is being sold to an adjacent landowner and there has been a determination that the property is of no significant value to any other party. – Any other unique circumstances where the use of the competitive bid process is determined not to be appropriate and in the best interest of the City.
<ul style="list-style-type: none"> • The real estate policy will be revised to require the preparation and maintenance of documentation that clearly demonstrates the disposition method used. The policy also will be revised to require documentation and/or explanation justifying the disposition method used in the event the competitive bid process is not used. Furthermore, the policy will be revised to require that documentation provided to the appropriate approving authority clearly identify the disposition method used and reasons for that method. 	<ul style="list-style-type: none"> √ The revised real estate policy provides that staff will document the disposition method used as well as justification for that method. That documentation/justification will be included in information provided to the applicable approving authority.
<ul style="list-style-type: none"> • Regardless of the method of disposition, all nearby property owners will be notified in writing of the City's intent to sell the property. 	<ul style="list-style-type: none"> √ The revised real estate policy requires that nearby landowners be notified in writing of the City's intent to sell City-owned property.

<ul style="list-style-type: none"> • The term “nearby” (as addressed in the previous and next two action steps) will be defined in the real estate policy. 	<ul style="list-style-type: none"> √ The revised real estate property defines “nearby” property owners as those located within 500 feet of the property intended to be sold.
<ul style="list-style-type: none"> • The real estate policy will be revised to provide that all comments received from nearby property owners be (1) reviewed and considered and (2) summarized and provided to the applicable approving authorities. Notification to the approving authorities will be documented. 	<ul style="list-style-type: none"> √ The revised real estate policy provides that all comments from nearby property owners be summarized and provided to the applicable approving authority for their review and consideration.
<p>Improve document retention practices for dispositions.</p>	
<ul style="list-style-type: none"> • A checklist for dispositions will be developed that lists the required documents/records that should be obtained/retained for each sale. The checklist will be completed for each disposition. 	<ul style="list-style-type: none"> √ The Real Estate Division is using a standard checklist to ensure all appropriate documents and records are obtained and retained for each sale.
<ul style="list-style-type: none"> • A standard filing system will be implemented for the retention of applicable disposition documentation (e.g., closing statements, title documents, appraisals, environmental audits). 	<ul style="list-style-type: none"> √ Real Estate Division management established a standard filing process for documentation supporting the disposition of City-owned real estate. Management also instructed staff to update all current real estate files with the necessary documentation. Our review showed that appropriate documents and records were being properly obtained and filed.
<ul style="list-style-type: none"> • Supervisory staff will review completed checklists and files to ensure that all documents have been obtained and properly filed. 	<ul style="list-style-type: none"> √ Real Estate Division supervisory staff indicated that they now randomly check files to ensure completeness and accuracy. Our review showed that appropriate documents and records were being properly obtained and filed.
<ul style="list-style-type: none"> • Consideration will be given to using the City’s electronic data management system (EDMS) to retain disposition documents. 	<ul style="list-style-type: none"> √ The Real Estate Division is now using the electronic document management system for certain document retention purposes (e.g., deeds and cemetery transactions). Plans are to start retaining disposition documents in EDMS for property dispositions occurring after September 30, 2005.
<p>Enhance accountability for City-owned real estate.</p>	
<ul style="list-style-type: none"> • The real estate policy will be revised to require that any City department or office that acquires, or causes to be acquired, land in the name of the City must communicate the acquisition and all pertinent data to the Real Estate Division. Applicable City departments and offices will be notified of this requirement. 	<ul style="list-style-type: none"> √ The revised real estate policy provides that the Real Estate Division is responsible for ensuring that all City departments involved in the acquisition or disposition of real estate are provided current Real Estate Policy and procedures. This responsibility is intended to ensure that City departments properly communicate with the Real Estate Division for all land acquisitions and dispositions. The Real State Division submitted a copy of the revised policy to applicable department heads.

<ul style="list-style-type: none"> • A standard method and process will be developed to notify Accounting Services of all acquisitions and dispositions of City-owned real estate. Documentation and information in the notifications will include, but not be limited to, closing documents, accurate land descriptions, parcel identification numbers, and all associated costs (e.g., appraisal fees, legal fees, engineering fees, fees for environmental audits). 	<ul style="list-style-type: none"> √ A standard method is now used for communicating relevant information for land acquisitions/dispositions to Accounting Services. Specifically, the Real Estate Division sends Accounting Services its monthly productivity report that reflects real estate activity. Details on each real estate acquisition and disposition are also sent to Accounting Services. In addition, the Real Estate Division sends to Accounting Services on a monthly basis a summary sheet of acquisition/disposition transactions incurred fiscal year to date.
<ul style="list-style-type: none"> • Accounting Services staff will work in conjunction with the Real Estate Division to assure all future land transactions are recorded in the fixed asset records. 	<ul style="list-style-type: none"> √ Accounting Services staff is proactive in requesting and obtaining the necessary records and information to ensure that land transactions are properly and accurately reflected in the City's fixed asset records.
<ul style="list-style-type: none"> • For City-owned real estate, if the Real Estate Division provides a parcel identification number to Accounting Services, it will be included in the description field of the fixed asset records for all future land additions. 	<ul style="list-style-type: none"> √ The parcel identification number is now used by Accounting Services to specifically identify land in the fixed asset records.
<ul style="list-style-type: none"> • With the assistance of the Real Estate Division, Accounting Services staff will attempt to reconcile previous land transactions in the fixed asset records to records kept by the Real Estate Division, making changes that they deem appropriate to improve the accuracy of the asset records. Parcel identification numbers will be added to all land transactions matched during this reconciliation. 	<ul style="list-style-type: none"> ◇ Staffs in Accounting Services and the Real Estate Division made attempts to reconcile the two sets of records as recommended and planned. Their focus was on reconciling real estate that had been added or disposed of during fiscal years 2004 and 2005. Efforts were made to reconcile the two sets of records for real estate acquired or disposed of prior to fiscal year 2004. Success was limited because of differences between the two sets of records. For example, several parcels may have been combined and recorded by Accounting Services as a single item in the fixed asset records with a property address (that is now outdated), while the parcels were recorded individually in the Real Estate Division records using a unique parcel identifying number.

Table Legend:

- Issue addressed in the original audit.

- √ Issue addressed and resolved.

- ◇ Issue addressed as recommended and planned; however, records still not completely reconciled.

Conclusion

As noted in Table 1, all issues have been addressed and planned action plan steps completed. However, as noted in the following paragraph, the issue of unreconciled land records remains.

We noted that both the Real Estate Division and Accounting Services made efforts to reconcile the inventory of City-owned land maintained by the Real Estate Division to the fixed assets land records maintained by Accounting Services. Those efforts were made in accordance with the action plan step developed to address the issue addressed in the initial audit report. However, their success in reconciling those two sets of records was limited and, as of the

end of our fieldwork, unreconciled items remain. City management indicated that a successful reconciliation of all records would require resources that are not currently available. Without a complete reconciliation, it is difficult for the City to demonstrate accurate and proper accountability of land within the City's accounting records. Accordingly, we recommend that management research an acceptable method for reconciling the two sets of records.

We appreciate the cooperation and assistance of the Real Estate Division, City Attorney's Office, and Accounting Services provided in this audit follow up.

Appointed Officials' Responses

City Manager:

I want to thank the City Auditor and his staff for their recommendations. I believe these recommendations will improve our processes.

I am pleased to see my staff has completed all of the action steps in a timely manner. The one unresolved area is a matter of resources and staff will develop a recommendation regarding that process.

City Attorney:

I have reviewed the Final Audit Follow Up on the Audit of Real Estate and am pleased to note that all of the action plan steps have been implemented by the appropriate departments. My office has implemented the process changes required by the revised real estate policy and will continue to work with Real Estate to ensure all acquisitions and dispositions of property are properly documented. Although I am no longer a voting member of the Real Estate Committee, myself or one of my legal staff will continue to participate in these meetings in an advisory capacity, as needed. I commend the City Auditor for the professional manner in which this significant audit was conducted.

Copies of this Audit Follow Up #0609 or audit report #0510 may be obtained from the City Auditor's web site (<http://talgov.com/auditing/index.cfm>) via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit Follow Up conducted by:
Dennis Sutton, Sr., CPA, CIA, Senior Auditor
T. Bert Fletcher, CPA, Audit Manager
Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor