



**Audit Report**

***Community Development  
Department ~***

***Real Property Services***

**November 2013**

**AU14-06**

**City Manager**  
Scott C. Barber

**Internal Audit Manager**  
Cheryl L. Johannes

Office of the City Manager  
Internal Audit Division  
Riverside, California

## OBJECTIVE, SCOPE and METHODOLOGY

In accordance with the Internal Audit Work Plan for Fiscal Year 2013/2014, a performance audit of the Community Development Department (CDD) ~ Real Property Services (RPS) was conducted to assess the efficiency, effectiveness of processes, system of internal controls, and compliance with City administrative policies/procedures.

### Scope and Methodology

The review was conducted during the month of September through November 2013 for records and transactions through June 30, 2013 for acquired properties and year-to-date records for properties in the process of being disposed (sold). To address the audit objectives and as part of our assessment of risk, we:

- Reviewed the City's Administrative Manual Chapter 8 – Real Property (08.001.00 - 08.005.00);
- Interviewed Real Property Services staff to gain an understanding of the processes/procedures for acquisition and disposition of properties;
- Reviewed real estate inventory files for acquisition of right-of-way/easements and surplus property for accuracy, completeness, and timeliness; and
- Traced acquisitions for rights-of-way/easements to the City's financial system (IFAS) for accuracy, completeness, and timeliness.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

## BACKGROUND

The City owns millions of square feet of buildings and parcels of land, with a book value totaling billions of dollars. Most of these assets are utilized by the various departments to provide city services (libraries, fire stations, City Hall, etc.).

The Real Property Services (RPS) within the Community Development Department (CDD) oversees the acquisition of land/buildings on behalf of other city departments (i.e., Public Works, Parks and Recreation, etc.) for city projects. Responsibilities include:

- Providing right-of-entry agreements to access City property;
- Sale of surplus properties<sup>1</sup> that have been declared non-essential for municipal purposes;
- Acquisition and vacation of public rights-of-way<sup>2</sup> and easements<sup>3</sup>;
- Relocation activities of the City and Housing Authority for displaced families/businesses;
- Securing appraisals, monitoring independent professional appraisal services, or providing valuations and estimates;
- Resolving title issues relating to ownership of real property;
- Recording documents with Assessor-County Clerk-Recorder and City Clerk; and
- Maintenance of real estate records.

Additionally, the Successor Agency utilizes RPS to oversee the sale of surplus land/buildings acquired by the City through the dissolution of the Redevelopment Agency (RDA) in 2012.

RPS annual budget (101-284500) of approximately \$1 million includes general fund allocation charges to several City departments (i.e., Fire, Library, Parks and Recreation, Public Utilities, PW, etc.) for services provided.

Currently, the division has four full-time staff positions – one Real Property Services Manager, one Real Property Agent, and two Real Property Assistants.

RPS utilizes an Access database to manage escrow activities for any property acquired/sold. The database is located on a shared drive, accessible by all staff members. A hard copy file is also maintained for each escrow activity (purchase, sale, donation, transfer, etc.); supporting documentation includes:

- Purchase/Sale agreement;
- Grant deed/Assessor recording;
- Appraisal/Environmental reports (if applicable); and
- RPS internal forms/other correspondence (Request for Real Property Services form, Transaction file memorandum, Acquisition property checklist, emails).

---

<sup>1</sup> Currently there are only four properties that have been declared surplus by City Council.

<sup>2</sup> Rights-of-way is a legal right of someone to pass over another's land; the strip of land over which a power line, railway line, road, etc. extends.

<sup>3</sup> Easements are a certain right to use the real property of another for a specified purpose and without acquiring fee simple title.

### Acquisition of Real Property

After approval by the City Council, RPS is notified by the City department to initiate purchase of real property or right-of-way/easement for a city project. RPS coordinates the pre-escrow activities including forwarding a letter to the property owner/tenant ~ Notice of Decision to Appraise, obtaining appraisal/environmental study reports, negotiating the purchase terms/agreement and requesting the necessary agreements from the City Attorney's Office.

When pre-escrow activities are completed, an internal memorandum is prepared with the necessary information (amount, project account number, due date, address, and parcel number) to request a wire transfer<sup>4</sup>. Treasury Department processes the wire transfer to the Title Company, who handles all documents for title, deeds, and disbursement of funds. After escrow has closed, RPS will provide a copy of the Grant Deed and final closing escrow statement to the City department for their records and to the City Clerk.

RPS reviews their internal hard copy file and completes a checklist to ensure all pertinent documents are intact prior to sending the file to Records Management for storage.

A comprehensive summary property status report is prepared weekly of all current activities and forwarded to the CDD Deputy Director and City Manager's Office for review.

In our review of ten property acquisitions (rights-of-way/easements) during FY 2012-13, hard copy files were reviewed, found to be complete and contain necessary supporting documentation. We suggested RPS include a copy of the City Council Minutes in their hard copy files for easy reference.

### Disposition (Sale) of Real Property

If any real property is determined to be no longer needed by a City department, RPS is notified in writing by the requesting City department to sell or dispose of the property. RPS coordinates any pre-activities needed such as ordering preliminary title and appraisal reports and obtaining legal descriptions and plat maps from the Public Works Survey Division. As a preliminary step in disposing of the real property, the property is offered to other City departments at fair market value. If no response is received by the City departments, RPS determines if the property is exempt<sup>5</sup> or not exempt from surplus disposition.

If the real property is not exempt, RPS submits a report to the Development Committee (if applicable) and City Council for the declaration of the property as surplus and authorization to dispose of the property. RPS contacts various governmental agencies (local, county, state, and regional) as to their interest in the property. If no response is received from any governmental agency within 60 days or if the property is exempt from surplus disposition, RPS places the property on the market and coordinates the sale to the general public by staff marketing, services of a broker, Request for Proposal (RFP) or other manner authorized by City Council and/or required by law. The most common disposition method would be conducted through the RFP process which typically includes pertinent information regarding the surplus property (such as location, lot size, specifications, etc.). All proposals are reviewed and the

---

<sup>4</sup> For temporary construction easements (TCE), RPS does not go through an escrow process; payment is made via check (warrant) to the owner.

<sup>5</sup> Exempt property is a parcel(s) that are not independently developable and does not meet the minimum lot size for development.

best one that meets the required specifications is selected. RPS manages any negotiations with the Buyer, requests Purchase and Sale Agreement from the City Attorney's Office, and submits to the City Council for approval of the sale. Upon approval, escrow is opened and the Title Company handles all escrow activities. After escrow has closed, a copy of the deed is forwarded to RPS and the City Clerk. The proceeds from the sale of the surplus property is posted to the revenue account number provided by the requesting City Department.

In our review of four surplus properties currently in the process of disposal, hard copy files were reviewed, found to be complete and contain the necessary supporting documentation.

## CONCLUSION

Our review provides an independent assessment of the efficiency, effectiveness of processes, system of internal controls, and compliance with City administrative policies/procedures. No findings were issued as part of this review.

During our review, we met with CDD management to discuss the review and our assessment. Comments and concerns during the discussion were evaluated prior to finalizing the report. No formal response to this report is required. We thank the staff of Real Property Services for their assistance and time during the course of this review.