
PERFORMANCE AUDIT OF THE REAL ESTATE ASSETS DEPARTMENT'S PORTFOLIO MANAGEMENT PRACTICES

Opportunities Exist to Improve the City's
Real Estate Data Tracking and
Communication of the Property Portfolio

Office of the
City Auditor

City of San Diego



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THE CITY OF SAN DIEGO

July 23, 2018

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report of the Real Estate Assets Department's Portfolio Management Practices. This audit was conducted in accordance with the City Auditor's Fiscal Year 2018 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 62 of this report.

We would like to thank staff from the Real Estate Assets Department for their assistance and cooperation during this audit. All of their valuable time and efforts spent providing us information both in the office and in the field is greatly appreciated. The audit staff members responsible for this audit report are Greg Cleary, Kevin Christensen, Shawneé Pickney, and Kyle Elser.

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Results in Brief

The City of San Diego's (City) Real Estate Assets Department (READ) manages a real estate portfolio that includes more than 1,600 properties that total an estimated 123,000 acres. The real estate portfolio includes all facilities necessary to provide the basic functions of government.

The City has also been identified as one of the least affordable cities in the United States. Local leaders have declared an affordable housing state of emergency in recent years and have described the issue as "the single greatest threat to our region's economy." City leaders have contemplated the use of City surplus properties to help alleviate these issues.

For these reasons, it is critical that the City's real estate management function collect accurate information, conduct sufficient analysis, and communicate this data to decision makers in order to ensure properties in the City's portfolio are utilized most efficiently and effectively.

**READ's Centralized
Property Portfolio's
Current Use
Classification Does Not
Always Match the Use of
City Property as
Recommended by Best
Practices**

We found that information in READ's database system describing current uses of properties is not always consistent with individual department records. Specifically, we found that records provided by the Public Utilities Department (PUD) and the Parks and Recreation Department (PRD) did not always match READ's property classifications for current use. For example:

- We compared 111 properties recorded with PUD's designated use classification against READ's designated use and current use classifications and found that these classifications did not match approximately 25 percent of the time.
- We compared 126 properties managed by PRD and found that the classification of the current use did not match in 20 parcels—or 16 percent—as parcels did not fit PRD criteria for community or neighborhood parks.

We recommend that READ undertake a thorough property review process to ensure that it accurately categorizes properties in the City's portfolio. Additionally, we recommend that READ work with land-managing departments to implement procedures to ensure that changes in property uses are communicated and updated, thereby ensuring that information provided to City officials and the public is transparent and accurately reflective of the City's current use of property.

Opportunities Exist for the City to Improve Management Oversight of City Inventory by Establishing Processes or Procedures to Require Land-Managing Departments to Periodically Review Inventory

The large volume of the City's property portfolio requires that the Chief Operating Officer and READ design and implement an adequate internal control environment and sufficient control activities to ensure the appropriate documentation, maintenance, and periodic assessment of property information.

We found there is no consistent or standardized procedure related to the pre-disposition review of City-owned property within land-managing departments. The land-managing departments we reviewed do not have a documented process or timeline to review their portfolio related to the current use and need of properties.

Without guidance, departments are not required to actively review properties during a time when property is scarce and the need is great. If properties are not reassessed, properties with greater potential may not be utilized. We recommend that READ work with the Chief Operating Officer to create a policy to provide timely and accurate updates to ensure data, Citywide, is accurate.

READ is Not Presenting the Portfolio Management Plan to City Council at a Public Hearing as Recommended by Best Practices Resulting in the City Council Not Having an Opportunity to Provide Public Input Regarding the City's Comprehensive Portfolio Management Strategy

The purpose of the Portfolio Management Plan (PMP) is to enable the City's management and policy makers to have a better understanding of the City's real estate assets and how they can be best utilized to benefit the citizens of San Diego. It is critical for City leaders and the public to have an opportunity to provide input and policy direction to the City's overall property portfolio management strategy.

Council Policy 700-10, Disposition of City Owned Real Property, is the primary guidance document that outlines the procedure to present and review the future and current uses of City-owned real estate. This policy directly states that "READ shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis."

We found that READ did not present the PMP to City Council or relevant Committees at a public hearing during the scope period of our audit, ranging from 2011 to 2017. Rather, READ has distributed the PMP to City Council members and City executives via email and has posted the PMP on READ's webpage.

We recommend that READ consult with the City Attorney's Office and the City Council to determine the most appropriate channel of presenting the PMP, and clarify language in Council Policy 700-10 to ensure consistent expectations and guidelines.

**Auditor Review of
Management Response**

We made a total of 4 recommendations to address the issues identified above. Management agreed to fully implement all of these recommendations

Background

The Real Estate Assets Department (READ) manages the City of San Diego's (City) real estate portfolio and provides direction for the operations of the City's Airports Division, the City Concourse, and Stadium Operations. READ's mission is to serve the San Diego community through excellence in stewardship of the City's real estate assets.

The City owns more than 1,600 properties that total approximately 123,000 acres.¹ Its real estate portfolio includes all facilities necessary to provide the basic functions of government, such as parks, police stations, fire stations, libraries, maintenance yards, and administrative space.

According to the Fiscal Year (FY) 2018 Adopted Budget, READ budgeted 34 Full Time Equivalent employees within five divisions to manage its portfolio. READ employs more than 500 ground leases, permits, and other agreements. Based on the established objectives of this audit, we focused on the Records Management, Asset Management, and Disposition Divisions. **Exhibit 1** describes the functions of these divisions.

Exhibit 1:

READ Divisions and Responsibilities

Division	Description of Duties
Disposition Division	<ul style="list-style-type: none"> Evaluates City assets to determine which properties are essential for the City's core mission and which may be considered surplus. Oversees the disposition of surplus properties, which includes interfacing with departments about property uses, reviewing vacant property, and managing the disposition process
Records Management Division	<ul style="list-style-type: none"> Maintains accurate records of City properties.
Asset Management Division	<ul style="list-style-type: none"> Manages the City's diverse agreement portfolio of more than 500 leased properties.

Note: The U.S. General Services Administration defines surplus as property the government does not need.

Source: OCA generated based on the City of San Diego FY 2018 Adopted Budget.

¹ According to READ, 123,000 acres represents the rounded total count of acres.

**More than 10 Years Ago,
the City Received Best
Practices Methodology
to Improve the Real
Estate Assets
Department's
Operations**

In 2005, a San Diego Union-Tribune investigative article stated that City inventory was not completely accurate, citing examples of the City including previously sold properties in its property portfolio. Additionally, the Union-Tribune article alleged the City records did not include some properties in its portfolio inventory, included properties the City never owned, and included land the City was seeking to acquire.

However, in September of 2006, a consultant study was conducted to review READ's different datasets and assess the nature and magnitude of its errors. The review consisted of five data sources across READ. These datasets were compared to each other to determine if a record existed for all City-owned property and leases, and to identify inconsistencies. At the time, the study confirmed that the data sets were consistent and complete.

In 2007, the San Diego County Grand Jury (Grand Jury) found similar issues with READ's oversight and management of the City's property inventory. Notably, the Grand Jury report was issued in 2007, after the City took steps outlined later in this report to address inventory oversight and management issues. The Grand Jury credited the City with taking specific actions related to Grand Jury recommendations.

To address these inventory issues, the City procured the services of international real estate consulting firm Grubb & Ellis (G&E) to perform a review and analysis of READ's organizational structure, management practices, and business processes and operations. The intent of this study was to:

- Provide a best practice methodology based on private and governmental real estate industry standards;
- Provide performance measures for the department;
- Provide an assessment of the organization's real property management practices and provide recommendations to improve efficiency and accountability; and
- Provide a real property abstract suitable for tracking each site in the City's real estate inventory.

G&E issued its report in January 2007 and found that READ lacked the authority to properly manage the City-owned property portfolio. As part of the overhaul of READ's management and operations following the G&E report, in FY 2009, the City Council updated Council Policy 700-10 (CP 700-10), which governs the sale and leasing of City-owned real estate. In fact, the City's Office of the Independent Budget Analyst stated that most of the changes to the Council Policy "were prompted by the Grubb & Ellis study."

G&E also found that READ's software was antiquated and ineffective, and the department lacked strong leadership, resulting in an inability to produce an accurate inventory of its properties and to manage them effectively. Moreover, the G&E report found that READ's operations were reactive and that it needed a new business model. READ previously applied methods and policies to situations as they arose without a clear plan.

A major lasting impact of the study is the recommendation to implement a Portfolio Management Plan (PMP). A PMP is a comprehensive portfolio plan which should include a review of the portfolio, an operating plan for corporate property, a disposition plan for surplus property, market research to support anticipated transactions, and a request for authority to act within defined parameters. A cornerstone recommendation of the study is a presentation of the PMP to City Council on an annual basis.

READ's Software Update

As part of the effort to reorganize and modernize operations at READ, in FY 2010, the City procured a new computer-based property portfolio management application, called REPortfolio. According to READ Management, REPortfolio is now the database for all City-owned properties. The application includes ownership information and supporting records, leases, and other information pertinent to a property. The application allows READ management and staff to access information and receive notifications on key dates regarding properties.

READ management stated that between 2008 and 2010, the department undertook an extensive effort to move all property information and operations into REPortfolio.² Relevant property data in REPortfolio included:

- Site Code – the unique identifier for a parcel used in REPortfolio;
- Site Name – common name of the parcel;
- Managing Department – the department responsible for the parcel;
- Site Address – the parcel location;
- Acres – the amount of land included in each parcel;
- Current Use – the existing use of the site as documented in REPortfolio; and
- Designated Use – the parcel's use as designated by City Council.

READ Manages Different Data Sources to Track Property Portfolio

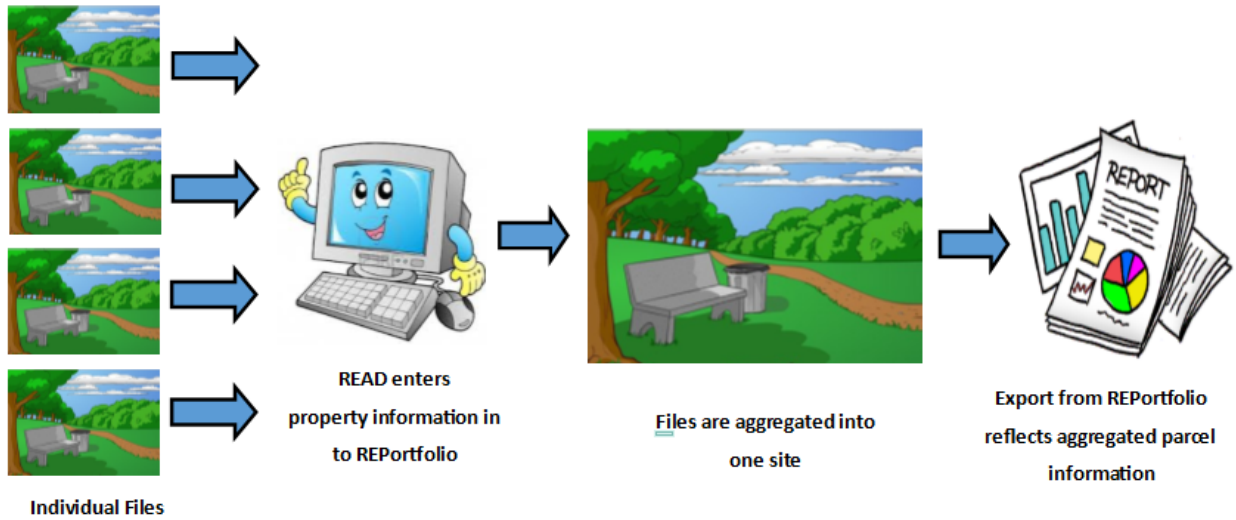
READ maintains hard files and electronic files on the City's property ownership. The property information is maintained in a database called REPortfolio. Paper property files contain documents regarding the City's acquisition of property and any documents or actions after acquisition.

When the City acquires a new property, READ sets up a paper property file and enters the information about each property into REPortfolio. Information about each individual file is entered separately because the City's ownership is tied to separate documents, such as deeds. In some instances, READ combines individual files to create one larger property use, such as a park. In these instances, READ inputs the files individually but provides the same site code to indicate consolidation of the site. For instance, Mission Bay is one site code yet is made up of numerous property files. An illustration of this process is in **Exhibit 2**.

² Prior to the implementation of REPortfolio, according to READ management, the department used a mainframe application for tracking land and leases called CORP. The conversion to REPortfolio included the conversion of both the land data and lease billing data, which required the convert agreements and billing to ensure billing for the City's leases without a gap. According to READ, this included synchronizing REPortfolio with SAP, the City's enterprise business software.

Exhibit 2:

Example of Parcels in "Sites" Aggregated to Park in REPortfolio



Source: OCA generated based on interviews with READ management.

We highlight this process because REPortfolio includes the information the City and public rely on for information about the City's property portfolio. It also supports the map of City properties on READ's webpage, which provides the public access to uses and other information about City-owned property.³ Moreover, this dataset is also used by READ to develop the PMP.

Additionally, READ maintains geographic information system (GIS) data that is sent to the GIS section of the City for upload into a Citywide property map maintained by READ on its website. READ also distributes GIS data to various departments, as needed.⁴

The Real Estate Assets Department's Internal Hold or Sell Analysis of Property Portfolio

READ takes into consideration the unique characteristics and history of a given property when making decisions regarding the status of a property. According to READ, it is in the best interest of the City to lease underutilized land and properties when possible. Typically, long term leases are most desired, but when READ sells properties, they generally return to the property tax roll.

³ READ City-owned properties available at: <http://sandiego.maps.arcgis.com/apps/webappviewer/index.html?id=7cace2f50ec7459e84acaa98345c2806> (Last visited April 30, 2018).

⁴ According to READ management, the last refresh of GIS data for the Citywide property map maintained on READ's websites was sent for upload on May 1, 2018.

As part of its internal review process, READ conducts a hold/sell analysis when determining the course of action for a given property. READ evaluates properties on a case-by-case basis, depending on the specific aspects of the land, use, location, size, and surroundings, among other aspects.

Council Policy 700-10 Guides City Review of Department Property Determinations

CP 700-10 establishes a procedure for identifying unused and marginally used City-owned real estate and provides guidance for determining whether to sell, lease, or keep property. The disposition process related to City-owned land is comprised of decisions made by various City entities, including but not limited to Real Estate Assets, Parks and Recreation, Public Utilities, and other land-managing departments. As shown in **Exhibit 3**, these three departments manage almost 100 percent of City-owned property.

Exhibit 3:

The Real Estate Assets, Parks and Recreation, and Public Utilities Departments Manage Almost 100 Percent of City-Owned Property

Department	Total Acres	% Grand Total
Parks and Recreation Department	41,396	34%
Public Utilities Department – Water	40,363	33%
Real Estates Assets Department	2,990	2%
Real Estate Assets Department – “Ocean Lands” ⁵	35,678	29%
Environmental Services Department	1,724	1%
Public Utilities Department –Wastewater	555	Less Than 1%
Transportation Storm Water Department – Streets	181	Less Than 1%
Transportation Storm Water Department – Storm Water	132	Less Than 1%
Civic San Diego	126	Less Than 1%
Police Department	63	Less Than 1%
Library Department	56	Less Than 1%
Fire-Rescue Department	51	Less Than 1%
Housing Commission	30	Less Than 1%
Grand Total	123,345	100%

Source: OCA generated based on data provided by READ.

⁵ READ is used as the default manager as Ocean Lands are not parks and the “land” extends 3-nautical miles into the ocean. Ocean Land management decisions are made on a case-by-case issue with many Departments involved, i.e. Fire & Life Safety, Parks & Recreation, etc.

The Disposition division within READ is responsible for managing the pre-disposition review and disposal of surplus City property. As part of the disposition process, READ and City departments identify potential surplus property. According to READ, staff conducts an analysis for each property deemed by City departments as non-essential to services. Prior to the disposition of surplus City-owned property, READ notifies City departments and some City staff in accordance with CP 700-10.⁶ READ gives City departments 30-days to advise READ if the property is needed for a City project or purpose. According to READ, in April 2018, it adjusted its policy and City departments have 30 days, instead of 60 days, to review the property. After the 30-day period, public agencies and entities, as required by the Surplus Land Act, are notified and given 60 days to respond.⁷

In response to READ's inquiry, departments that opt to keep a property place a hold on it for 5 years. After 5 years, if a project is not underway, READ may inquire about the property per the terms set forth in CP 700-10. If the parcel in question is no longer needed, for City or public use within the foreseeable future, the property may be considered surplus.⁸ These properties may be held, or made available for lease or sale. If READ determines to sell a property, real estate brokers may be used to assist with valuation, marketing, and sale of the property.

⁶ The notification is distributed by an email sent to more than 90 City employees including the Independent Budget Analyst and City Council Offices. When City departments express no need in the property, READ adheres to policy guidance and provides notice as by the Surplus Land Act. The Act requires READ to provide notice to other state and local agencies such as the School Districts and San Diego County, etc. As a courtesy service requested by some City Council members, READ also notifies affordable housing developers that request notice about the availability of property.

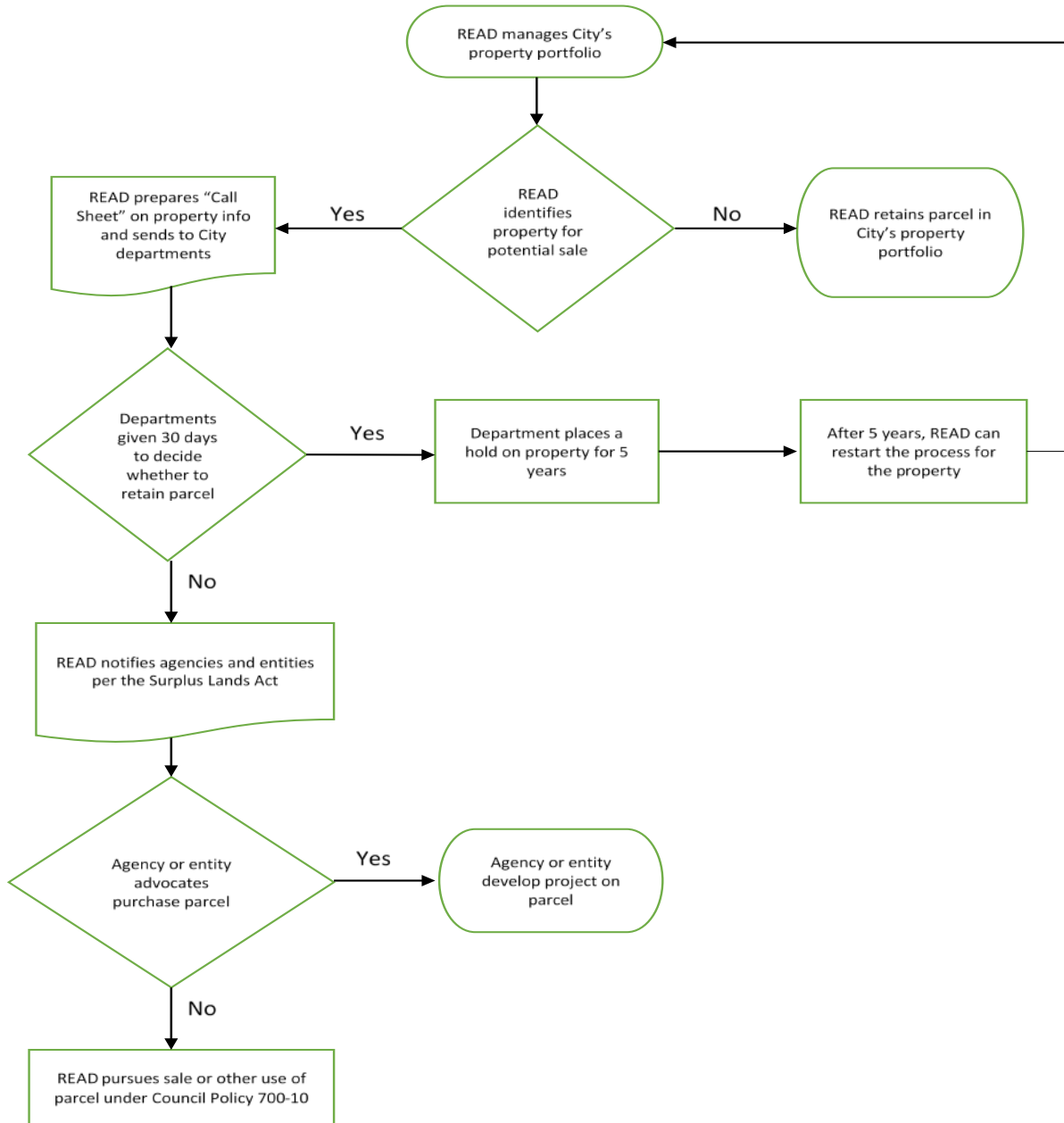
⁷ According to the Surplus Land Act, a written offer to sell or lease for the purposes identified in section 54222 shall be sent to the agencies and entities described in section 54222. This includes Housing Sponsors, as defined in section 50074 of the Health and Safety Code, and housing sponsors for the purpose of developing low-and moderate-income housing.

⁸ According to the U.S. General Services Administration, property the government does not need is considered surplus. READ applies the definition in the state law to determine if the state law is applicable and thus would require notice under the Surplus Land Act. READ notes that there are also some specific exceptions to this definition listed in Government Code §54221(e)(2) that are based on parcel size and/or access to the property, as well as the properties location etc.

According to CP 700-10, in making a determination to hold, lease, or sell, READ shall optimize the sale price or lease rates based on several factors including an appraisal reflecting market value, prevailing economic conditions, and market trends, and any special benefit the City will accrue from the sale or lease. **Exhibit 4** displays the disposition process in greater detail.

Exhibit 4:

Process For Disposition of Property



Source: OCA generated based on conversations with Real Estate Assets Division (READ) management and staff and a review of READ's policies and procedures for the disposition of property

Based on Council Policy and according to READ, when the decision to sell a given property is made, READ develops a staff report. The staff report may: 1) request Council authorization of a specific transaction (and purchase and sale agreement); or 2) request Council authorization of the sale at or above the appraised value on terms and conditions acceptable to the Mayor or his designee. The staff report is presented to the Smart Growth and Land Use Committee for initial review and then forwarded to the full Council. Committee or Council may accept, reject, or ask READ to conduct more analysis or studies. Pursuant to CP 700-10, an appraisal for the given property must be within the last six months.

Portfolio Management

Asset management requires accurate data at the property level. Decisions regarding sale or retention require valid, accurate information. Incomplete information at the property level can result in the failure of the portfolio to meet the financial and social needs and expectations of the people of San Diego. A well-developed asset management model should help local governments clarify and define the contents of their real estate portfolio, as well as to monitor and control their functional and financial performance. To manage their property assets effectively and efficiently, local government should: 1) adopt and implement policies to record relevant information; 2) regularly update property databases to include physical, operational, and financial characteristics of property holdings; and 3) implement policies outlining annual reviews and reporting.

Housing Crisis

The City has been identified as one of the least affordable cities in the United States. Local leaders have declared an affordable housing state of emergency each of the last 12 years and have described the issue as "the single greatest threat to our region's economy." Economists have estimated an annual need of about 3,500 new low-income and very low-income units per year within the City of San Diego to meet these growing needs. Given these growing needs, it is important that decision-makers and the public receive timely and accurate information about the City's property portfolio.

It is important to note that although the City owns a large amount of land, only a small fraction of these property parcels may be suitable for development of affordable housing. The vast majority of this land may not be suited for housing or development because they have other uses, or they are far too small or oddly shaped to support a housing development and in some cases, landlocked. Additionally, these parcels may not be suitable for other use because they are parks, designated for open space, water shed, reservoirs, drainage facilities, pipelines, or dedicated rights of way.⁹

⁹ According to READ management, READ was currently reviewing 650 City-owned parcels with residential zoning for purposes of affordable housing development.

Audit Results

Finding 1: READ's Centralized Property Portfolio's Current Use Classification Does Not Always Match the Use of City Property as Recommended by Best Practices

It is critical that the City of San Diego's (City) real estate management function collect accurate information and conduct sufficient analysis on its property portfolio. Maintaining accurate information about the condition and use of the City's property holdings is essential to allow decision makers to maximize the use of property and ensure transparency about the process to the public.

However, based on our review, we found that information in REPortfolio describing current uses of properties is not always consistent with individual department records. Specifically, we found that records provided by the Public Utilities Department (PUD) and the Parks and Recreation Department (PRD) did not always match Real Estate Assets Department's (READ) property classifications for current use. For example, we found some cases where READ categorized properties as community parks while these parcels were vacant or undeveloped. Furthermore, we found that READ's internal property tracking system does not match property changes made by land-managing departments.

We compared READ's property tracking practices to methods employed by other cities and counties, notably the City and County of San Francisco and the City of Seattle. These cities, driven in part by affordable housing crisis and limited resources, have implemented more frequent and detailed property review procedures. These practices aligned with the best practices we reviewed.

Inconsistencies exist between READ and department data because READ property classification criteria does not align with industry best practice or the Grubb & Ellis (G&E) best practices. Additionally, READ lacks internal controls that require communication between READ and property managing departments about changes to land parcels.

We recommend that READ undertake a thorough property review process to ensure that it accurately categorizes properties in the City's portfolio. Additionally, we recommend that READ work with land-managing departments—such as PUD and PRD—to implement procedures to ensure that changes in property uses are communicated and updated. By implementing these recommendations, READ can ensure that information provided to City officials and the public is transparent and accurately reflects the City's current use of property.

What We Found

The Real Estate Assets Department's Property Portfolio Tracking System is Not Always Updated and Not Always Reflective of the Current Use of City Properties

We found that information in READ's REPortfolio property management system describing current uses of properties is not always accurate. Specifically, we found information about the current use of properties maintained by READ does not always match with property data used by PUD and PRD. As a result, City departments have different and conflicting information on the characteristics of the City's real estate portfolio.

These mismatches prevent READ from aggregating and performing accurate assessments of the City's property portfolio. As a result, READ's published information is not always a complete and up to date reporting of the current condition of the City's property portfolio.

PUD Uses READ Data to Manage its Real Estate Portfolio

PUD oversees two major service areas that manage City-owned property: Water and Wastewater. To track and manage the department's property inventory, PUD relies on the data set provided by READ as the initial layer for their property information. Once this data is initially applied, PUD will make changes as necessary that reflect their day-to-day operations.

READ's Property Classifications are Not Always Consistent with PUD

For example, we conducted a statistical sample of 111 properties recorded in PUD's database that were larger than 0.25 acres and compared these property descriptions against READ's REPortfolio data.¹⁰ Specifically, we compared PUD's "Designated Use" classification against READ's "Designated Use" and "Current Use" classifications for these same properties. We found that these classifications did not match approximately 25 percent of the time.

¹⁰ As described in greater detail below, PUD utilized a different computer-based application to support its operations. Specifically, PUD uses a GIS-based system.

We found that READ classifies all 111 properties’ current use and designated use the same. According to READ, the “designated use” of a property indicates the property is set apart for a specific purpose, office, or duty. This designation established what the property was intended for when it was acquired or what it has been repurposed for by the City. In contrast, according to READ management, “current use” illustrates a more updated use of the property.

To that end, we found vacant parcels in our sample which is an indication that properties exist within the City’s portfolio that may be available for better use.

We also found that for 29 of 111 properties—approximately 25 percent—PUD’s site designations did not match READ’s current use characterization. The result is an inconsistent description of the property’s use. **Exhibit 5** provides examples of some of the errors.

Exhibit 5:

Examples of Mismatches between the Public Utilities Department and the Real Estate Assets Department’s Property Databases

Site Name	PUD Site Designation	READ Property Status and Designation	OCA Conclusion
2nd R/W San Vicente Pipeline	<ul style="list-style-type: none"> • Vacant 	<ul style="list-style-type: none"> • Designation-Hold for Study • Current Status- Hold for Study 	<ul style="list-style-type: none"> • Mismatch between PUD and READ Site Designation
Clear Site 441	<ul style="list-style-type: none"> • Vacant 	<ul style="list-style-type: none"> • Designation-Hold for Study • Current Status- Hold for Study 	<ul style="list-style-type: none"> • Mismatch between PUD and READ Site Designation
Clear Site 830	<ul style="list-style-type: none"> • Vacant 	<ul style="list-style-type: none"> • Designation-Sale • Current Status- Hold for Study 	<ul style="list-style-type: none"> • Mismatch between PUD and READ Site Designation

Source: OCA generated based on a comparison of a report from PUD’s GIS system and a report from REPortfolio.

READ’s Property Inventory Records Are Not Consistent with PUD’s Internal Assessment of Surplus Properties

In 2015, PUD performed a one-time review of its property portfolio to identify properties non-essential to its operations.¹¹ PUD produced a report titled, *Public Utility Department Land Assets: Non-essential Sites for Water & Wastewater System*, that identified properties PUD no longer needed and cleared for READ’s disposition. PUD identified 38 properties it no longer needed that could be sold or reallocated for another use by READ. We compared these property categories as listed in the report against the property categories assigned by READ in REPortfolio.

In reviewing the 38 properties, we found mismatches between READ’s and PUD’s property classifications. As shown in **Exhibit 6**, we found that: 1) “Site Current Use” classifications in READ’s system did not match PUD records 39 percent of the time; and 2) “Site Designated Use” classifications in READ’s system did not match PUD records 42 percent of the time.

Exhibit 6:

Comparison of Data in PUD’s Internal Assessment of Surplus Properties and REPortfolio

READ Property Inventory Category	Count	Result
Site Current Use inaccurate	15	39%
Site Designated Use inaccurate	16	42%

Note: Count is based on the assessment of 38 properties.

Source: OCA generated based on a comparison of a report from PUD’s GIS system and a report from REPortfolio.

Parks and Recreation Department Property Categories Are Often Inconsistent with READ’s REPortfolio Data

Similar to PUD, we found that information maintained by PRD is often inconsistent with property information and categories maintained by READ.

¹¹ Notably, according to PUD management, the analysis was done independent of direction from READ. PUD management stated the primary goal of the analysis was to streamline PUD operations by removing underutilized property from its oversight responsibilities.

***PRD Uses READ
Ownership Data to
Manage Its Data***

PRD oversees more than 42,000 acres of City-owned park assets, which includes about 27,000 acres of open space. It also operates and maintains recreational facilities including recreation centers, playgrounds, athletic fields, pools, and campgrounds. As discussed below, PRD has different methods for classifying property.

***READ and PRD's
Facilities Division
Inventory of Property
Acreages Are Not Always
Consistent***

In some instances, we found that READ inaccurately categorized the current use of properties as parks when the properties are either undeveloped and in some cases, have existing buildings on the property. READ identified that they categorize the designated use of the property approved by the City Council. Whereas, PRD may have a different category for their operational uses which should be consistent with the current use in REPortfolio.

We reviewed a statistical sample of 126 PRD parcels larger than 0.25 acres and found that READ categorized the current use of 20 parcels—or 16 percent—as parks that did not fit PRD criteria for community or neighborhood parks.¹² For example, we found several instances where READ labeled the current use of a parcel as a community or neighborhood park where vacant land existed with no amenities or improvements.

For example, as shown in **Exhibit 7**, READ classified Pacific Breezes Community Park site as a community park. REPortfolio lists the site's current use as a community park. The GIS data from READ's website lists the designated use of the park as a community park. However, the Google Maps image indicates the site is undeveloped and does not include typical amenities defined in the community park description, such a recreation centers, athletic fields, or play areas.

¹² **Neighborhood Parks** serve a resident population of 3,500 to 5,000 persons within approximately a one-half mile radius. Ideally, they should have a minimum useable area of five acres when located adjacent to a school or ten useable acres when not adjacent to a school. The design and type of facilities should be determined by the population and use characteristics of the neighborhood. This includes, play areas, multi-purpose fields, comfort stations, multi-purpose courts, picnic facilities, landscaping and turf areas. **Community Parks** serve a larger resident population (18,000 to 25,000 residents) within a 1-1/2 mile radius. They have larger usable acres than a Neighborhood Park (13 useable acres when adjacent to a school or 20 useable acres when not). Community Parks provide a wide range of facilities that supplement neighborhood parks with additional amenities such as such as recreation centers, and when possible and desired, swimming pools and tennis courts may be provided.

Upon further review, we found that Pacific Breezes Community Park is currently under construction, which underscores our concern about READ listing all properties' current and designated uses the same, despite the current condition of the property. Based on G&E guidance, Pacific Breezes Community Park is not currently a community park. Rather the current use of the property is under construction, or another definition indicating an analogous undeveloped status, because the project is not completed and not yet available for its intended use.

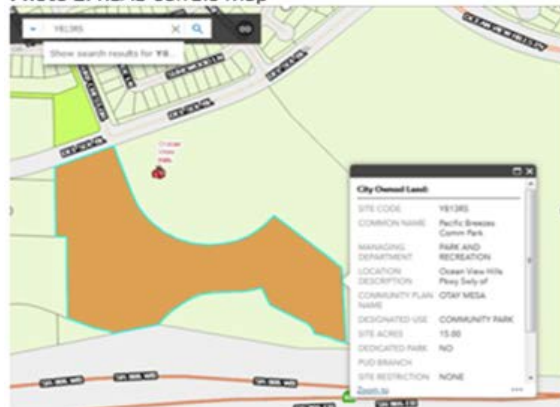
Exhibit 7:

Comparison of READ's GIS Map of Pacific Breezes Community Park and the Google Map Aerial Photo¹³

Photo 1: READ's REPortfolio Database

site_name	managing_dept	site_designated_use	site_current_use	site_acres
Pacific Breezes Park	Park & Recreation	Community Park	Community Park	15.42

Photo 2: READ SanGIS Map



↑ READ's REPortfolio database lists property as a Community Park

← READ's GIS Map lists property as a Community Park

Photo 3: Google Maps



← Google Maps indicates the site is undeveloped and would not qualify as a Community Park

Note: Pacific Breezes Community Park is also known as Cesar Solis Community Park.

Source: Real Estate Assets Department's REPortfolio data, GIS, and Google Maps.

¹³ According to Park and Recreation Department Management, Pacific Breezes Park was renamed Ceaser Solis Community Park. Notably, this name change was not reflected in READ's REPortfolio.

Additionally, we found instances in which READ labeled a parcel as a community park with buildings unrelated to the designation existing. As shown in **Exhibit 8**, READ classified the Chicano Park as a neighborhood park. The SanGIS data from READ's website lists the designated use of the park as a community park. Finally, the Google Maps image indicates the site is undeveloped and does not include typical amenities defined in the community park description, such a recreation centers, athletic fields, or play areas.

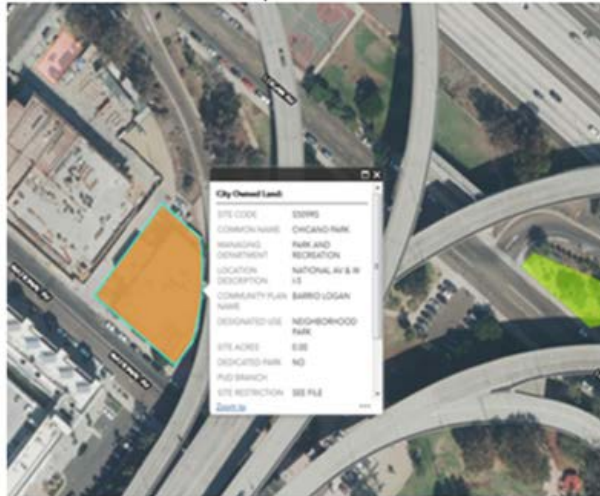
Exhibit 8:

Comparison of READ's GIS Map of Chicano Neighborhood Park and the Google Map Aerial Photo¹⁴

Photo 1: READ's REPortfolio Database

site_name	managing_dept	site_designated_use	site_current_use	site_acres
Chicano Park	Park & Recreation	Neighborhood Park	Neighborhood Park	0.36

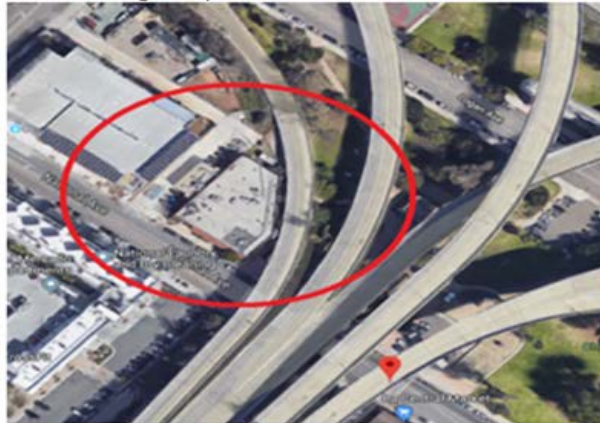
Photo 2: READ SanGIS Map



↑ READ's REPortfolio database lists property as a Neighborhood Park

← READ's GIS Map lists property as a Neighborhood Park

Photo 3: Google Maps



← Google Maps indicates the site includes existing buildings and would not qualify as a Neighborhood Park

Source: Real Estate Assets Department's REPortfolio data, GIS, and Google Maps.

¹⁴ According to READ Management, the designation of this park has been changed to a Regional Park.

While plans may exist to eventually convert these parcels, the information in REPortfolio is not an accurate reflection of the parcels' current condition to date. Moreover, READ's property categories include a designation called "site designated use," which appears to be a more accurate label indicating a planned, or future use.¹⁵ Labeling the parcel's current use as a neighborhood park in REPortfolio may be misleading.

***PRD's Open Space
Division Inventory of
Property Acreages Are
Not Always Consistent
with READ***

We also found discrepancies in the acreage totals in data maintained by READ and PRD's Open Space Division. We found the acreage amounts did not match in 20 of the 21 parcels. For example, READ accurately listed the acreage for South Bay Terraces Open Space at 15.5 acres while PRD listed the acreage as 14.8 acres. In addition, READ listed the acreage for Otay Mesa Open Space at 774.34 acres while PRD listed the acreage as 462.73 acres.¹⁶ READ's records are the official record for the parcel.

***TSW Uses READ Data to
Manage its Data***

The Transportation and Storm Water Department (TSW) oversees the City's right of way coordination, storm water, street, and transportation infrastructure. TSW's two major service areas that manage properties include the Streets and Storm Water Divisions. These divisions maintain approximately 3,000 miles of streets, 4,600 miles of sidewalks, 900 miles of storm drain pipes, and 14 storm water pump stations, respectively. The scope of our work focused mainly on TSW's Storm Water Division as it manages the largest size and number of property parcels.¹⁷

TSW's Storm Water Division, like PUD and PRD, rely on portions of READ's REPortfolio database to serve as the basis of property-related data for tracking its operations. TSW relies on this property data to establish base layers for TSW's computer-based mapping application. According to TSW management, this information is not changed or updated once uploaded.

¹⁵ The Designated Use is often related to a Council Resolution, funding restrictions, or deed restrictions that dictate the use of the parcel.

¹⁶ According to READ management, after the start of this audit, READ and PRD staff began working to implement processes to identify and correct disparities in acre amounts.

¹⁷ We eliminated TSW Streets Division properties from our review due to the acreage threshold of .25 acres for our sample and most street properties are easements, etc.

TSW Relies on READ's Database for Its Classifications of Properties

TSW management noted that many of READ's property-related categories and classifications in REPortfolio were not familiar, were not used by TSW, and likely did not accurately reflect the current use of a given site. Based on interviews with TSW staff, it performs ad hoc internal reviews of its properties. According to TSW management, it relies on internal staff to determine the most accurate information about the use of a site and the unique characteristics of the land, such as utility lines, right of way, mitigation, and numerous other factors.

We requested a download from TSW's database of all Storm Water properties it maintains.

According to TSW management, the department does not maintain a comprehensive list of all properties it manages or any updated data related to the current uses or status of properties because it relies on READ to maintain that information in REPortfolio. Moreover, TSW explained that the information in their GIS data is used for day-to-day operations and is focused more on engineering rather than as a real estate portfolio system. TSW did not provide a list of all properties it manages nor did it provide a description of its internal control processes for tracking the accuracy of the data in its parcels.¹⁸ As a result, we could not perform an analysis to determine whether the information in REPortfolio and TSW's databases matched and/or reflected the actual use of the property.

The fact that TSW relies on REPortfolio data, and the instances where we found data mismatches highlights the need for READ to develop a policy requiring land-managing departments to frequently review and communicate changes to land parcels.

¹⁸ We received a list of 35 properties that TSW tracks internally that READ initiated through the Pre-Disposition Process outlined in Council Policy 700-10.

Why This Happened

READ Does Not Consistently Apply Best Practices for Cataloging Property Inventory and Has Not Implemented Adequate Internal Controls for Periodic Reconciliation of Changes to Property Use

Currently, there is an inadequate level of data collection and analysis related to City-owned property. Throughout our review, we found that departments utilize data differently, and find value in some, but not all information related to a given parcel. As a result, departments only update and utilize the categories and indicators that are important to their day-to-day operations.

READ Does Not Consistently Use Best Practices in Cataloging Property Inventory

Inconsistencies exist between READ and department data because READ property classification criteria is not always in conformance with industry best practice or the G&E best practices. Additionally, we found a lack of internal controls requiring communication between READ and property managing departments to inform READ about changes to parcel data. As discussed above, G&E provided several recommendations to improve operations related to property inventory and classification at READ. G&E recommended the development of an overall portfolio plan, a comprehensive evaluation of the City's property, READ referred to this document as a Portfolio Management Plan (PMP). One of the keys of the PMP is "gathering information to drive continuous improvement." G&E stated that READ's goal is to collect enough information on each property that can be aggregated and analyzed to provide a big picture overview of the City's portfolio management and current position. This information should be used to create a specific strategy to maximize property use and value.

READ management stated that its staff focuses on site designated use and the acres classifications because this data is not likely to change. Second, these two data points are used by the Comptroller's Office for financial reporting.

According to READ, it does not update the current use designations with any regularity. It is assumed that the managing department will have more detailed information about the property, and they can be consulted regarding any potential uses or reuses of their property. Additionally, READ management stated this designation frequently changes, which makes it difficult to accurately track. READ management stated that

assigning a high priority to tracking this information would be an administrative burden. Additionally, READ management does not view this allocation of staff resources beneficial because READ does not use the current use category in the normal course of its duties.

Moreover, READ stated that City Council has not inquired or sought clarification of property information in the PMP, although City Council has made requests related to City-owned property unrelated to the PMP. Nevertheless, we assert that for public transparency and conformance with best practices, READ should revisit how it categorizes and maintains an accurate inventory classification database.

Finally, the City did not implement all elements of G&E's recommendations related to conducting an analysis to determine that it is maximizing the public benefit of the properties. According to READ, the current analysis is limited to labeling a property with an active designation to indicate the site is currently owned by the City. READ staff stated that the only other status designations its uses are "inactive" and "sold."¹⁹ READ management stated that conducting and updating this analysis for all properties—regardless of parcel size—would be tremendously burdensome and an inefficient use of valuable staff time.

The City Lacks a Process that Directs Land-Managing Departments to Communicate Changes in Property Information

We found that the City's land management and classification is decentralized and siloed throughout individual City departments. Land-managing departments maintain property datasets that are separate and distinct from READ's property system. The departments manage, classify, and update the property classifications based on their individual operational needs. The departments do not communicate these changes to READ because there is no guiding process or procedure.

Different Departments Manage Properties and Collect and Utilize Different Data

Property classifications do not always match in the overall property portfolio because different departments manage and/or own the properties to support specific operations. These departments have vastly different functions and operations.

¹⁹ READ categorizes properties as "inactive" when the property status has changed. For example, when a parcel designation changes to street, the parcel status is changed to inactive. READ categorizes a property as sold when the property moves through the disposition process and is no longer owned by the City.

Various departments rely on READ's property data as the first step to populate these mapping applications, or to create the first "layer" of the map with the geospatial data being available to all City departments within the Atlas GIS geodatabase. PUD uses this data layer as a starting point for creating and managing properties, but will make changes to the property data as necessary for its operational needs.

PRD also uses GIS to track properties managed by PRD and to oversee the operation and maintenance of the facilities on each property.²⁰ To create the GIS layers, PRD uses the geospatial data within the Atlas geodatabase provided by READ as a starting point. PRD staff then add information, in the form of layers, to the map describing different amenities at the parks such as playground equipment, picnic areas, athletic fields, etc.

Once the base layer is created, departments make changes to certain use designations or status designations on properties to support operation needs. However, these changes are not always communicated to READ because no guidance exists directing departments to communicate changes to property information. As a result, different classifications of properties exist in READ and managing department databases.

**READ and Land-
Managing Departments
Do Not Have a
Reconciliation Process
for Correcting
Mismatched Properties**

Between 2008 and 2010, data was exported from the old system and uploaded to the new system, REPortfolio, with the same fields and information. However, at the time, there was no concern for reviewing the property data, as no data was changing between the two systems. READ did not include a procedure for updating changes to property uses or reviewing the relevance of the entries used.

Management from both READ and the departments in our sample acknowledged inconsistencies between the property datasets. For example, according to PUD, there are mismatches in REPortfolio and there is no clear process for how mismatches should be corrected. Most of the data (e.g., columns such as "site designated use" and "site current use") in REPortfolio is not relevant for PUD's purposes. PUD explained that the "Managing Department"

²⁰ ArcGIS is a geographic information system (GIS) for working with maps and geographic information. It is used for creating and using maps, compiling geographic data, analyzing mapped information, sharing and discovering geographic information, using maps and geographic information in a range of applications, and managing geographic information in a database.

column is sometimes inaccurate and is an important indicator. READ expressed they had not been advised by PUD of such inconsistencies. In addition, there are mismatches in the designated use and current use. PUD stated the information in REPortfolio is not relevant to their day-to-day operations and, therefore, PUD does not rely on the list in conducting its operations.

Additionally, READ and the departments we interviewed acknowledged that no process exists to reconcile datasets or correct mismatches when discovered. Although they make this acknowledgement, we should note that management from PUD and PRD expressed having a positive working relationship with READ and expressed a willingness to cooperate with READ to make the necessary changes for improving the process to update information.

What Should Have Occurred

The City's Real Estate Management Function Should Collect Accurate Information and Conduct Sufficient Analysis on Its Property Portfolio

The City's real estate management function should collect accurate information and conduct sufficient analysis on its property portfolio to assure the public of the integrity of the management of these assets. The key principle is that local governments and their residents need full and concise information about the properties that the local government owns and supports.

Grubb & Ellis – Best Practices Methodology for Real Estate Assets Department

The G&E study listed a series of recommendations to improve operations at READ. G&E stated the "most significant" recommendation in its report is the development of an "overall portfolio plan, a comprehensive evaluation of the City's property." G&E referred to this document as a Portfolio Management Plan (PMP). One of the keys of the PMP is "gathering information to drive continuous improvement."

The PMP, according to G&E, should include sections providing information on the following: a summary of the portfolio overview that separates properties by classification; properties whose status has changed since the last portfolio plan; and changes in the composition of the portfolio since the last portfolio plan.

G&E stated that READ’s goal is to collect enough information on each property that can be aggregated and analyzed to provide a big picture overview of the City’s portfolio management current position. This information is used to create a specific strategy to maximize public use and benefit from use of the property. The first step in this process, according to G&E, is deploying a comprehensive information gathering and classification campaign.

READ Should Collect Accurate Information About the Condition of Properties

G&E noted that compiling an accurate list in terms of time and labor would be difficult initially, but stressed the importance of gathering up-to-date information. G&E stated the City should capture the information described in **Exhibit 9**.

Exhibit 9:

Grubb & Ellis Recommended Information Needed for Property Analysis

Category	Information included in description
Size	Acreage, square footage, capacity
Characterization of improvements	Construction type, age, quality
Physical quality	Class A, B, C (for developed land, e.g., office space)
Physical condition	Useable, in need of repair, unusable
Land quality	Geology, soils, drainage, and others depending on highest and best use of the site
Permitted uses	Community plan conformance, special district
Zoning	Conforming use for the zoning category

Source: OCA generated based on Grubb & Ellis Best Practices Methodology for Real Estate Assets Department, January 31, 2007.

READ Should Use Accurate Information to Analyze Whether Property is Used Most Efficiently

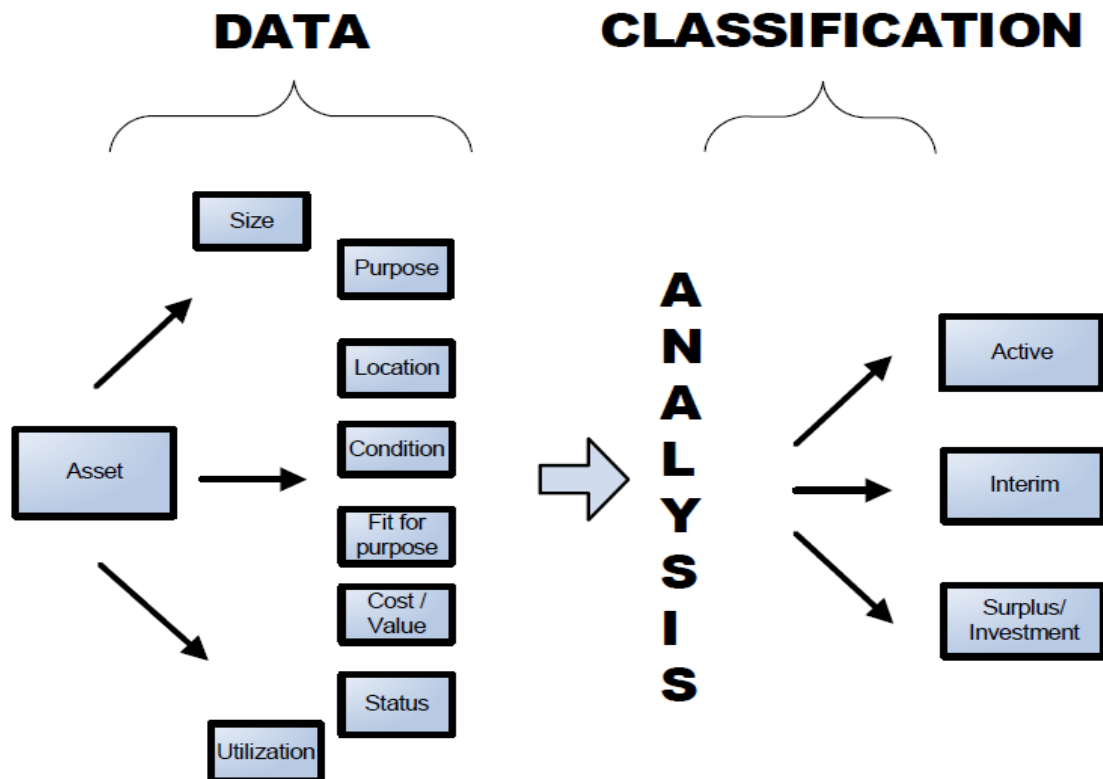
Once this information is gathered, READ should conduct additional review of the data to show whether the property is being used at its best public use and benefit. READ should use the information collected above to perform an analysis of parcels to determine whether they are used most effectively. READ should then place each parcel into categories reflecting whether the property is used at best public use and benefit. G&E provided three major status categories to capture this analysis: Active, Interim, or Surplus. G&E provided the following definitions:

- Active – A good match between the property and function, unlikely to change.
- Interim – to be considered for relocation of the function to anchor another property with a better match, or held for future use.
- Surplus/Investment – property unused by City functions.

As shown in **Exhibit 10**, G&E illustrated how READ should use the initial data collected to perform a more in-depth analysis to determine whether the property is used most effectively. The graphic illustrates how initial property data containing inventory information such as size, location, and status, is then used to comprehensively analyze and determine the effective use of the property.

Exhibit 10:

Grubb & Ellis Illustration of How Property Data is Analyzed to Determine the Accurate Classification of Property Status



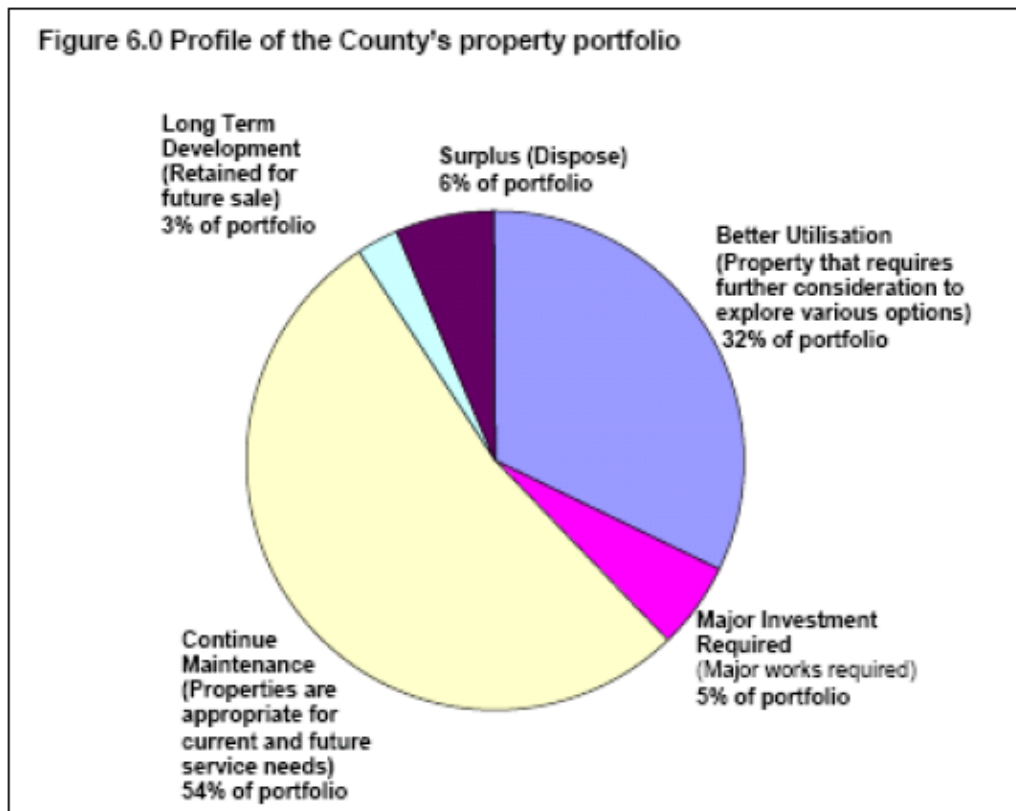
Source: Grubb & Ellis Best Practices Methodology for Real Estate Assets Department, January 31, 2007.

In applying the model in **Exhibit 10** to READ's property inventory, READ's database, at minimum, should accurately reflect the property's name, size, location, designated use, and current use. Moreover, READ's database should include an analysis that identifies the property's classification, which would indicate how best to strategize for the use of the property. For example, as described in **Exhibit 5**, we analyzed Clear Sites 441 and 830 and classified these properties as interim because the properties are vacant with no defined purpose or use.

The result of this process is a database populated with characteristics of each property, which can be used in ongoing property review. READ can then aggregate this information and include it in the PMP to provide a more contextual picture of the use of City properties. For example, as shown in **Exhibit 11**, G&E provided the illustrated breakdown of properties to provide a visual depiction of how properties are used.

Exhibit 11:

Grubb & Ellis Example of Overall Portfolio View and Recommended Actions



Note: The graphic is provided for illustration and not reflective of City's property portfolio.

Source: Grubb & Ellis *Best Practices Methodology for Real Estate Assets Department, January 31, 2007.*

Compiling and aggregating this type of information is critical to provide decision makers the best opportunity to make strategic decisions on how to maximize the best uses for the City's real estate portfolio. In addition, this would allow for more opportunity to address key initiatives or goals of the City.

International Standards

In addition to the G&E report, we also reviewed international property management guidance. The importance of accurate and timely updating of property information in the City's portfolio is echoed across numerous best practice guideline for both real estate and government management.

The Urban Institute Center on Internal Development and Governance (UIC) published the *Guidebook on Real Property Asset Management for Local Governments*, which stresses the importance of accurate information for successful asset management. UIC states that asset management includes making economically and socially justified decisions on property reallocation, change of use, and disposal. To be most effective, UIC provides that asset management requires accurate, frequently reviewed and updated data at the property level because property-related decisions, such as sale or retention, require valid information.

Like G&E's recommendation to create a portfolio plan, the UIC recommended the creation of a "Comprehensive Plan" to include goals and principles, and a commitment to full inventory and accounting of all properties for asset management purposes. The UIC stated that the classification and financial principles/goals are key components of developing the Comprehensive Plan.

There are two key goals of a given asset management portion of the plan. First, reporting should provide all information necessary for those receiving the report. Second, the goal is to enable decision makers to be well informed so they can make good decisions and to allow other stakeholders, such as the public, to be confident those decisions are made intelligently and with integrity. According to UIC, local governments and their residents need full and concise information about the property that the local government owns and supports.

Property classification should include such information as whether the property is needed for performing the functions that

are the responsibility of local government; whether the property is needed for performing the functions that are voluntarily supported; or whether the property is surplus and not needed for any other purpose. The information should be organized and collected in a useable format such as the UIC provided sample (taken in part) in **Exhibit 12**.

Exhibit 12:

UIC Sample Inventory Format for City Real Estate Property Assets

Table: Local Government Unit Inventory of Real Property Units

Inventory Number	Number of the Real Estate Document and Ownership Document	Address	Current Use of Real Estate Property	Entity Responsible for Real Property Management and Maintenance	Notes
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6

Source: Taken in Part from the Guidebook on Real Property Asset Management for Local Governments published by the Urban Institute Center on International Development and Governance.

The UIC recognized that compiling a complete and accurate inventory is time-intensive and places a burden on limited resources. However, the need to create an accurate database and inventory of local government assets is critical in establishing an effective asset management system.

City and County of San Francisco Increased Focus on Accurate Real Estate Tracking to Help Achieve Public Policy Goals

The City and County of San Francisco Board of Supervisors passed the Surplus Property Ordinance in 2002 in an effort to address San Francisco’s intensifying affordable housing problems. The legislation was designed to force the City to build housing for low-income residents on underutilized land. The ordinance required that each City Commission, department, or agency compile and deliver to the Administrator a list of all property that it occupies or is otherwise under its control by April 1 of each year. The list shall include at least the following: (a) street address and APN; (b) general description of property, including any planned use within next fiscal year; (c) general description and physical condition; (d) vacancy; and (e) general summary of ownership and encumbrances. However, the ordinance did not meet its goals.

Critics of the ordinance argue it was unsuccessful for two main reasons. First, the City and County did not aggressively pursue surplus sites. Second, the City's ability to pursue surplus property sales was hampered because City and County agencies often did not identify them. In other words, one San Francisco Supervisor said that this ordinance has failed to produce more than a pair of below-market-rate housing sites in 13 years, in part, because "departments were keeping property and saying it wasn't surplus."

San Francisco voters in 2015 overwhelmingly approved Proposition K (Prop K), which was designed to modify and strengthen the Surplus Property Ordinance.²¹ Under Prop K, the Board of Supervisors now regulates and oversees the surplus property identification process. Another significant change requires City and County agencies to list all sites a quarter-acre or larger in an annual survey—instead of just self-identifying what they consider surplus, or no longer needed. The proposition expanded the annual process for identifying surplus property with specific reporting dates, public hearings, and oversight by the Board of Supervisors.²²

**City of Seattle Requires
Annual Reconciliation of
All Real Estate Division
Assets to Ensure
Accuracy**

The City of Seattle also implemented more stringent data collection and reporting requirements for City-owned real estate. The City of Seattle now requires the Real Estate Services (RES) to maintain a central inventory of all property owned by the City. This inventory must include specific classifications for each property and must be conducted annually.

The analysis includes a review of the classification, current use, and any potential future use of each property. RES requires departments to confirm that the information is accurate, or make updates as necessary.

The City of Seattle also requires ongoing communication between RES and land-managing departments when the status of a property changes. Specifically, these departments are required to report to RES any change of use or status of a property within 30 days. Such changes include acquisitions, disposals, transfers, and changes in current or potential future use. Continuous

²¹ San Francisco voters approved the measure with 74 percent of the electorate.

²² The City and County of San Francisco manages 6,000 acres of land compared with 123,000 acres for the City of San Diego. In addition, San Francisco manages 200 leases, compared with over 500 leases for San Diego.

communication allows for changes in property characteristics to be captured annually by RES.²³

Furthermore, departments must regularly review the status of each property to consider the suitability of each property for its current use and to consider reuse or disposal of underutilized and unused property.²⁴ The frequency of review—ranging from annually to every five years—is based on the classification of the property.

Impact Of Not Taking Action

Decision Makers Cannot Most Effectively Implement Policy Goals Without Timely, Accurate, and Useful Information

The importance of a thorough and complete inventory of City-owned property is critical to the effective management of the City's property portfolio and to ensure the public that City assets are used most effectively. Currently, the centralized dataset managed by READ does not always accurately reflect the current uses of property and thereby is not in conformance with best practices guiding property portfolio management.

Decision makers rely on timely, accurate, and useful information in order to most effectively implement policy goals. The information related to property classifications derived from REPortfolio is used as the primary source of property information for the City. In addition, READ acts as the City's property agent, and therefore, shall have complete and accurate information of City-owned property and assets.

In addition, as noted earlier, various departments have different information and different uses of the property information systems. Having different property information uses is likely based on the operations of the department, but the information contained in the centralized database should be current and accurate. As a result, the information, current uses, future uses,

²³ The City of Seattle has a generally decentralized real estate/property management approach. Some departments handle acquisitions, permits, and property management, but the Finance and Administrative Services Department, Real Estate Division has a centralized disposition role, specialized leasing authority, and maintains a central database for all City property.

²⁴ The procedures define "underutilized" as property that could support additional and/or more intensive uses without interfering with the primary use of the property. "Unused" is defined as property owned by the City that is not currently in municipal use and that is not rented, leased, or otherwise used under an agreement with the City.

department goals, and City goals are not centralized and are not consistent across the City.

Recommendation #1

READ should work with land-managing departments to compile accurate classifications of property which should include at minimum:

- Acreage, managing department, current use, and designated use. (Priority 2)

Recommendation #2

READ should consult with the Mayor and City Council to determine whether to work with land-managing departments to conduct an analysis of City property that ensures a good match between the property and its function. This analysis should focus on key information such as whether the property is:

- A good match between the property and function, unlikely to change;
- To be considered for relocation of the function to anchor another property with a better match, good fit with upcoming events, or held for future use; and
- Surplus, or property unused by City functions.

These designations should then be included with property information in REPortfolio. To ensure a review of the most valuable properties, and not the entire real estate portfolio, READ should determine how to prioritize properties for analysis (e.g., minimum acreage threshold, high profile, etc.). (Priority 2)

Finding 2: Opportunities Exist for the City to Improve Management Oversight of City Inventory by Establishing Processes or Procedures to Require Land-Managing Departments to Periodically Review Inventory

The large volume of the City of San Diego's (City) property portfolio requires that the Chief Operating Officer and Real Estate Assets Department (READ) design and implement an adequate internal control environment and sufficient control activities to ensure the appropriate documentation, maintenance, and periodic assessment of property information.

We found that there is no consistent or standardized procedure related to the pre-disposition review of City-owned property within land-managing departments. The land-managing departments we reviewed—the Public Utilities Department (PUD), Parks and Recreation Department (PRD), and Transportation and Storm Water Department (TSW)—do not have a documented process or timeline to review their portfolio related to the current use and need of properties.

Based on our review, no consistent or standardized procedures exist because the City does not have any written guidelines in place for land-managing departments to reassess their property inventory. City departments that manage properties also did not have a written proactive procedure related to analyzing the operational need for property.

Without guidance, departments are not required to actively review properties during a time when property is scarce and the need is great. If properties are not reassessed, properties with greater potential may not be utilized. We recommend that READ work with the Chief Operating Officer to create a policy to provide timely and accurate updates to ensure data, Citywide, is accurate.

What We Found

The City Does Not Have a Written Process to Guide Pre-Disposition Review or Reporting Across Land-Managing Departments

We found that there is no consistent or standardized procedure related to the pre-disposition review of City-owned property across land-managing departments. The land-managing departments we reviewed—the Public Utilities Department (PUD), Parks and Recreation Department (PRD), and Transportation and Storm Water Department (TSW)—do not have a consistent process or timeline to review their portfolio related to the current use and need of properties.

The City does not have any guidelines in place for land-managing departments to reassess their property inventory. City departments that manage properties did not have a written proactive procedure related to analyzing the operational need for property. Department management stated that reviewing the properties for operation does not occur on a regular, periodic basis. Rather, departments typically only considered land for sale when initiated by READ. We should note that PUD did conduct an internal review of its property portfolio in 2015.

During our work, we did not identify any Citywide documentation related to the policy and procedures when determining the need to hold or sell a property. Instead, each property was considered and evaluated on a case-by-case basis.

Department staff we interviewed expressed concern that disposing of land is not desirable for departments who rely on land and space for their operations. For example, PRD management stated that the department requests to retain land for park purposes when feasible.²⁵ In addition, department management indicated it is less difficult to maintain land, than to obtain or purchase land when needed.

Based on our work, each of the three departments we evaluated review and respond to READ's inquiries regarding the disposition of property differently. PUD responds via email, PRD develops memorandums, and TSW develops a tracking sheet and responds to READ following their research of a given property.

²⁵ According to PRD, the department's mission and vision is to provide healthy, sustainable, and enriching environments for all and to connect all to the diverse, world-class parks and recreation system. The standards for the park system are prescribed in the COSD General Plan, which establishes useable park acreage requirements for each community. PRD stressed that most communities are park deficient, which is why PRD requests to retain land for park purposes when feasible.

Further, we found that during the scope period of our audit, READ's REPortfolio system did not have an efficient method to provide direct access to the centralized document database that READ uses to store department responses to pre-disposition requests. However, according to READ, during the final stages of our audit, it implemented a process to link REPortfolio to its centralized document repository.

READ Oversees Pre-Disposition Analysis

Council Policy 700-10 is READ's guiding document for disposition of City-owned property. As part of the disposition process, according to READ, the department constantly reviews properties to identify parcels for disposition. READ evaluates properties on a case-by-case basis, depending on the specific aspects of the land, use, location, size, and surroundings, among other aspects.

According to READ, READ staff conducts a "hold/sell" analysis for each property deemed by READ as not essential to services or for properties without a critical use. Prior to the disposition of surplus property, City departments, City Council offices, and some City staff are notified in accordance with City Council Policy 700-10. READ staff disseminate an email accompanied by a READ-generated staff report on the property. As illustrated in **Exhibit 13**, the report includes information about the property such as acreage, Assessor's Parcel Number (APN), address, City Council district, a description of the improvements or structures on the property, and a description of the reason for the sale.

Exhibit 13:

READ Property Information Summary Report – 904 33rd Street – November 2013

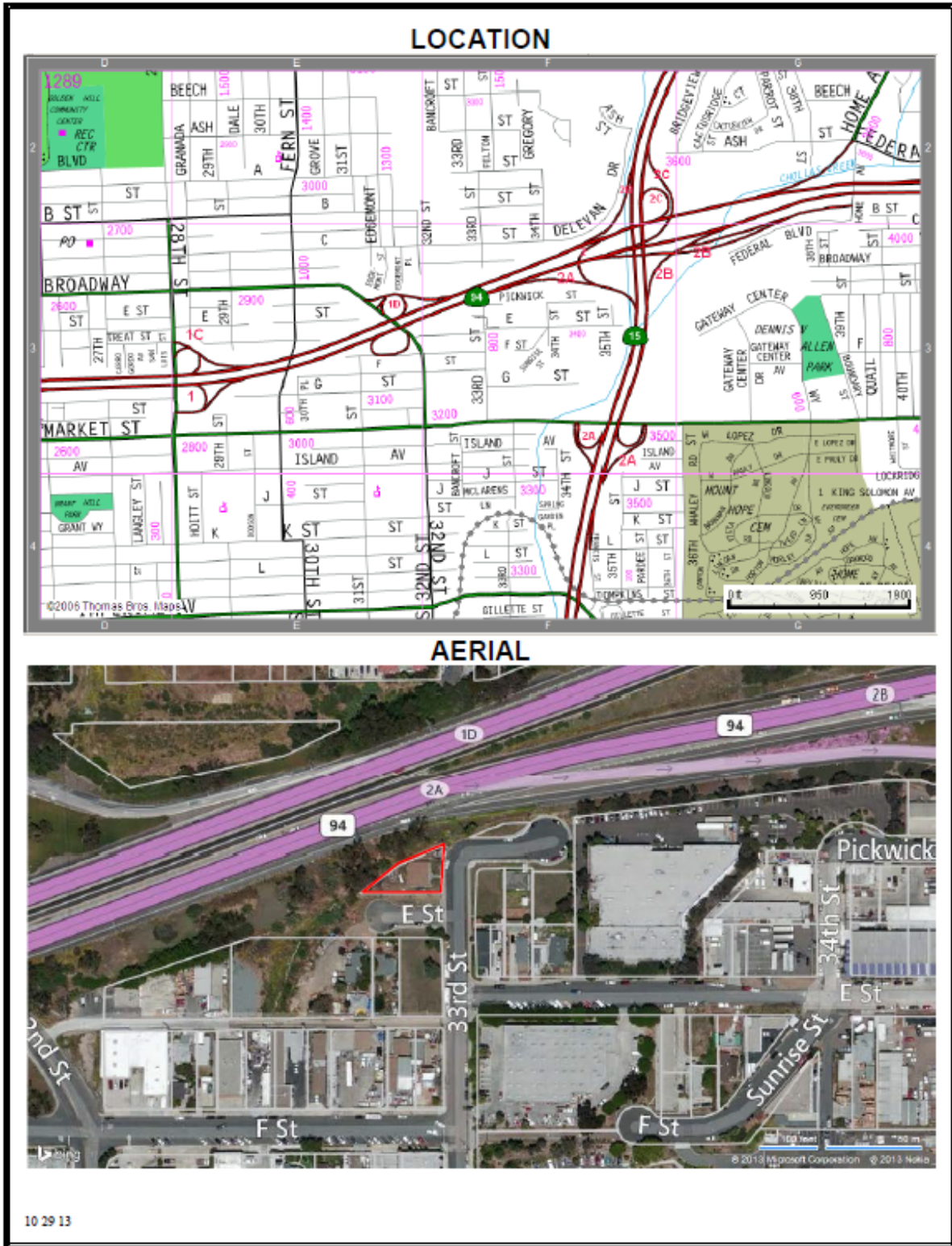
<p style="text-align: center;"><u>PROPERTY INFORMATION SUMMARY</u></p> <p style="text-align: center;">904 33rd Street, San Diego</p> <ol style="list-style-type: none">1. Location of Property: 904 33rd Street, San Diego, CA2. Legal Description: CHOATES ADD BLK 125 LTS 42-48 PORS3. Council District: 84. Assessor's Parcel Number: 545-062-185. Thomas Bros Map: 1289 3F6. Size of Parcel: 0.170 acres7. Improvements: single family residence8. Community Plan: Southeastern San Diego9. Zoning: SESDPD-I-110. Date of acquisition: 11/18/196311. Reason for Sale: Surplus property12. Property file: S511HM-00113. Fund: Capital Outlay <p><u>DUE DILIGENCE</u> The property will be sold "as is" with no warranties, usage or conditions (physical or otherwise), written, implied or expressed by the City of San Diego and its agents or employees. You are basing your purchase on the offered property solely on your findings and research, and that you have satisfied yourself as to the zoning, usage, physical condition inside and out, size and other information that might affect your decision to purchase this property. The information contained in the marketing materials is believed to be correct, however, the City of San Diego assumes no responsibility or liability for its completeness or accuracy.</p> <p>10 29 13</p>

Source: Real Estate Assets Department's Property Summary Report.

As shown in **Exhibits 14 and 15**, the report may also include aerial and street photographs of the property, a map view, and the County Assessor's Parcel map.

Exhibit 14:

READ Property Information Summary Report – 904 33rd Street – November 2013



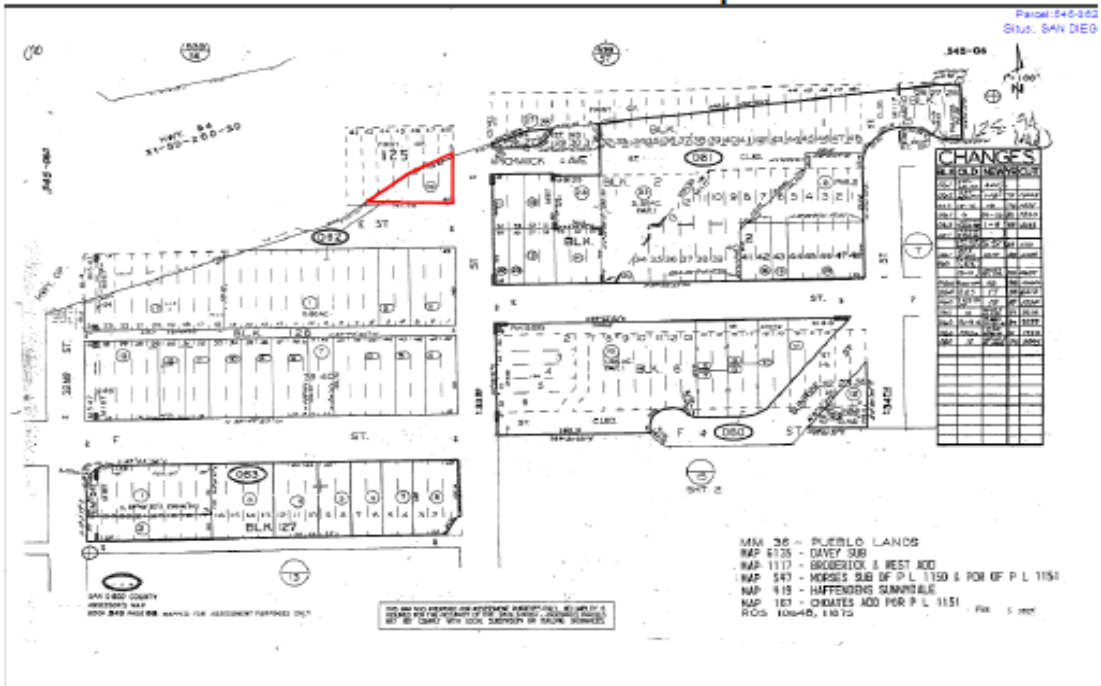
Source: Real Estate Assets Department's Property Summary Report.

Exhibit 15:

READ Property Information Summary Report – 904 33rd Street – November 2013 – Street Photograph and Assessor's Parcel Map



Assessor's Parcel Map



Source: Real Estate Assets Department's Property Summary Report.

Following the distribution of the email and staff report, departments are asked to respond to READ within 60 days. According to READ, in April 2018, it adjusted its policy and City departments have 30 days to review the property. After the 30-day period, outside agencies and entities are notified and given 60 days to review. Land-managing departments respond in various manners.

For example, as shown in **Exhibit 16**, PUD replies via email with supporting documentation attached expressing its interest, or lack thereof, in a given property. During an internal review, PUD identified, and made available to other City departments, 38 properties no longer essential to its operations. It is important to note that PUD is an enterprise fund, meaning any revenue it generates from a land sale or transfer to a General Fund department, would be reimbursed to the appropriate fund within PUD and is not General Fund revenue.

Exhibit 16:

PUD Response to Property Inquiry – UTC North of Towne Centre Drive – 5/15/2018

This property is clear for sale with the following needs/restrictions discussed in the table below: (additional info attached to supplement the table)

UTC North of Towne Centre Dr	343-121-01	42" FM	There are two dual 42" sewer force mains (FM) that traverse through the west side of APN 343-121-01. PUD is requesting a new sewer easement: beginning 11' to the east from the most easterly 42" sewer force main, then a varied distance to the west to the adjacent existing 15' and 20' wide sewer easements, so that all 3 mostly parallel sewers and an existing 4" PVC fiber optic cable are all within easements. Please see "APN 343-121-01 splash map.pdf" for more details.
		42" FM	
	343-121-01	15" VC	There is an existing 15' sewer easement called out on As-Built Drawings 10906-D and 13828-4-D. No additional easements are needed for this sewer. Please see "APN 343-121-01 splash map.pdf" for more details.
	343-121-01	10" VC, 12" VC, 12" CI	There is an existing 20' sewer easement called out on As-Built Drawings 11732-18-D, 11732-19-D, 12288-3-D and 13828-4-D. No additional easements are needed for these sewers. Please see "APN 343-121-01 splash map.pdf" for more details.
	343-121-01	10" PVC	There is an existing 30' Set Aside Easement for the 10" PVC Sewer per Drawing 32375-8-D, but a new 15' sewer easement is needed because this property will not be owned by the City of San Diego anymore. Please see "APN 343-121-01 splash map.pdf" for more details.
	343-121-02	10" PVC	There is an existing 30' wide Set Aside Easement for the 10" PVC Sewer per Drawing 32375-8-D, but a new 15' sewer easement is needed because this property will not be owned by the City of San Diego anymore.
	343-121-02	10" VCES	There is an existing 20' wide Set Aside Easement for the 10" VCES Sewer per Drawing 32375-8-D, but a new 15' sewer easement is needed because this property will not be owned by the City of San Diego anymore.
	343-121-05	NO SEWER MAINS, NO EASEMENTS OR RESTRICTIONS NEEDED	

Source: Provided by the Public Utilities Department.

As shown in **Exhibit 17**, PRD responds to inquiries in a more formal manner. PRD, often with the assistance of the Park Planning Division of the Planning Department, develops memorandums which provide a list of the given properties in question, and a justification as to why the property does or does not have the necessary characteristics to be deemed a park. This memorandum is later signed and dated, and returned to READ.

Exhibit 17:

Parks and Recreation Department Pre-Disposition Memorandum Dated October 5, 2017



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 5, 2017
TO: Andy Field, Assistant Director, Park and Recreation Department
FROM: Robin Shifflet, DPM III, Planning Department
SUBJECT: Pre-Disposition Review of City Owned Property

The Park and Recreation Department, in coordination with the Park Planning Section of the Planning Department, has reviewed the City-owned property per the Real Estate Assets Department's request for "Pre-Disposition Review of City Owned Land" for potential park and recreation use or open space lands, and **does not support** the following properties for retention in City fee-ownership for the Park and Recreation Department:

1. **Logan Ave and Coban Street (Encanto)**– The major issues identified that make this parcel unsuitable for recreation and open space purposes include:
 - a. A 15' wide easement for an existing storm drain pipe is located along the south side for the parcel and would reduce the amount of useable recreation area.
2. **34th Street and A Street (Golden Hill)** – The major issues identified that make this parcel unsuitable for recreation and open space purposes include:
 - a. This parcel is small and narrow (0.037 acres) with the shortest boundary adjacent to the public street.
 - b. Approximately 25% of the site has steep slopes over 10% in grade.
 - c. This parcel is within an urbanized area with no existing or future connection to City fee-owned open space.
3. **Mariposa Street and East 2nd Street (Encanto)**– The major issues identified that make this parcel unsuitable for recreation and open space purposes include:
 - a. Approximately 75% of the site has steep slopes over 10% in grade.
 - b. Visibility from the public street is limited.
 - c. This parcel is within an urbanized area with no existing or future connection to City fee-owned open space.
4. **A Street and Felton Street (Golden Hill)** – The major issues identified that make this parcel unsuitable for recreation and open space purposes include:
 - a. This parcel is small (0.036 acres) with the shortest boundary adjacent to the public street.
 - b. Approximately 75% of the site has steep slopes over 10% in grade.

Source: Provided by the Parks and Recreation Department.

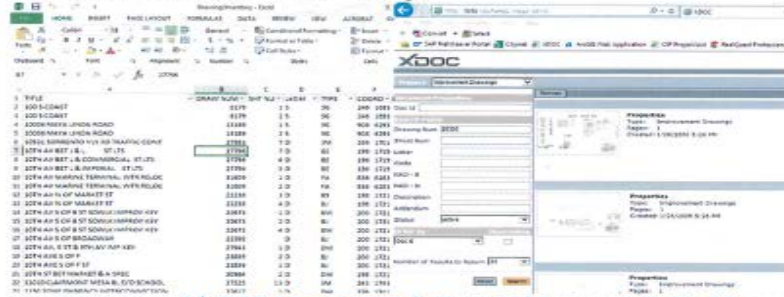
TSW has a methodology in evaluating a given property prior to disposition. TSW keeps a tracking sheet, which includes information such as acreage, APN number, address, City Council district, contact information, a description of the improvements or structures on the property, and a description of the reason for the sale. In addition, TSW developed a “Pre-Disposition Research Guide” that presents the various steps to take as staff review and make a determination on a property. **Exhibit 18** shows the Pre-Disposition Research Guide in part.

Exhibit 18:

TSW Pre-Disposition Research Guide

Step 1. Identify Storm Drain Infrastructure

1. Use GeoSAP or ArcGIS to identify storm drain infrastructures
2. Conduct as-built research to verify the existence of structures (D,S,L)
 - ➔ Obtain drawing numbers from GeoSAP, ArcGIS or pipe inventory spreadsheet and search on XDOC to view and download drawings



Pipe Inventory: <S:\4500 Asset Mgmt & Planning\Research Folder\Research tools>
 Xdoc: <http://toto/xsuiteApp/xapps/sdwd/>

3. If there is any discrepancy between GeoSAP & drawing, verify by site visits

Step 2. Find Easement

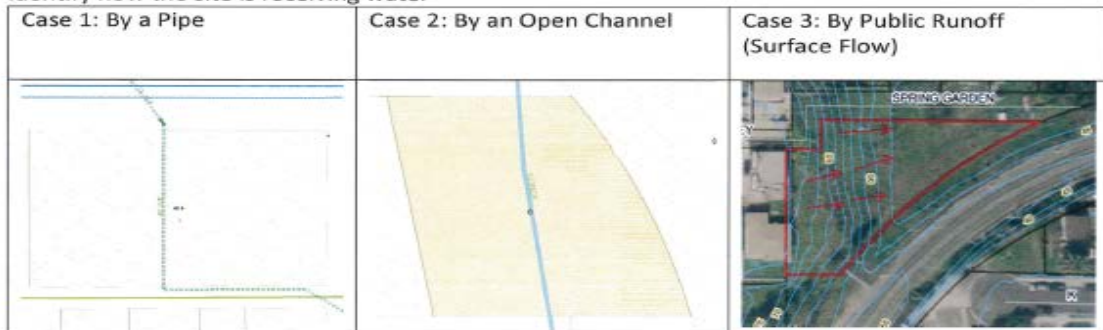
1. If there is a storm drain infrastructure, conduct a research on easement drawings (Often S,L)
 - ➔ Obtain drawing numbers from GeoSAP, ArcGIS or pipe inventory spreadsheet and search on XDOC to view and download drawings

Step 3. Find Watershed Information

1. Use GeoSAP or ArcGIS to see which watershed the given location falls under

Step 4. Identify How the Site Is Receiving Water

1. Use GeoSAP or ArcGIS to see if there is an open channel within the given site
2. Use contour layers on GeoSAP or ArcGIS to evaluate the flow direction of the site
3. Identify how the site is receiving water



Source: Document provided by Transportation and Storm Water Department staff in February 2018.

Why This Occurred

READ and Land- Managing Departments Find the Current Practice the Most Efficient to Meet Operational Needs

Currently, there is an insufficient internal control environment in place related to the pre-disposition review process Citywide. There is no policy or procedure in place to ensure review and coordination, and there is no standardization established across the land-managing departments. According to READ, there has never been an effort or a directive to standardize this process because one standard would be too difficult to apply to departments with very different operational functions and needs.

READ management stated that requiring different departments to standardize pre-disposition responses is impractical. READ stated that the different departments' operational duties and needs are too different to fit into a standardized report format.

READ also stated that the current practices described in the previous section allow each department to provide a description of the property in a way that is practical and easily understood by both department and READ staff. Additionally, READ management stated its staff is sufficiently knowledgeable about the properties at issue. In short, according to READ management, the current practice is the most efficient way for READ and responding departments to communicate the information.

Finally, we found that during the scope period of our audit, READ's REPortfolio system did not have an efficient method to provide direct access to the centralized document database that READ uses to store department responses to pre-disposition requests. However, according to READ, during the final stages of our audit, it implemented a process to link property files in REPortfolio directly to the relevant data stored in its centralized document repository.

What Should Have Occurred

READ Should Design and Implement an Internal Control Environment to Ensure Appropriate Citywide Documentation, Reporting, and Review of Property Information

The large volume of the City's property portfolio requires that READ should work with the Chief Operating Officer and the City's Department of Finance to design and implement an adequate internal control environment and sufficient control activities to ensure the appropriate documentation and maintenance of property information.

According to the United States Government Accountability Standards for Internal Control in the Federal Government (Green Book), the documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form to ensure that documentation and records are properly managed and maintained.

The Green Book also provides that control activities should be tailored to meet the specific needs of the entity. Factors determining the control activity include factors such as the size and complexity of the organization, requirements for system availability and performance, and managerial judgement.

We reviewed the practices of other similarly sized cities. We found that the City of Seattle has a process in place that requires departments to verify and sign off on data information annually to ensure the real estate division has accurate data. Verification and sign off of data accuracy ensures that properties are verified annually, prior to the release of their annual report.

In addition, G&E and UPI note that properties should be tracked and categorized to ensure property uses are in alignment with City objectives.

Impact Of Not Taking Action

Without Guidance by the Real Estate Assets Department, Land-Managing Departments are Not Required to Actively Review Properties

Without guidance, departments are not required to actively review properties during a time when property is scarce and the need is great. If properties are not reassessed, properties with greater potential may not be utilized.

If properties are not assessed, complete and accurate information may not be captured in the PMP. Additionally, plans to change a

property use, such as a community park, may shift without being updated in REPortfolio. In addition, departments have different and/or conflicting information about City-owned property.

Finally, without sufficient control activities identified, pre-disposition information may be inappropriately documented resulting in insufficient documentation and maintenance. As a result, READ staff may be unable to adequately track department's justifications for keeping properties thereby impairing staff ability to most effectively identify properties for pre-disposition. According to READ, as of May 2018, READ has implemented a more advanced process to keep records of departments' responses in the property file to ensure the history and information pertaining to a given parcel is more easily accessible when needed. We encourage READ to continue development of and formalization of increased record keeping.

Recommendation #3

To ensure that land-managing departments consistently assess and communicate their property needs, the Real Estate Assets Department should work with the Chief Operating Officer to create a written policy for departments to guide the periodic review of property inventories. The policy should require the reporting of updates to READ to ensure that Citywide property data is accurate. (Priority 2)

Finding 3: READ is Not Presenting the Portfolio Management Plan to City Council at a Public Hearing as Recommended by Best Practices Resulting in the City Council Not Having an Opportunity to Provide Public Input Regarding the City's Comprehensive Portfolio Management Strategy

The purpose of the Portfolio Management Plan (PMP) is to enable the City of San Diego's (City) management and policy makers to have a better understanding of the City's real estate assets and how they can be best utilized to benefit the citizens of San Diego. It is critical that City leaders and the public have an opportunity to provide input and policy direction into the City's overall property portfolio management strategy. Council Policy 700-10 (CP 700-10)—Disposition of City Owned Real Property—is the primary guidance document that outlines the procedure to present and review the future and current uses of City-owned real estate.

This policy directly states that "READ shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis." Real Estate Assets Department (READ) crafted this policy to provide the City Council the opportunity to weigh in and strategize on the City's property portfolio management strategy.

We found the READ did not present the Portfolio Management Plan (PMP) to City Council or relevant Committees at a public hearing for the scope period of our audit, ranging from 2011 to 2017. However, according to READ, the PMP was distributed to City Council via email and posted on its City website for fiscal years 2015–2018. It should be noted that in the first year the PMP was created, in 2010, it was presented at committee, for information only, but was never presented to the full City Council.

According to READ, it did not provide presentations at a public hearing to the full City Council or Committee(s) because the PMP is presented on READ's webpage, and is distributed to key City officials, including Council members and City executives via email. In addition, READ officials expressed that City Council members or City staff have not asked the department to present the PMP at

public hearings, and that the department has not received an inquiry about the content of the document following the distribution of the PMP to staff and council. Finally, READ management asserted that the language in the Council Policy is ambiguous in terms of defining how the PMP should be presented. As such, READ has interpreted the language as providing the department with the flexibility to choose the method it will present the PMP, and READ management stated that the City Council has not requested otherwise. According to READ, providing the PMP online, distributing via email, and debriefing Council when requested, sufficiently complies with CP 700-10 to inform the Council and/or the public about the availability of City property.

By not presenting the PMP annually at a public hearing, the City Council and/or the public do not have the opportunity to discuss the City's overarching portfolio management strategy in open session.

We recommend that through the process of updating CP 700-10, READ consult with the City Attorney's Office and the City Council to determine the most appropriate channel for presenting the Portfolio Management Plan. Additionally, the Council Policy should clarify expectations and language to ensure consistent expectations and requirements.

What We Found

READ is Not Presenting the PMP to City Council at a Public Hearing as Recommended by Best Practices

READ did not present the PMP to City Council or the Smart Growth and Land Use Council Committee (formerly the Land Use and Housing Committee) in open session between calendar years 2011 and 2017.

Based on our review, and conversations with READ staff, we found that the PMP has never been presented in its entirety in public session of the City Council between 2011 and 2017. The PMP includes information such as acreage by department, an overview of the various divisions of READ, land acquired and land sold, and division action plans. However, READ emailed the PMP to City Council offices and posted on the READ website for fiscal years 2015–2018.

Why This Occurred

READ and City Attorney Staff Do Not Interpret Council Policy 700-10 to Require an Annual Presentation of the Portfolio Management Plan at a Public Hearing

READ has not formally presented the PMP in a public hearing to City Council Committee(s) or the City Council during the scope period of our audit because READ management asserts that it complies via publicly posting, distributing via email, and providing property sale information on a case-by-case basis as each property sale arises. Rather, READ posts the PMP to the READ website and attaches the PMP to an email and sends it to City Council members along with many other members of the City management, including Mayoral staff, the Director of Public Works, and the Chief of the San Diego Fire Department.

READ management stated that many City Council members provided verbal confirmation that a presentation of the PMP via email, or as requested, is sufficient for Council's inclusion in developing an overall strategy of the use of City-owned property.

In addition, READ management asserted the language in the Council Policy is ambiguous and, consequently, provides the department with the flexibility to choose the method it will use to present the PMP. The City Attorney's Office also stated that City Council members implicitly waived the Council Policy requirement to present the PMP in an open session Council meeting because the City Council did not request the presentation. As a result, READ interpreted the Council Policy to provide the flexibility to email the PMP and post it on its City website as fulfilling the requirement.

Additionally, READ management stated that City Council members have not asked about the content of the document following the distribution of the PMP via email. READ cited this as another reason it does not present the PMP to Committee or City Council in a public hearing.

Finally, READ management stated they have been provided verbal advice from both the Mayor's Office and the City Attorney's Office indicating that presenting the PMP in open session to Committee and the full City Council is not required by CP 700-10. Specifically, READ stated that sending an email to the City Council satisfies the portion of the Council Policy that states, "The Real Estate Assets Department shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis."

What Should Have Occurred

The PMP Should Be Presented in a Public Hearing at the Full City Council to Ensure an Open Discussion

An efficient inspection data management system to track and An accurate property classification and reporting procedure is essential for several reasons. First, it allows decision makers to make data-driven decisions based on the accurate collection of information on City properties. Second, it provides the public and policy makers information to promote a robust public discussion of the current use of the City's property portfolio and set the policy goals for the future of use of the property.

CP 700-10 states that the PMP should be presented to the City Council annually. Specifically, the Council Policy states: "The Real Estates Assets Department shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis, with periodic reviews and as-needed updates at City Council Committee."

We also reviewed the legislative history of City Council Policy 700-10. In 2007, the motion to the City Council when it approved CP 700-10 specifically requested language "about requiring an annual Portfolio Plan presentation to the full City Council."²⁶

The final approved motion did not include the "public presentation" language suggested by Councilmember Madaffer. Rather, the final motion approved at Committee stated, "The Real Estate Assets Department shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis, with periodic reviews and as-needed updates at City Council Committee. The Portfolio Management Plan shall include an overall review of the City's real estate portfolio (or inventory), an operating plan for corporate property, a disposition plan for

²⁶ A review of the July 11, 2007 Land Use and Housing Committee transcripts detail Former Councilmember Jim Madaffer's (Chair) specific request for language to be included in the Council Policy. Taken in part, he stated that: "READ should prepare and present to the council a comprehensive PMP on an annual basis, this would give us an annual report, I would like to see that included in the policy. We should be informed on a regular basis, maybe even updates at committee that would include a review of our portfolio, inventory, and operating plan, revenues, trends, plan to surplus property, what has been done on market research. I would suggest you include what should be included in the PMP. The policy doesn't call you for anything or any requirements in the PMP. . . I believe the PMP should have its own policy document. Can we add in a section that simply states the PMP will be presented to City Council on an annual basis and should include these major elements. I would write it to be a public presentation and incorporated approval."

surplus property, market research to support anticipated transactions and a request for authority to act within defined parameters (as described in this policy). Additionally, the agenda item on the City Council docket of September 16, 2008 relating to the approval of the revised Council Policy 700-10 stated, "Add a definition and description of the Portfolio Plan at the beginning of the Policy (including both lease and for sale), and add language about requiring an annual Portfolio Plan presentation to the full City Council." Finally, the Independent Budget Analyst (IBA) report to Council for this item stated, "A cornerstone recommendation of the Grubb & Ellis (G&E) study is the development of a comprehensive portfolio plan that will be presented and approved by the City Council on an annual basis.

We also found several best management strategies, including the G&E report, as well as other large municipalities, such as San Francisco and Seattle, that stress the importance of routinely collecting and updating property data as a critical component of successful property portfolio management. This information must then be communicated to decision makers. A description of our benchmarking is shown in **Exhibit 19**.

Exhibit 19:

Industry Guidance on Routinely Collecting, Updating, and Presenting Property Data

Source	Best Practice
Grubb and Ellis	<ul style="list-style-type: none"> • Implement and develop a comprehensive portfolio plan that was intended to be presented and approved by Council on an annual basis. • Include a review of the portfolio, an operating plan for property, and a disposition plan for surplus property.
Urban Institute Center	<ul style="list-style-type: none"> • Create a "Comprehensive Plan" to include goals and principles, full inventory, and accounting of all properties. • Provide all information necessary for decision makers. • Enable decision makers with relevant information to make informed decisions. • Engender public trust through transparency.
San Francisco	<ul style="list-style-type: none"> • Requires each City commission, department, or agency to deliver a list of all properties it occupies or controls by April 1 each year. • List includes key information to assist the decision makers to determine whether the property is being used most effectively and consistently with established policy goals.²⁷ • Requires departments to maintain an adequate inventory and accountability systems for the property under its control. • Board of Supervisors reviews the property rolls annually
Seattle	<ul style="list-style-type: none"> • Requires departments to regularly review the status of their property holdings. Frequency of review is based on the classification of the property. • The Mayor, City Council, or staff may request reviews of specific properties at a time not normally scheduled. • Annually, a status report for all City property is due to the Real Estate Oversight Committee and City Council.

Source: OCA generated based on best practices research.

With these procedures in place, decision makers, the public, and the City Council are provided accurate, reliable, and timely information about what is happening with the City's property. In addition, decision makers would be provided a comprehensive view the property portfolio in its totality, and be able to make strategic Citywide decisions. This also keeps land-managing departments accountable for ensuring the property information is recent and accurate.

During our audit, READ noted that, with the assistance of the City Attorney's Office, CP 700-10 is in the process of being modified and updated. READ and the City Council should use this opportunity to determine the most appropriate presentation method related to the Portfolio Management Plan and ensure this is clearly specified in the new Council Policy.

²⁷ The list should include at least the street address and APN; a general description of property, including any planned use; a general description and physical condition; vacancy; and summary of ownership. See <http://sfrecpark.org/wp-content/uploads/Surplus-City-Property.pdf>, pp. 3-4 (Adobe).

**Impact Of Not Taking
Action**

**Key Real Estate Portfolio
Information is Not
Presented to the City
Council or the Public at a
Public Hearing**

READ's practice of not publicly presenting the PMP to the City Council or Committee at a public hearing deprives the City Council, the public, and other stakeholders of an opportunity to provide policy input over the City's comprehensive vision of its property uses in a public hearing. As a result, this deprives the public of engaging the full City Council in a robust discussion in a public forum about the current state of and future strategies for the City's property portfolio.

City Council and Committee are only presented and informed of properties that are to be sold or leased, and reviews these individually, on a case-by-case basis. Due to this, City Council and key decision makers are in a reactive position, such as approving a staff recommendation, rather than a proactive position of evaluating the property in a comprehensive manner. Again, this limits the ability for key decision makers to view the property portfolio in totality, and make strategic Citywide decisions.

In response to the G&E study, and the updating of CP 700-10, the intent of the policy change was to ensure that the department will present the Portfolio Management Plan (PMP) annually so Council has an opportunity to update its knowledge on the real estate portfolio. It is also important to note that the PMP is the primary opportunity for the City Council to act on and influence the City's real estate portfolio. This was expressed by the Council and Committee at the time of adoption of the revised Council Policy.

***City Council and Pre-
Disposition Authority***

Council Policy 700-10 does not grant any authority to the San Diego City Council to make the determination that real property is surplus land, or to initiate sales or leases of property. In other words, neither the City Charter nor the San Diego Municipal Code (Municipal Code) address whether the City Council has the authority to determine that a specific parcel of City-owned real property is surplus land, or to initiate the sale or lease of real property.

City Attorney opinions advise that all legislative power of the City is vested in the City Council. Therefore, the City Council may take a legislative and policy-based role regarding pre-disposition decisions; however, the City Charter places the responsibility for administering the affairs of the City with the Mayor.

As noted prior, the City Council is presented properties that READ seeks to sell on a case-by-case basis. This practice does provide the Council with authority over individual transactions. However, this authority is limited to case-by-case transactions without any input over how properties are selected for sale or a more comprehensive input over property decisions overall.

As a result, presenting the PMP to the City Council and Committee in open session may provide the full Council a better opportunity to provide input in relation to the City's comprehensive property portfolio management strategy. Further, the public would have an opportunity to weigh in on the portfolio strategy in an open, transparent setting.

Recommendation #4

Throughout the process of updating Council Policy 700-10, READ, in consultation with the City Attorney's Office and City Council, should determine the most appropriate channel of presenting the Portfolio Management Plan, and clarify expectations and language, to ensure consistent expectations and guidelines.
(Priority 2)

Conclusion

The City of San Diego's (City) Real Estate Assets Department (READ) manages a real estate portfolio that includes more than 1,600 properties that total an estimated 123,000 acres. Its real estate portfolio includes all facilities necessary to provide the basic functions of government.

We made a total of four recommendations to improve the City's real estate management function. These recommendations are aimed at collecting accurate information, conducting sufficient analysis, and communicating this data to decision makers in order to ensure properties in the City's portfolio are utilized most efficiently and effectively.

First, we found that information in READ's database system describing current uses of properties is not always consistent with individual department records. Specifically, we found that records provided by the Public Utilities Department and the Parks and Recreation Department did not always match READ's property classifications for current use. We recommended that READ undertake a thorough property review process to ensure that it accurately categorizes properties in the City's portfolio. Additionally, we recommend that READ work with land-managing departments to implement procedures to ensure that changes in property uses are communicated and updated.

Second, we found that there is no consistent or standardized procedure related to the pre-disposition review of City-owned property within land-managing departments. The land-managing departments we reviewed do not have a documented process or timeline to review their portfolio related to the current use and need of properties. We recommend that READ work with the Chief Operating Officer to create a policy to provide timely and accurate updates to ensure data, Citywide, is accurate.

Third, we found that READ did not present the Portfolio Management Plan (PMP) to City Council or relevant Committees at a public hearing during the scope period of our audit. Rather, READ has distributed the PMP to City Council members and City executives via email and has posted the PMP on READ's webpage. We recommend that READ consult with the City Attorney's Office and the City Council to determine the most appropriate channel of presenting the PMP, and clarify language in Council Policy 700-10 to ensure consistent expectations and guidelines.

Recommendations

Recommendation #1 READ should work with land-managing departments to compile accurate classifications of property which should include at minimum:

- Acreage, managing department, current use, and designated use. (Priority 2)

Recommendation #2 READ should consult with the Mayor and City Council to determine whether to work with land-managing departments to conduct an analysis of City property that ensures a good match between the property and its function. This analysis should focus on key information such as whether the property is:

- A good match between the property and function, unlikely to change;
- To be considered for relocation of the function to anchor another property with a better match, good fit with upcoming events, or held for future use; and
- Surplus, or property unused by City functions.

These designations should then be included with property information in REPortfolio. To ensure a review of the most valuable properties, and not the entire real estate portfolio, READ should determine how to prioritize properties for analysis (e.g., minimum acreage threshold, high profile, etc.). (Priority 2)

Recommendation #3 To ensure that land-managing departments consistently assess and communicate their property needs, the Real Estate Assets Department should work with the Chief Operating Officer to create a written policy for departments to guide the periodic review of property inventories. The policy should require the reporting of updates to READ to ensure that Citywide property data is accurate. (Priority 2)

Recommendation #4 Throughout the process of updating Council Policy 700-10, READ, in consultation with the City Attorney's Office and City Council, should determine the most appropriate channel of presenting the Portfolio Management Plan, and clarify expectations and language, to ensure consistent expectations and guidelines. (Priority 2)

These recommendations are assigned Priority 2, due to the potential for strengthening or improving internal controls.

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class ²⁸	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

²⁸The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B: Objectives, Scope, and Methodology

Objectives In accordance with the Office of the City Auditor's Fiscal Year 2018 Audit Work Plan, we conducted a performance audit of the Real Estate Assets Department's (READ) Leased and Surplus Properties. The objectives of our audit were to:

- Determine whether the City's pre-disposition procedures related to the identification, classification, and review of surplus property are in conformance with best practices; and
- Determine whether the City is timely and accurately categorizing properties in its real estate portfolio.

Internal Controls To meet our objectives, we limited our internal control testing to evaluating whether READ classified properties accurately and in conformance with best practices; communicated with City departments about properties READ sought to dispose of; and reported on property information timely, accurately, and appropriately to City leaders.

Scope and Methodology

Preliminary Survey In order to arrive at these objectives, we reviewed published reports and analyses focusing on property portfolio management including best practices guides from real estate consulting firm Grubb and Ellis, the Urban Institute Center on International Development and Governance, relevant criteria on internal controls from the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government and Government Auditing Standards*, reports from the U.S. General Services Administration, the San Diego County Grand Jury, as well as City Council and Committee presentations.

We interviewed key City staff within READ who manage and review property inventory in the City's property portfolio. We also conducted interviews with City departments managing a large amount of City-owned property including the Public Utilities Department (PUD), the Park and Recreation Department (PRD), and the Transportation Storm Water Department (TSW), to gain prospective on the management and procedures related to categorizing, managing and reporting on properties.

Comparison and Context

To understand the effectiveness of tracking and reporting on property inventories, we reviewed processes adopted in other cities. We chose to evaluate the City and County of San Francisco and the City of Seattle due to its coastal characteristics and lack of excess land. We also interviewed representatives of these cities to discuss the formation and operation of the programs and to solicit information about obstacles and successes of program implementation.

**Property Category Data
Reliability and Testing**

To assess the accuracy of the data sets, we reviewed a statistical random sample of properties larger than 0.25 acres managed by PUD and PRD.²⁹ We chose to evaluate properties greater than 0.25 acres to limit our testing of properties that have potential to provide a better use or allow for development. The three departments manages almost 80% of city-owned property. As part of our analysis, we compared the data describing the current use of the properties against the data maintained READ in its property portfolio management system, REPortfolio. Due to the different methods employ by the three departments to maintain data, we initiated different testing steps.

***Public Utilities
Department***

We sampled 111 property parcels recorded in PUD's geographic information system that were larger than 0.25 acres. We compared property descriptions assigned by PUD against READ's REPortfolio data. Specifically, we compared PUD's designated use classification against READ's current use and designated use classifications for these same properties.

²⁹ Based on our scope, we established a 90% confidence interval. Total number of properties for Public Utilities, Parks and Recreation, and Transportation Storm Water were 111,126 and 85 respectively.

Furthermore, we sampled an additional 38 PUD properties. In 2015, PUD performed a review of its property portfolio to identify those not needed for its operations. PUD produced a report titled, Public Utility Department Land Assets: Non-essential Sites for Water & Wastewater Systems. In the report, PUD identified properties it no longer needed that could be sold or relocated for another use. We compared the property categories listed in the report against property categories assigned by READ in REPortfolio.

***Parks and Recreation
Department***

We reviewed 126 property parcels recorded in PRD's GIS system that were larger than 0.25 acres. We compared property descriptions assigned by PRD against READ's REPortfolio data. Specifically, we compared PRD's designated use classification against READ's current use and designated use classifications for these same properties.

Additionally, to further compare the accuracy of READ's categorization of the current use of properties, we utilized Google Maps aerial view and street view of properties. We tested whether the current use descriptions of the site matched what was constructed at the site.

Notably, the data across the data sets provided by READ and PRD's Open Space were not sufficiently reliable to determine which data set is accurate. We separated our testing of PRD testing of PRD Open Space Division's records. We then took a random sample of Open Space property parcels listed in REPortfolio for PRD managed properties. We reviewed 20 parcels managed by PRD Open Space and compared PRD's designated use classification against READ's current use and designated use classifications for these same properties.

***Transportation and
Storm Water***

We requested a download from TSW's database of all the Storm Water properties it manages. However, the department does not maintain a comprehensive list of all the properties it manages or any updated data related to the current uses or status of properties because it relies on READ to maintain that information in REPortfolio. TSW did not provide a list of all the properties it manages nor did it provide a description of its internal control processes for tracking the accuracy of the data in its parcels. As a result, we could not perform an analysis to determine whether the information in REPortfolio and TSW's databases matched and/or reflected the actual use of the property.

**Portfolio Management
Plan**

In order to review the purpose and the content of the Portfolio Management Plan and its intended use, we reviewed minutes of the San Diego City Council, San Diego City Council Committees in 2012, 2014, and 2016 to determine whether READ presented the PMP in an open session meeting.

In addition, we reviewed the legislative history of Council Policy 700-10 to determine the intention of the Portfolio Management Plan, along with various City Attorney opinions related to the role of City Council and the Mayor's Office regarding to surplus property.

**Compliance with
Government Auditing
Standards**

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.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: July 19, 2018

TO: Eduardo Luna, City Auditor

FROM: Cybele L. Thompson, RPA, FMA, CCIM, LEED AP, Director, Real Estate Assets Department via Stacey LoMedico, Assistant Chief Operating Officer

SUBJECT: Management Response to City Audit of the Real Estate Assets Department's Portfolio Management Practices

The purpose of this memorandum is to provide Management's response to the Audit Report entitled "Performance Audit of the Real Estate Assets Department's Portfolio Management Practices." The Audit's primary findings were:

- The Real Estate Assets Department's centralized property portfolio's current use classification does not always match the use of City property as recommended by best practices.
- Opportunities exist for the City to improve management oversight of City inventory by establishing processes or procedures to require land-managing departments to periodically review inventory.
- The Real Estate Assets Department (READ) is not presenting the PMP to City Council at a public hearing as recommended by best practices resulting in the City Council not having an opportunity to provide input about the City's comprehensive management strategy.

The following summarizes the recommendations contained in this report and the Department's responses to these recommendations.

Recommendation 1: READ should work with land-managing departments to compile accurate classifications of property which should include at minimum:

- Acreage, managing department, current use, and designated use. (Priority 2)

Management Response: Management agrees with this recommendation. While land managing departments agreed that READ's records of acreage and managing department were accurate, individual land managing departments working data records can use different terminology in the classification or description of the current use of the property. READ staff will work with land managing departments to develop and update READ's database, REPortfolio, with mutually agreed upon descriptive terms for current and designated use to minimize the potential for confusion.

Target implementation date: June 30, 2019

Recommendation 2: Read should consult with Mayor and City Council to determine whether to work with land managing department to conduct an analysis of City property that ensures a good match between the property and its function. This analysis should focus on key information such as whether the property is:

- A good match between the property and function, unlikely to change.
- To be considered for relocation of the function to anchor another property with a better match, good fit with upcoming events, or held for future use.
- Surplus, or property unused by City functions.

These designations should then be included with property information in REPortfolio. To ensure a review of the most valuable properties, and not the entire real estate portfolio, READ should determine how to prioritize properties for analysis (e.g. minimum threshold, high profile, etc.). (Priority 2)

Management Response: Management agrees with this recommendation. It should be noted that City properties and their existing functions should be considered "good matches" for properties already in use such as police/fire stations, parks, open space, watershed, public utilities and drainage infrastructure as it would not be an efficient use of City resources to reanalyze these existing uses for a potentially different use, unless so requested by the client department. READ will facilitate analyses and accurate categorization of properties with departments as follows:

- Use of the property and function is unlikely to change (fire stations, etc.). These will continue to be designated for their current use, i.e., police station, park, etc. In other words, there would not be an "unlikely to change" category in REPortfolio, but if there is a current use for the property, that will indicate that the use is unlikely to change unless the managing department makes a change in the future.
- Surplus (has gone thru the clearance process but not yet sold or is in process of being sold). Such properties would have a "Current Use" of "Surplus" in REPortfolio.
- Hold for future use. Such properties would have a "Designated Use" of future mitigation, park, public facility, etc in REPortfolio.
- Unused by City functions (has not gone through clearance process and has not been identified for future use). Such properties would have a "Current Use" of "Not Designated" until they go through a clearance process in REPortfolio.

In the future, as part of the Portfolio Management Plan annual process, READ will seek input from the Mayor and City Council regarding working with land managing departments on any suggested analysis of City property.

Target implementation date: June 30, 2019

Recommendation 3: To ensure that land-managing departments consistently assess and communicate their property needs, the Real Estate Assets Department should work with the Chief Operating Officer to create a written policy for Departments to guide the periodic review of property inventories. The policy should require the reporting of updates to READ to ensure that citywide property data is accurate. (Priority 2)

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Eduardo Luna, City Auditor

July 19, 2018

Management Response: Management agrees with this recommendation. READ will work with the Chief Operating Officer to create a written policy regarding the periodic review of property inventories by land managing departments. This review will include the classifications created through Recommendation #1.

Target implementation date: June 30, 2019

Recommendation 4: Throughout the process of updating Council Policy 700-10, READ, in consultation with the City Attorney's Office and City Council, should determine the most appropriate channel of presenting the Portfolio Management Plan, and clarify expectations and language, to ensure consistent expectations and guidelines. (Priority 2)

Management Response: Management agrees with this recommendation. During the current update to Council Policy 700-10, the Real Estate Assets Department will work with the City Attorney's Office and City Council to determine the most appropriate channel of presenting the Portfolio Management Plan (PMP). This will clarify language and expectations for the future.

Target implementation date: January 31, 2019

If you have any questions or comments, please do not hesitate to contact myself or READ's Deputy Director, Kristi Geitz.

Thank you for your time and consideration of this management response.



Cybele L. Thompson, RPA, FMA, CCIM, LEED AP
Director, Real Estate Assets

CT/kg

cc: Kris Michell, Chief Operating Officer
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