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March 5, 2008

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

Dear Mayor Villaraigosa, City Attorney Delgadillo, City Councilmembers:

Nearly five years ago I released an audit of the City's management of its real estate assets. We found it desperately lacking and in need of a vision and mandate in managing these valuable assets.

In the follow-up audit I release today, we found that while the Department has made some initial progress most of the recommendations have not been implemented. The most important recommendations such as a citywide strategy, centralized database and the maximization of surplus property all depend on the political will and action of the Mayor and Council.

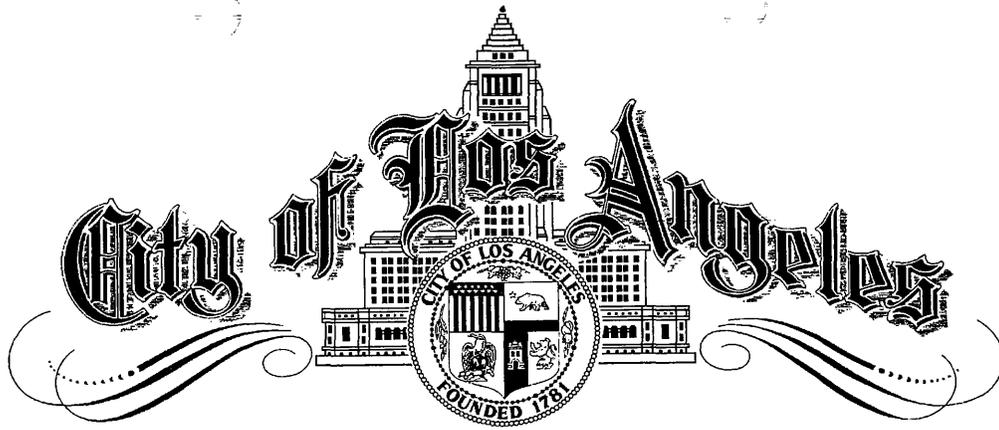
Sincerely,

LAURA N. CHICK
City Controller

MAR 06 2008
INFORMATION TECHNOLOGY &
GENERAL SERVICES

ENERGY & ENVIRONMENT

ARTS, PARKS, HEALTH & AGING
AUDITS & GOVERNMENTAL
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March 5, 2008

Alvin Y. Blain, General Manager and City Purchasing Agent
General Services Department
111 E. First Street, Room 701
Los Angeles, CA 90012

Dear Mr. Blain:

Enclosed is a report entitled "Follow-up Audit of GSD's Asset Management Division." A draft of this report was provided to you on February 22, 2008. Comments provided by your Department at the meeting held on March 3, 2008, were evaluated and considered prior to finalizing the report.

Please review the final report and advise the Controller's Office by April 8, 2008 of actions taken to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read 'Farid Saffar', is written over a light blue horizontal line.

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Karen L. Sisson, City Administrative Officer
Frank T. Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Sally Choi, Deputy Mayor, Office of the Mayor
Independent City Auditors



**City of Los Angeles
Office of the Controller**

**Follow-Up Audit of GSD's Asset
Management Division**

March 5, 2008

**Laura N. Chick
City Controller**

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FOLLOW-UP AUDIT OF GSD'S ASSET MANAGEMENT DIVISION

EXECUTIVE SUMMARY

The Department of General Services (GSD) Asset Management Division (AMD or Division) is responsible for managing the City's diverse real estate portfolio and ensuring optimum use and maximum value from these assets.

The City owns and leases real property worth billions of dollars that is used for diverse public purposes that includes office buildings, police and fire stations, libraries, public parks, open space, and maintenance facilities. AMD's responsibilities include:

- Maintaining an accurate inventory of the City's holdings;
- Developing a comprehensive twenty-year master plan of facilities' needs and updating the plan to maintain a continuous twenty-year facilities' needs projection;
- Consolidating City operations into joint-use facilities at locations where several departments with similar and compatible real estate or facility needs are serving a similar geographical area;
- Purchasing or leasing properties for the City, and providing input on the annual review of the capitalization of owned and leased properties for the City to identify lease renegotiation opportunities;
- Working with other governments and the private sector to accomplish the real estate needs of the City; and
- Managing the disposition of City property.

In 2003, the Controller's Office issued three reports related to GSD's asset management activities. The three audits contained 25 recommendations to improve the City's real property data, provide a strategy for managing the City's real estate and improve the surplus property program to expedite the potential use or sale of City-owned, Council-controlled parcels. The audit reports were:

- "Performance Audit of the Asset Management Division, General Services Department";
- "Financial and Compliance Audit of the Department of General Services Sale of Surplus Properties"; and
- "Financial and Compliance Audit of the Department of General Services Lease Expenditures."

The performance audit found that the City had no overarching vision or strategy for handling its real estate. Decisions were made on an ad-hoc, transactional basis. Subsequent to the audit, to assist the City in improving the management of its real estate portfolio, the City Controller contracted with KH Consulting to develop a vision for the effective management and use of the City's real estate assets. That report, "A Vision and Strategy for the City's Real Estate" was issued July 15, 2004 and provided a suggested approach of how to implement many of the recommendations made in the performance audit. By developing and using a vision and strategy to guide its decision-making, the City would have better assurance of effective and efficient asset management.

The Controller's Office has now conducted a follow-up audit to evaluate the adequacy and effectiveness of actions taken by GSD management relative to the findings and recommendations contained in the three audits issued in 2003. Our follow-up focused on 18 key recommendations that were ranked as urgent or necessary.

Summary

Our follow-up audit found that some progress has been made in the four plus years since the original reports were issued. We found the Department implemented 5 recommendations and partially implemented 13 recommendations:

Audit Report Title	Report Date	Implementation Status			% Impl.
		Impl.	Partially/ In Progress	Not Impl.	
Performance Audit of the Asset Management Division	8/20/03	1	7	0	13%
Financial and Compliance Audit of GSD's Sale of Surplus Properties	10/22/03	2	6	0	25%
Financial and Compliance Audit of GSD's Lease Expenditures	11/7/03	2			100%

In most cases, GSD took some initial steps to address the audit issues, but real improvements and change still require the Mayor's Office and City Council to re-examine and prioritize how the City should handle its real estate portfolio. In other cases, GSD needs to take additional steps to fully implement the recommendations. The key issues that remain outstanding encompass the following areas:

The City has not established an agreed-upon comprehensive strategy for determining how its real estate portfolio should be managed so that real property assets are optimized for the City's use and to benefit residents.

GSD has taken steps to develop a real estate strategy but in order to have a strategic framework to guide decision making, City leaders will need to provide further direction. Specifically, GSD is updating the 20-year Office Facilities Master Plan, issued in 1996,

to include the City's strategic vision and guiding principles for City real estate. The vision/strategy should set the framework to ensure the City's real estate assets are optimized. The Mayor and City Council will need to determine whether GSD's updated Master Plan meets the intent of the City's vision for managing its real estate.

Additionally, GSD developed policies related to surplus property and leasing to non-profit agencies – components of a real property strategy. The Department believes the policies reflect the direction that should be taken with the real estate portfolio. However, the City's leaders have yet to approve or revise the policies which would help define the City's strategy for its real estate portfolio.

Surplus property sales have not increased. The process is cumbersome, and since decisions are not driven by an overall Citywide vision, individual Council Offices can object to potential sales without full Council consideration.

In 2002, 9 properties were sold and it took an average of two and one-half years to process a sale. Selling surplus properties takes one to two years to complete; over the last three year period, GSD has sold an average of only nine properties annually.

The process to identify properties that can be sold is governed by State regulations, City Charter and the Los Angeles Administrative Code (LAAC). State regulations require surplus government land to first be considered for affordable housing development, park and recreation or open space purposes, or for planning and development near transit stations. GSD obtains input from the Departments of Housing, Recreation and Parks and Transportation when considering potential sales.

However, even when a property is released from those needs, Councilmembers are asked if there are objections to selling property within their district.

In October 2006, the Mayor's Office attempted to get each Councilmember to identify properties in their district that could be sold from a total of 257 parcels citywide. AMD management indicated that none of the Council Offices cleared the properties for sale. Some of the reasons Councilmembers gave for "reserving" properties included the desire to work with developers to utilize the land to benefit the District's residents or questionable marketability of hillside properties.

If the intent of City officials is to dispose of properties that are not earmarked for affordable housing, recreation or transit needs, the City must prioritize the process, re-consider some of the individual programs proposed by GSD, and re-consider reserving properties for potential development. If the intent is to hold onto properties for future development initiated by a Council Office, there should be some indication of developers' interest or timeframe for doing so.

Additionally, while AMD has reduced the number of steps in its surplus property sales procedures, timeframes can be shortened by staff following up with City departments or taking the next step in the process on a more timely basis.

A Citywide database of all properties does not exist.

Multiple databases are used to manage the City's real property assets – some within AMD and others within each of the three Proprietary Departments. Information is still maintained in separate, incompatible systems. Property managed by DWP, Airports and Harbor departments is subject to Public Utilities Commission (PUC), federal and State regulations, and as such restrict the City's ability to take any action on the property. GSD management stated that the City Charter prohibits the Department from managing the Proprietary departments' properties. We also noted incomplete and inaccurate information for City Council-controlled surplus property. An accurate property database is necessary for the effective management of real property assets and is imperative to facilitate focused, effective decision-making. Due to the lack of a comprehensive system and regular reporting, complete citywide information is not readily available.

Details on these and other prior recommendations that have not been fully implemented are discussed in the remainder of this report. Attachments 1 through 3 provide a listing of each of the 18 recommendations along with their current status as assessed by our review.

Review of Report

On February 13, 2008, a draft report was provided to GSD management. We held exit conferences with GSD management on February 19, and March 3, 2008. GSD indicated that with the exception of obtaining funding for a separate planning and reporting unit, the Department has addressed each of the recommendations and taken all the steps within their authority to fully implement the recommendations. The Department's comments were considered before finalizing the report.

INTRODUCTION AND BACKGROUND

The Department of General Services (GSD) Asset Management Division (AMD) is responsible for managing the City's diverse real estate portfolio and ensuring maximum value and optimum use from each of these assets for the City's operations.

The City owns and leases real property worth billions of dollars that is used for diverse purposes. These include office buildings, police stations, fire stations, libraries, public parks, open space, and maintenance facilities. AMD's responsibilities include:

- Maintaining an accurate inventory of the City's holdings;
- Developing a comprehensive twenty-year master plan of facilities' needs and updating the plan every five years to maintain a continuous twenty-year facilities' needs projection;
- Consolidating City operations into joint-use facilities at locations where several departments with similar and compatible real estate or facility needs are serving a similar geographical area;
- Purchasing or leasing properties for the City, and providing input on the annual review of the capitalization of owned and leased properties for the City to identify lease renegotiation opportunities;
- Working with other governments and the private sector to accomplish the real estate needs of the City; and
- Managing the disposition of City property.

AMD is staffed by 33 positions organized into four sections:

Real estate services handles real property acquisitions, title services to determine ownership, appraisal services to determine value, negotiation with property ownership, and relocation of residential owners and tenants, and business and non-profit organizations on City acquired property.

Leasing/property management handles the leasing of City-owned facilities as well as public and private facilities for City purposes, manages all lease negotiations, and manages the disposition of City property.

Tenant services reviews City department requests for additional space requirements, determines the funds needed to cover the costs associated with the new space requested, and initiates the site selection process.

Portfolio management maintains the Building Book listing all City-owned, Council-controlled facilities, the Asset Management System (a database of facility drawings, photos, etc.), and the automated utility bill payment and consumption analysis system.

In 2003, the Controller's Office issued three reports related to GSD's asset management activities.

- *The Performance Audit of the Asset Management Division, General Services Department* issued August 20, 2003, examined AMD's activities in managing the City's real properties. The audit contained 14 recommendations.
- *The Financial and Compliance Audit of the Department of General Services Sale of Surplus Properties* issued October 22, 2003 examined AMD's compliance with the City's rules for the sale of surplus properties. The audit contained nine recommendations.
- *The Financial and Compliance Audit of the Department of General Services Lease Expenditures* issued November 7, 2003 reported on GSD's actions in response to a Council motion regarding a parking lot lease. The audit contained two recommendations

The audits disclosed that the City lacked a strategy to guide asset management decisions. There were no broad guiding principles to guide decisions such as when to lease, build or buy office space for City operations or how the Los Angeles Mall or surplus property could be used to optimize the City's revenues or benefit the public. It was also noted that the City did not have a complete inventory of its real estate portfolio. Lastly, AMD's procedures for selling surplus properties were time-consuming and not all surplus property was identified. The audits included a total of 25 recommendations to develop a strategy for managing the City's real estate, improve the City's real property data, and expedite the potential use or sale of City-owned, Council-controlled parcels.

Subsequent to the Performance Audit of AMD, the Controller's Office contracted with KH Consulting to assist the City in developing a strategy for effective management and use of the City's real estate assets. The report, "A Vision and Strategy for the City's Real Estate" was issued July 15, 2004. The overall intent of this report was to assist City leaders in establishing a new approach to promote better decision-making, streamline the implementation of strategic decisions, improve the maintenance of City properties, and ensure the effective use of the City's real estate assets.

Scope, Objective and Methodology

The objective of this follow-up review was to evaluate the adequacy and effectiveness of actions taken by management relative to the findings and recommendations noted in the three prior audits. We focused our review on the 18 recommendations that were ranked as either urgent or necessary. Our audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from fiscal years 2003-04 through 2006-07. In performing our audit, we interviewed AMD management and staff; observed procedures; reviewed applicable regulations, policies

and procedures; and tested a small sample of surplus sales transactions. Fieldwork was conducted from October 2007 through January 2008.

We determined that GSD has fully implemented 5 recommendations. We determined the remaining 13 recommendations are partially implemented or in progress. The following sections discuss the audit areas with recommendations that are not fully implemented. Attachments 1 through 3 provide a listing of each of the 18 recommendations evaluated, along with the status of each recommendation. In evaluating management's actions, we also considered how GSD utilized the suggestions from the Vision and Strategy report to improve the management of the City's real estate assets.

SECTION I: ASSET MANAGEMENT DIVISION PERFORMANCE

GSD's Asset Management Division is responsible for managing the City's real estate assets to ensure that they are utilized in a way to maximize the net value of the City's real estate portfolio. AMD buys, sells and leases City property, including determining when it is cost effective to lease, build or buy space for City operations. AMD also acts as the City's landlord and negotiates leases with outside organizations to use City owned-facilities.

The 2003 audit found that AMD adequately handled individual real estate transactions but did not focus on the broader strategic perspective of managing the City's real estate assets.

Our follow-up audit found that the City still lacks an overall strategy for managing the City's real estate assets which would facilitate decision making by City leaders and enable AMD to be more effective in carrying out its responsibilities.

Prior Recommendation #1: AMD should develop option papers addressing financial, operational and policy implications for Municipal Facilities Commission (MFC), Mayoral and City Council consideration that facilitate coherent, planned decisions.

- a. These option papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.**
- b. AMD should work with the MFC, Mayor and the City Council to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.**

Current Status: In Progress

The 2003 audit revealed that AMD's asset management approach was geared toward handling individual transactions related to property acquisition, sales, leases, etc. Concentrating on specific procedures to be followed lessened its ability to focus on policy and strategy development. The audit noted that AMD did not assert itself effectively into the policy-making process, except as individual transactions are proposed.

While AMD is responsible for managing the City's real estate portfolio, ultimate decision-making rests with the Mayor and City Council. The Vision and Strategy report identified that City leaders made decisions as individual property transactions occurred and not in the context of an overall strategy. In order to effectively administer its real

property assets, the report recommended that the City adopt an overall strategy and policy direction, addressing four key areas:

1. Establish guiding principles for property decisions supported by the Mayor and City Council;
2. Implement a strategic property management approach to City-owned real property;
3. Focus elected City decision makers on real property strategic and policy issues; and
4. Maximize financial value of or return on properties.

The intent of the prior audit recommendations and the Vision and Strategy report was to urge AMD to take the lead in creating a City strategy that would guide City leadership in making decisions about acquiring, disposing and maintaining real property assets. While AMD has taken steps to address the recommendations, the City still does not have agreed-upon guiding principles that would constitute a comprehensive real property strategy.

According to GSD management, the March 1996 Office Facilities Master Plan serves as the City's 20-year real estate strategy. The Master Plan sets the guiding principles for ensuring the City occupies space that supports providing municipal services and houses City employees effectively to the benefit of the City's constituents. The Master Plan also identified the need for a property database to track the City's vacant and occupied office space; provided a methodology for defining the City's office space needs; established the basis for lease versus ownership analysis; and recommended short and long-term solutions for meeting space requirements. The Master Plan helps guide GSD's and the City's decisions for managing municipal facilities valued at over \$1 billion.

In 2002, GSD management proposed a five-year plan to restore the integrity of the Los Angeles Mall as a City asset and address the viability of the Mall and its tenants. GSD sought funding to address deferred maintenance needs and to obtain a management/market analysis to improve Mall operations. Funding was not approved. GSD indicated that the Department does not have authority or control over the Los Angeles Mall; City leadership determines how the Mall will be utilized.

While the Office Facilities Master Plan contains a detailed approach to guiding decisions for determining facility needs for City services and staff, it includes little discussion related to other components of the City's real estate portfolio – surplus properties and the Los Angeles Mall. For example, in the 70+ page Master Plan document, there are three sentences discussing surplus properties, which recommend that surplus properties “should be identified and included in the property database and managed or sold as part of the overall portfolio management effort.” Additionally, except for

considering the Los Angeles Mall as viable office space for City services, there is no discussion of a long-term strategy for the Mall.

GSD management indicated that the Master Plan is currently being updated and will include the City's strategic vision and guiding principles for City real estate, including an updated Los Angeles Mall Marketing and Operations Plan and Surplus Property Disposition Policy and Plan. However, it was not available for auditors' review. GSD intends to complete the draft in March 2008.

Since the 2003 audit, AMD developed several policies, namely, a Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposal of City Property and a Non-profit Leasing Policy for City leaders to consider as decision-making guidelines. However, the policies lack City approval which would help to demonstrate the direction City leaders want to take.

Barriers to Implementation

Complete implementation of this recommendation requires City leadership to reach a consensus on the strategy for managing the City's real estate portfolio.

Prior Recommendation #6: AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.

Current Status: Partially Implemented

The 2003 audit noted that AMD did not prepare or review regular reports indicating, at a minimum, the status of: expiring leases and lease concentration, month-to-month leases, including the estimated net cost to the City of continuing the leases, owned building deferred maintenance, and the status of non-profit leases.

AMD management indicated they work closely with the Mayor's Office, Council Committees, MFC and the Chief Legislative Analyst (CLA) on lease expenditures, surplus property, property acquisition, deferred maintenance and other policy issues.

We also found that AMD prepares some periodic reports to the MFC or Office of the City Administrative Officer (CAO) relative to the City's lease expenditures, and revenue from leased and sold properties. However, these individual reports do not provide an overall picture of the City's real estate portfolio, such as the status of the surplus property inventory, status of expiring leases, City-owned building deferred maintenance, etc. It is important that the City's decision-makers, starting with the MFC, are regularly updated on the entire real estate portfolio so that decisions can be made in the context of the portfolio and the strategic framework. An overall status of property management efforts will also help ensure AMD's efforts are aligned with its goals and the City's vision and strategy. According to GSD, the MFC does not want numerous reports with exhaustive details.

Prior Recommendation #8: AMD should set up a separate unit to handle planning and reporting functions.

Current Status: Partially Implemented

The 2003 audit noted that AMD staff devoted time to managing transactions while little time was spent on planning and strategic development. Strategic planning is critical for effective asset management and requires the commitment of staff time. To help ensure AMD could meet that commitment, the audit recommended AMD establish a separate planning and reporting unit.

During the FY 2004-05 budget cycle, AMD requested funding to staff a dedicated Planning Section to address this and other key recommendations. However, the requested budget increase was not approved. As a result, AMD continues to address the audit's findings with their existing resources. An informal planning group comprised of the Division's Director, Deputy Director, and Section Managers meets bi-weekly to discuss AMD operations. In addition, AMD utilizes professional consultants for specific tasks, such as benchmarking projects, market studies, cost benefit analyses and advisory services. Since the initial effort, AMD has not formally requested additional resources to create new sections or augment existing staff.

AMD's efforts to use existing staff, who have operational responsibilities, for planning has not resulted in a City vision and strategy for managing real estate assets or regular distribution of comprehensive, informative reports on the overall status of the City's real estate. If the City does not support funding a separate planning and reporting unit, AMD should create an alternative way to build on the suggestions made in the Vision and Strategy report, to provide the City with a comprehensive plan for asset management, and regularly report on the status of their efforts.

Prior Recommendation #9: AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.

Current Status: Partially Implemented

The 2003 audit revealed that the City's asset management processes were complex and time-consuming, involved more decision-makers than just AMD, and lacked formally defined procedures and direction. The audit recommended that AMD seek broader transaction authority, and re-design its processes, starting with surplus property disposal.

We found that AMD took steps to implement the recommendation. For example, in 2005, AMD proposed the "Own a Piece of LA" program to expedite the disposal of surplus properties that are classified as "sliver" or "remnant" parcels by selling them to adjacent property owners. In November 2007, the Mayor's Office directed GSD to

proceed with the program. However, MFC and City Council approval are still needed. Since this program has not been given final approval by all necessary parties, the intent of the recommendation has not been fully implemented.

AMD also developed the Surplus Property Disposition Program to identify potential use and/or sale of Council-controlled surplus properties, "blocker lots" and sliver/remnant parcels. The intent of the program was to obtain blanket authority to sell Council-Controlled surplus property and eliminate the need for individual Council actions for each parcel proposed for sale. All identified surplus properties would be grouped together in one Council motion to obtain sales authority. Mayor's Office staff indicated support for the program but it was not approved by the City Council. AMD management indicated that there is a lack of support from the Information Technology and General Services Committee Chair (ITGS), MFC Chair and other City department general managers to give sole authority to AMD to determine the disposition of surplus properties. None of these parties, who are currently part of the decision-making process, wanted to restrict their ability to approve or deny the disposal of any Council-controlled surplus property.

The 2004 Vision and Strategy report highlighted the need for elected policymakers to focus on real property strategic and policy issues. By establishing the City's framework for managing real estate, City leaders could delegate certain transaction decisions to AMD. Specific policies should be proposed and formally approved to further establish the intent of policymakers and ensure that AMD carries out their delegated authority as intended.

Overall, time-consuming reviews still exist, and property disposition decisions must be cleared through multiple channels - City departments, City Attorney, Municipal Facilities Committee (MFC), Information Technology and General Services Committee (ITGS), Mayor's Office and City Council. We noted that sales of surplus properties that occurred in FYs 2005-2007 took one to two years to complete.

Barriers to Implementation

As noted, AMD has made attempts to implement this recommendation. However, implementation is contingent on City leadership giving more authority to GSD to proceed with certain real property transactions, such as surplus property disposal. Until the City allows GSD more discretion in carrying out its responsibilities, this recommendation will not be fully implemented.

Prior Recommendation #10: AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.

Current Status: Partially Implemented

The 2003 audit recommended that AMD work with other GSD units and the Proprietary Departments (Los Angeles World Airports, Harbor, and Department of Water and Power) to obtain information on all City-owned property and maintain the information in

a comprehensive database. The Vision and Strategy report also cited the need for a complete citywide property database to facilitate planning, maintenance and operational decisions.

A citywide database still does not exist and efforts to develop and implement such a system have been temporarily discontinued.

GSD received property information from the Proprietary Departments beginning in 2003 to 2005. However, the data was incomplete as it lacked sufficient information to clearly identify the property for AMD's needs. As a result, GSD did not add any of the information into its existing database. According to AMD management, a considerable amount of staff time would be required to research and determine what information is necessary to complete the database. Due to insufficient resources to complete this work, no further steps were taken. GSD management also indicated that property managed by DWP, Airports and Harbor is not under the control of the City but controlled by the PUC, FAA, and State Tidelands Act, respectively. Therefore, including this property in a citywide database would not facilitate real property asset management decisions that are under the purview of the Mayor and City Council. Each Proprietary department could provide information from their separately maintained databases. Further, GSD management does not agree that Proprietary Departments' properties should be included in the database since the Charter restricts authority over these properties to the respective Proprietary Department.

GSD implemented a new Building Management System (BMS) for Building Maintenance. Implementation of Phase II of this project will include the Construction Forces and the Asset Management Divisions. BMS is intended to include a comprehensive inventory of City-owned properties and consolidate most information currently maintained by separate units within GSD and other City departments.

The intent of the recommendation was to ensure the City had ready access to all City real estate. It was noted that ad hoc reports requested by City Council related to the Proprietary Departments' property required extensive work to consolidate information. A single, comprehensive source for the City's real estate inventory could allow for informative reports to be routinely generated for City officials. The 1996 Office Facilities Master Plan also cited the preference for a Citywide property database that included the Proprietary Departments' property.

Barriers to Implementation

Meeting the intent of the recommendation requires the Proprietary Departments to have compatible information systems with GSD so that data can be readily transferred. An alternative solution requires significant staff time of GSD and the Proprietary Departments to resolve data problems with previously provided information.

Prior Recommendation #11: AMD supervisory staff should monitor security of the Lease Information System by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.

Current Status: Partially Implemented

AMD's Lease Information System (LIS) maintains information on all the City's leases, both where the City is the landlord or tenant. The database is password protected. However, the prior audit noted there are many users who can make any change to LIS and there were no logs of data changes to help monitor whether the changes were appropriate and authorized. In addition to data security issues, the prior audit also noted that the database was incomplete. Leases with non-profit organizations where no rent was charged were not included in LIS.

We found that payment and billing data on LIS are only accessible by AMD's Accounting Clerk, and all staff that make changes to LIS are required to enter their name and the date the revision was made. However, LIS cannot generate a report of all data changes to facilitate management's review for appropriateness and there is no manual log used as an alternative control to track all data changes. AMD management stated that LIS has separate manual logs, however, we noted that the logs contain information only related to payment activity and do not record all data changes that made to LIS.

LIS does not include non-profit leases or other real property leases that are managed by other City departments. For example, LIS does not contain information for leases under the purview of the Community Development Department (CDD), Cultural Affairs Department, Recreation and Parks, El Pueblo, and the Proprietary Departments. AMD management indicated that non-profit leases have specialized terms and conditions and should not be part of LIS data. Maintaining a separate database for non-profit leases is acceptable; however, AMD should pursue obtaining lease information from other City departments to ensure LIS is a complete database of the City's leases.

Prior Recommendation #12: AMD should develop additional outcome-based and process time measurements to improve workload management and staff productivity.

Current Status: Partially Implemented

The 2003 audit revealed that AMD measured performance through workload indicators rather than expected outcomes. The workload indicators were limited in scope and not helpful in assessing process effectiveness or managing and prioritizing work.

AMD Section Managers use biweekly status reports to monitor staff activities. These reports provide a current status of assigned tasks and related due dates, to help manage workload and staff productivity.

According to AMD's Director, it is difficult to measure or quantify the amount of time needed to conduct and complete a particular process (i.e., lease negotiation, surplus property sales, property acquisitions, etc.). He stated that AMD's processes are very fluid and vary for each task and project, which affects time requirements. He believes AMD has developed and implemented sufficient outcome-based and process time measurements.

Outcome-based measurements should be driven by the City's overall strategy for real estate management, which would clearly identify the City's priorities and define AMD's goals. For example, if an agreed-upon citywide strategy was to dispose of all surplus property, an outcome measure would be to reduce the inventory by a certain percentage annually. However, without an agreed upon citywide real estate strategy for surplus property, it is difficult for AMD to establish a plan to meet specific goals.

SECTION II: SALE OF SURPLUS PROPERTIES

Surplus Property is excess property formally designated by the City Council as real estate that is no longer required for City or public use, and can be sold subject to the limitations prescribed in the City Charter and Administrative Code¹. Real property must go through several clearance and approval processes even before the City Council considers a surplus designation. These include verifying City ownership, sending written notification to other governmental entities, obtaining an appraisal, obtaining approval from the Bureau of Engineering, Planning Department and CAO. Surplus properties are disposed of either through direct sale or public auction. The responsibility of selling surplus properties rests with AMD.

Our follow-up audit found that the sale of surplus properties identified as “marketable” is not aggressively pursued. GSD lacks complete and accurate information of its surplus property inventory and required processes, while streamlined, take one to two years to complete the sales. The surplus property sales process continues to require a great amount of time for interdepartmental coordination, clearance and approval of transactions, and obtaining the many approvals from various City decision-makers. Overall, it is still a very cumbersome and lengthy process.

Prior Recommendation #1: GSD should identify and prioritize the City’s vacant properties that are marketable and aggressively initiate a program to pursue their sale.

Current Status: Partially implemented

The 2003 audit noted that GSD had sold only nine properties during FY 2001-02 for \$3.6 million. The audit concluded that GSD had not identified or prioritized marketable surplus properties and did not aggressively pursue their sale.

Our follow-up audit found that GSD has identified marketable surplus properties and has taken some steps to prioritize the sales. GSD has identified which parcels are candidates for affordable housing, open space, parks, commercial development, slivers and remnants, and blocker lots. In compliance with State Code², surplus properties must first be considered for affordable housing, recreation and parks, open space, or for planning development near transit stations. Properties that are not identified for those purposes are prioritized by AMD as either General Fund or Special Fund. General Fund surplus properties that have not been reserved by a Council Office are given the highest priority for sale to assist in providing immediate revenue to the General Fund.

¹ Section 385 of the City Charter and Division 7, Chapter 1, Article 4 of the Los Angeles Administrative Code outline the provisions for the sale of the City’s surplus real property.

² California Government Code Sections 54220-54232.

For General Fund properties, the Los Angeles Administrative Code stipulates that 50% of the net sales proceeds be deposited in the applicable Council District Real Property Trust Fund while the remaining 50% is deposited into the General Fund.³ For properties that were acquired using special funds such as Gas Tax, Special Parking Revenue Trust Fund, etc., sales proceeds must be repaid to those sources. Beyond prioritizing all General Fund properties, AMD has not further defined the order of sale for prioritized properties.

AMD's marketing efforts for selling surplus property depend on the method of disposition – either through public auction or direct sale. Direct sales are only available to the adjoining property owner (whose property shares a common boundary with the City parcel being sold). AMD does not need to market the property since the buyer is already known. For public auctions, AMD advertises the sale in local newspapers and on the City's website, and also conducts "Open House" events for potential buyers.

The prior audit noted that GSD had sold 9 properties for \$3.6 million during one fiscal year. Since then, there has been little increase in the number of annual sales, as shown in the Table below based on GSD's reports.

Fiscal Year	Actual # of Properties Sold	Total Net Proceeds⁴	Net Proceeds - General Fund⁵	Net Proceeds - Council District⁵	Net Proceeds - Special Fund
2004-2005	10	\$ 2,881,234	\$ 25,042	\$ 22,542	\$ 2,833,650
2005-2006	5	\$ 5,214,626	\$ 120,626	\$ 94,000	\$ 5,000,000
2006-2007	12	\$ 2,479,113	\$ 879,182	\$ 879,182	\$ 1,447,393 ⁶
Grand Total	27	\$10,574,973	\$ 1,024,850	\$ 995,724	\$ 9,281,043

If the number of surplus property sales continues at this average rate, it would take approximately 35 years to sell the 315 properties currently identified as surplus for the General Fund and Special Funds.

According to GSD management, the Surplus Property Disposition Plan, which is pending Mayor and City Council approval, will enable the AMD to sell all marketable properties in the City's database within 3 years.

Designing and implementing an aggressive surplus sales program requires support by the City Council. In October 2006, the Mayor's Office attempted to get each Councilmember to identify properties located in their district that could be sold from a total of 257 parcels Citywide. AMD management indicated that none of the Council

³ Except 100% of the net proceeds for property located in the Venice area are deposited into the Venice Area Surplus Real Property Trust Fund.

⁴ Total Net Proceeds = Amount collected less 3rd party cost of sale

⁵ Net proceeds to General Fund & Council District are generally split 50-50.

⁶ Includes one property valued at \$790,000 that was a grant deed conveyance.

Offices cleared the properties for sale. Per AMD, some of the reasons noted by Councilmembers for “reserving” properties include needing additional time to consider how the properties could benefit their constituents. Some Councilmembers indicated there is a potential for working with developers to utilize the land to benefit the residents within their district, and some had questions about the marketability of hillside properties with potential liability issues.

The Mayor’s Office is currently working with some Council Offices to identify parcels that may be sold for open space. Setting aside these properties and foregoing the potential revenue does not require a formal written response from Councilmembers or formal Council action.

If the intent of City officials is to dispose of properties that are not earmarked for affordable housing, recreation and parks, or public transit needs, the City must prioritize the sales process, and re-consider reserving properties for potential development initiated by a Council Office. If the intent is to hold onto properties for future development, there should be some indication of developers’ interest or timeframe for doing so.

Barriers to Implementation

Complete implementation of this recommendation requires City leadership to reach a consensus on the strategy for managing the City’s real estate portfolio and formal approval of various items proposed to assist in expediting the disposition of surplus property, such as the Surplus Property Disposition Program and “Own a Piece of L.A.” Program.

Prior Recommendation #2: GSD should maintain complete and accurate information in its Surplus Property Inventory List, in order to manage said properties properly.

Current Status: Partially implemented

The 2003 audit disclosed that AMD’s Surplus Property Inventory List was inaccurate, and did not identify which properties are marketable or classified as remnants, sliver parcels, easements or properties considered to have insignificant dollar values.

Based on our review, the Comprehensive Updated Surplus List has errors or is missing information. Our review noted these examples:

- Sliver, remnants, and easements are not included on the Surplus List. According to AMD, these types of properties do not have significant dollar value, are not considered “marketable”, and are maintained on a separate property list.

- Assessor's Parcel Numbers (APN) were missing or incomplete for two surplus properties that were sold. According to GSD, the APN could be incomplete because the "property" is part of a street or is not an individual parcel.
- Sold properties were still listed on the inventory. We identified two surplus properties that sold in FY 2006-07, but were still listed on the Comprehensive Updated Surplus List as of October 2007, with no designation as having been sold.
- Formula errors in calculating the total appraised value of potential surplus properties by respective agency (LAHD, RAP, and Council District) by Council District. There are also formula errors in calculating the total appraised values for "Reserved", "Rejected", and "Undecided" properties by Council District.
- Inconsistencies in identifying potential surplus properties as "reserved". GSD maintains a complete listing of all potential surplus property and subsidiary lists of properties reserved by LAHD, RAP, and Council Districts 5 and 11. There are also subsidiary lists for General Fund properties and unreserved properties, which would include General Fund and Special Fund parcels. In one case, a property was noted as reserved on the complete listing but was also included on the unreserved property list. We noted two other properties that were noted as reserved by LAHD and RAP but neither property appeared on the respective reserved lists.

In addition, our detailed testwork on five surplus property sales that occurred in FY 2006-07 for General Fund properties found that for two of the sales, the 50% allocation of net proceeds were credited to the wrong Council District Real Property Trust Fund. The errors were subsequently corrected; however, this finding identified a weakness in confirming that accounting documents and entries are prepared correctly.

To ensure that the surplus property information is complete and accurate and to promote proper oversight and effective management of surplus properties, supervisory reviews should be documented and completed on a consistent, timely basis. Actions should be taken immediately to identify and correct any discrepancies noted.

Prior Recommendation #4b: GSD should review and evaluate the required processes on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.

Current Status: Partially implemented

Prior Recommendation #4c: GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as the

Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.

Current Status: Partially implemented

Prior Recommendation #4d: GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.

Current Status: Partially implemented

The 2003 audit revealed that surplus property sales were not processed and completed efficiently and timely, and therefore delayed the availability of additional revenues for City programs. Sales took two and one-half years from start to final disposition.

Our follow-up audit noted that surplus property sales processes were reviewed by GSD, along with the Mayor's Office, approximately two years ago. Streamlining improvements that were considered included creating and establishing a monetary threshold where GSD would not be required to request City Council approval for sales. The City's Administrative Code was reviewed to determine whether any changes could be made, but during informal discussions, Councilmembers indicated they preferred to review and approve all surplus property sales, regardless of a property's monetary value.

GSD indicated the surplus property sales process has been streamlined from 32 to 18 steps. Our testwork found that the timeframe for sales was one to two years. We found there are still opportunities for AMD to reduce the time it takes to complete a surplus sale. In one example, an adjacent property owner expressed interest in a property, but three months went by before AMD requested the environmental clearance from the City's Bureau of Engineering (BOE). AMD indicated that the three-month delay was due to awaiting the property being vacated by the City. This was not documented on the Surplus Property Checklist. In this same case, another seven months lapsed between BOE's report and AMD requesting comments and recommendations from the City's Planning Department. AMD indicated that assigned staff had extended sick leave and they were short staffed during this time which resulted in some time lags.

In another example, approximately four months lapsed between the receipt of a BOE environmental clearance report and AMD requesting comments and recommendations from the City's Planning Department. An assessor parcel map and environmental clearance report are normally submitted with AMD's written request to the Planning Department for comments and recommendations. AMD had both documents already available, so there was no reason to delay submitting the request to the Planning Department.

AMD uses a Surplus Property Checklist to document each step to be accomplished in the sales process, along with the dates completed. We noted that some of the

checklists were incomplete. Also, the procedures are numbered, but do not reflect the sequence of events/steps that need to be followed. The Checklist can be improved by organizing the steps to follow the appropriate process order. Management should also ensure the checklists are filled out completely. These tools would then help identify where time lags are occurring and prompt corrective actions.

Prior Recommendation #4e: Develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.

Current Status: Partially implemented

The 2003 audit found that GSD lacked formal written policies and procedures for processing surplus property sales. GSD staff did not have guidelines for conducting day-to-day operations, and therefore GSD's processing of surplus property sales may not have been consistent with the controls that management intended or expected.

We noted that various policies and procedures have been developed and approved or are currently awaiting approval. Examples of policies and guidelines include the following:

- Surplus Property Sale Procedures Checklist used for Direct Sale, Adjoining Owner Auction, Public Auction;
- "Own a Piece of LA" Program;
- Comprehensive Policy on Real Estate Acquisitions, Leasing, and Disposal of City Property; and,
- Mayor's Executive Directive GU-1 - City-owned Surplus Property Policy

Other program and policy guidelines have been developed and are awaiting MFC and Council approval as noted in Section I.

AMD utilizes their Surplus Property Sale Procedures Checklist as their guide in conducting day-to-day operations in processing surplus property sales and periodically utilizes this checklist to train new staff. Although the procedures on the Surplus Property Sale Procedures Checklist are numbered, it does not reflect the sequence of events that need to be followed or the order in which procedures are actually performed. AMD management indicated that the sequence of procedures may change given a particular property.

The lack of developing and incorporating formal, written, policies and procedures into AMD's daily operations creates the potential for management's intent and expectations

(controls, objectives, goals, etc.) to be miscommunicated and misunderstood by AMD staff and result in inconsistencies in the processing of surplus property sales.

Once policies and procedures are approved, GSD should incorporate the documents into an organized, comprehensive policies and procedures manual. The manual should be readily accessible by AMD staff and utilized as a guideline in conducting daily responsibilities to ensure consistency in processing surplus property sales.

Barriers to Implementation

Complete implementation of this recommendation requires GSD to establish consensus with and obtain formal approval from the MFC, Mayor and City Council, to ensure consistency with the City's overall vision and strategy for real property asset management.

Respectfully submitted,



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ASSET MANAGEMENT DIVISION PERFORMANCE IMPLEMENTATION STATUS

Reco.	Recommendation	Status	Auditor's Evaluation
1	<p>AMD should develop option papers addressing financial, operational and policy implications for MFC, Mayoral and City Council consideration that facilitate coherent, planned decisions.</p> <p>These papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.</p> <p>AMD should work with the MFC, Mayor and the City Council to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.</p>	In progress	<p>The City has not developed an agreed upon vision and strategy for decision-making, planning and prioritizing their efforts for managing the City's assets. However, GSD is updating the 1996 Office Facilities Master Plan which will include a proposed vision and strategy for real property asset management including an updated Mall Operations and Marketing Plan. AMD also developed several policies since 2003: Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposal of City Property and a Non-profit Leasing Policy. The policies require Mayor and City Council approval.</p>
3	<p>AMD should propose an extension of the reach of the policy regarding leasing to non-profit organizations to cover all non-profit tenants in the City.</p>	Implemented	<p>AMD developed and proposed an amended non-profit leasing policy to City Council for review and approval.</p>
6	<p>AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.</p>	Partially implemented	<p>AMD prepares some periodic reports although the reports do not specifically address the overall status of real property management.</p>
8	<p>AMD should set up a separate unit to handle planning and reporting functions.</p>	Partially implemented	<p>AMD requested a budget increase during FY2004-05 which was not approved. AMD continues to operate with existing limited resources. An overall asset management strategy has not been adopted by the City and comprehensive, informative reports are not available.</p>
9	<p>AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.</p>	Partially implemented	<p>AMD sought broader authority. However, time-consuming reviews still exist and decisions must continue to be cleared through multiple channels.</p>
10	<p>AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.</p>	Partially implemented	<p>Data and system compatibility issues prevented merging of Proprietary departments' property information with GSD's system.</p>
11	<p>AMD supervisory staff should monitor security of LIS by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.</p>	Partially implemented	<p>Changes affecting payment activity are reported. However, no reports have been designed or implemented to assist in monitoring system security for all data changes.</p>
12	<p>AMD should develop additional outcome-based and process time measurements to improve workload management and staff productivity.</p>	Partially implemented	<p>Performance measurements have been developed to monitor workload and productivity. However, outcome measures need to be driven by an agreed upon Citywide vision and strategy.</p>

SALE OF SURPLUS PROPERTIES IMPLEMENTATION STATUS

Reco.	Recommendation	Status	Auditor's Evaluation
1	Identify and prioritize the City's vacant properties that are marketable and aggressively initiate a program to pursue their sale.	Partially implemented	AMD has identified and partially prioritized surplus properties. An aggressive sales program requires support from City leaders.
2	GSD should maintain complete and accurate information in its Surplus Property Inventory List, in order to manage said properties properly.	Partially implemented	AMD's Surplus Property Inventory Lists has some incomplete and inaccurate data.
3	GSD should provide adequate oversight to ensure compliance with provisions of Administrative Code 7.22(d), the requirement to obtain CAO's review and recommendation on the propriety of the direct sale of surplus properties.	Implemented	Surplus property sales files reviewed during testwork met the provisions of Admin. Code 7.22(d). CAO review and recommendation was obtained for the proposed direct sales of City-owned property.
4a	GSD should provide adequate oversight to ensure that current and/or updated appraisal reports are obtained prior to the sale of surplus properties to protect the City's best interests.	Implemented	Three surplus property sales sampled from fiscal years 2004-2007 included documentation of updated appraisal reports; these reports were obtained prior to the actual sale.
4b	GSD should review and evaluate the required processes on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.	Partially implemented	Surplus property sales processes were reviewed by GSD and steps were simplified. However, surplus sales are still not completed in a timely manner. We noted examples of time lags between AMD actions that added to the overall time to complete sales.
4c	GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as the Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.	Partially implemented	Surplus property sales sampled from fiscal years 2005-2007 demonstrated that it takes 1 to 2 years for completion. We noted time lags between AMD actions.
4d	GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.	Partially implemented	Surplus property sales sampled from fiscal years 2005-2007 demonstrated that it takes 1 to 2 years for completion. Time lags were noted in AMD staff taking action.
4e	GSD should develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.	Partially implemented	Various policies and procedures have been developed and approved or are currently awaiting approval. Other program and policy guidelines are awaiting MFC and Council approval.

LEASE EXPENDITURES IMPLEMENTATION STATUS

<u>Reco.</u>	<u>Recommendation</u>	<u>Status</u>	<u>Auditor's Evaluation</u>
1a.	GSD should conduct a survey of possible alternate locations for the parking lot that would meet the parking needs of the Asphalt I operations and negotiate a lease for another location	Implemented	AMD conducted a survey during 2004 of currently available replacement sites for equipment parking within a one-mile radius of the existing site. GSD determined there were no feasible sites in the area that would accommodate parking operations.
1b.	GSD should conduct feasibility studies on leases that have been on-going for the last ten years, to determine if it would be more advantageous for the City to purchase suitable properties.	Implemented	AMD has conducted various studies and analyses of leases that have been on-going for the last 10 years to include: (1) Strategic Office Facilities Plan (Lease vs. Buy Plan) (2) Civic Center Master Plan (3) Periodic reviews of existing leases (4) Property purchase of Figueroa Plaza and Public Works Building