

Date: October 18, 2021

To: Paula Boggs Muething, City Manager

From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*

Copies to: Internal Audit Committee
William Weber, Assistant City Manager
Andrew Garth, City Solicitor

Subject: **Real Estate Asset Management Audit**

Attached is the Real Estate Asset Management audit report. The primary objectives of this performance audit were to assess the efficiency and effectiveness of internal controls and practices applicable to the Law Department's real estate asset management and identify City real estate assets and determine if the City has mechanisms in place for managing its asset portfolio.

We would like to thank the management and staff of the Law Department for their assistance and cooperation during this audit.

If you need any further information, please contact me.

Attachment

Real Estate Asset Management

October 2021



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Internal Audit Manager

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Executive Summary

Internal Audit (IA) conducted a performance audit of the City of Cincinnati's (City) Real Estate Asset Management processes. The primary objectives were to assess the efficiency and effectiveness of internal controls and practices applicable to the Law Department's real estate asset management, identify City real estate assets, and determine if the City has mechanisms in place for managing its asset portfolio.

Real Estate Asset Management is a process of decision making and decision implementation regarding real property acquisition, use, modification, and disposition. Local governments often control substantial amounts of real property in their portfolios and asset management requires accurate data at the property level.¹

The audit revealed several issues with the Real Estate database. Real Estate utilizes an Access database to track all City-owned and leased properties. The database was created in 2003 and over time has posed significant limitations in its effectiveness and accessibility when tracking properties Citywide. Multiple processes are impacted, and compilation problems and slow performance has rendered the database unreliable in its ability to provide accurate records. Additionally, the lack of a reliable comprehensive tracking mechanism impacts Real Estate's ability to generate management review reports.

Several current practices also expose Real Estate to unnecessary risks; for example, collection of lease payments is not consistent, and the lease inventory spreadsheet needs to be maintained to reflect current leasing inventory data. There is also room for improvement with interdepartmental communication and oversight of departments who maintain their own real estate portfolios. Further, policies and procedures need to be updated, expanded, and documented to reflect current operating practices, and a formal real estate asset management plan needs to be established.

To improve the efficiency of the Real Estate Asset Management processes, IA recommends procuring new property management software to increase the effectiveness of tracking real estate assets. IA also recommends enforcing all lease agreements, bringing collections up to date and ensuring all data is recorded in a timely manner. Finally, establishing appropriate communication channels to exchange information, updating, expanding, and documenting policies and procedures, and creating a comprehensive real estate asset management plan.

¹ Guidebook On Real Property Asset Management for Local Governments, February 2012.

I. Introduction

Background

Real Estate/Property Management is a division within the Law Department and is divided into two sections: Real Estate is responsible for the appraisal, negotiations and acquisition of all real property needed by the City. Property Management is responsible for the inventory, management, and disposal of all City-owned or City-leased real property. If an individual is interested in acquiring or leasing City-owned property in their neighborhood, they would contact this section.²

Real Estate uses a Coordinated Report Procedure (CR) along with multiple Municipal Codes to guide the process for property acquisition, disposal, or modification of property. This process is initiated once a request is received from a petitioner to acquire property or modify use of property owned by the City of Cincinnati. Multiple departments as well as utility agencies must weigh in on the request and the CR serves as the vetting process before a final disposition of the property is made.³

As of 2018, the City owns approximately 16,825⁴ parcels, which are managed by various departments within the City. Real Estate utilizes an Access database to manage property data, and the Cincinnati Area Geographic Information System (CAGIS), is the GIS mapping and imaging system that displays the City-owned real estate assets and is the baseline to locate, label and catalogue property and future changes to property. IA was informed that due to the fluidity of the real estate market, Real Estate is unable to provide a current market value of the City's real estate assets.

Audit Selection

IA conducted this audit in accordance with the Audit Work Plan.

Audit Objectives

The primary objectives of this performance audit were to assess the efficiency and effectiveness of internal controls and practices applicable to the Law Department's real estate asset management, identify City real estate assets, and determine if the City has mechanisms in place for managing its asset portfolio.

Audit Scope and Methodology

To achieve the objectives, IA evaluated the City's policies and procedures related to inventory management, real property classification, and the acquisition and disposal all City-owned or City-leased real property, reviewed real property databases to include physical, operational, and financial characteristics of property holdings, and policies outlining annual reviews and reporting. Records reviewed included data generated between FY 2019 – FY 2021.

² City|Matters website, [Real Estate/Property Management Division - citymatters \(rcc.org\)](https://www.citymatters.org/real-estate/property-management-division).

³ Coordinated Report Procedure.

⁴ Copy of City of Cincinnati Real Estate Assets Spreadsheet provided by Real Estate, 2018.

Statement of Auditing Standards

As required by the Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 5.90 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure the conformance with applicable GAGAS. IA performed the fieldwork between May 2021 – August 2021.

Commendations

IA commends the staff of the Law Department's Real Estate/Property Management Division for their cooperation throughout the audit.

II. Audit Findings and Recommendations

The Real Estate/Property Management database is limited in its effectiveness and accessibility.

Maintaining accurate and complete data is necessary to have an effective and efficient operation. IA found several shortcomings with the Real Estate/Property Management database.

Real Estate utilizes an Access database to track all City-owned and leased properties. This database was created in 2003 and still serves as the primary and comprehensive inventory repository for all City properties and includes properties that are managed by other various City departments. As such, records often require updating as properties are sold, acquired, leased, or modified. Over time however, the database has posed significant limitations when tracking properties Citywide.

For instance, as an increasing amount of data has been entered, the database has grown significantly larger leading to compilation problems and slow performance. This has rendered the database unreliable in its ability to provide accurate records. IA was informed by Real Estate that the database crashes often and will give error codes. The lack of a reliable comprehensive tracking mechanism also impacts Real Estate's ability to generate management review reports that can be relayed to key management personnel to determine guidance on future property decisions and modifications.

This is compounded further by the amount of categorization fields available for each property record. The number of categorization fields has also increased over time due to multiple users over the years adding more and more fields; thereby increasing the number of tables within the database and decreasing its ability to process information efficiently. The increasing amount of categorization fields and number of users has also led to issues of data redundancy. Data redundancy can further exacerbate data inconsistency, decrease efficiency of the system, and make it increasingly difficult to assess. Further, making it difficult for a third party to retrieve and review data. For example, this impeded IA's ability to verify the accuracy and completeness of all property record data contained within.

In addition, access to the database is currently restricted internally to Real Estate only. This only serves to isolate an already decentralized process where other departments maintain their own property management records that correspond with Real Estate's database, leading to redundant processes. For example, the Real Estate database does not interface with the Cincinnati Area Geographic Information System (CAGIS)—the City's geographic information system (GIS) integrated technology platform. Since CAGIS maps all properties within the City and Hamilton County, the CAGIS Division relies on Real Estate to update City property within the CAGIS platform after its updated within the Real Estate database.

Recommendation 1: Real Estate should work with Enterprise Technology Solutions (ETS) to procure new property management software. Ideally, this software would be a software as a service (SaaS) based database that interfaces with CAGIS and allows for access Citywide. This would also include access controls that restrict access to City departments specific to their respective properties.

Department Response: The Law Department agrees that the City should pursue developing a citywide, GIS-based property management software for all departments and commissions that manage or control real property assets and commit the resources to do so. The software should consist of at least two components: (i) GIS interface and (ii) document repository. CAGIS operates

a property asset management program for the Department of Transportation and Engineering, entitled "DOTE Assets," which the City could explore expanding and enhancing, as an example.

Recommendation 2: Once new software is obtained, Real Estate should use data reports to measure and evaluate performance on a routine basis.

Department Response: The Law Department agrees that the City should pursue the development of a comprehensive property management database and commit the resources to do so.

CAGIS, the GIS mapping and imaging system that displays the City-owned real estate assets is not up to date.

GIS mapping allows the user to track assets visually, and is the most accurate baseline to locate, label and catalogue property and future changes to property which makes managing properties easier. According to the Reason Foundation, "GIS technology can be used not only to identify land and asset holdings but to then map parcels and build digital databases to create a real property inventory."⁵

CAGIS has the capacity to provide access to real-time data through the innovative integration of GIS technology. ETS has provided tools for Real Estate staff to manage City-owned properties in their GIS system. However, due to attrition and other department challenges, Real Estate is approximately one year behind entering data into CAGIS.

IA was informed that CAGIS should be the benchmark and that everything else should be an outcome of that system. Considering this, expeditiously entering the data into this system becomes critical so that current maps of municipal property are available to local government and the public.

Recommendation 3: High priority should be given to ensure the CAGIS GIS mapping system is accurate and current. Additionally, multiple personnel should be properly trained and licensed to access the system.

Department Response: The Law Department agrees with this recommendation and will work to incorporate it into its operations.

The lease inventory spreadsheet needs to be maintained to reflect current leasing real estate data.

IA randomly selected 60 (65%) of 92 Real Estate leased inventory parcels to determine if the contracts in the file folder corresponded with the data reported on Real Estates' lease inventory spreadsheet, which should correspond with the Finance Departments' lease tracker spreadsheet. The lease tracker is the Finance Departments master tracker of all City-owned leased properties entered into the Cincinnati Financial System (CFS). IA found inconsistencies in approximately 15 or 16% of the data across the two systems, and 8 of the 15 listings or 53%

⁵ Reason Foundation How to Guide for Managing State and Local Properties, 2010.

were not reflected on the lease tracker. IA was informed that if the parcel data is not recorded by Real Estate, it will not appear on the lease tracker.

Recommendation 4: Real Estate should ensure all data is recorded in a timely manner.

Department Response: The Law Department agrees with this recommendation and will work to incorporate it into its operations.

Collection of lease payments is not consistent.

Lease collections are tracked in the Access database, and through interviews, IA was informed that there are lease payments that are overdue. Real Estate is managing approximately 92 leased properties, with other departments such as the Department of Community and Economic Development (DCED), where additional financial incentives are attached to their leases, manage their own leased properties. Additionally, each lease contract has their own specific payment terms.

IA inquired about the overdue lease payments and was informed that it would take a detailed audit and review by Real Estate to determine who is current, who is behind on payments, and which leases are expired with outstanding balances. IA attempted to reconcile the lease spreadsheet received from Real Estate with the Finance Departments' lease tracker spreadsheet, but due to the variations in the information tracked, IA was not able to reconcile the data.

Recommendation 5: Enforce all lease agreements and bring collections due up to date.

Department Response: The Law Department agrees that all agreements and monies owed to the City should remain current; however, it should be recognized that this is a shared responsibility across all City departments and agencies. Per City code, real property under the jurisdiction and control of another City agency is the responsibility of that agency. If a tenant has fallen behind on its obligations under an agreement managed by another agency, then that agency must engage the Law Department to communicate that an event of default has occurred and request legal guidance or legal services. Likewise, in cases where the Real Estate Services Division collects lease payments on behalf of another department or agency, then Real Estate Services may report an event of default; however, it is still incumbent upon the controlling or managing department to make the determination to enforce the terms of the agreement.

Interdepartmental communication efforts need improvement.

The City's real estate assets are split into several portfolios that are managed independently by various departments. IA was informed that many of the closings on properties occur outside of Real Estate and they are not notified. Consequently, the property may not get entered into Real Estate's database or uploaded into CAGIS.

Recommendation 6: Establish appropriate communication channels to exchange information.

Department Response: The Law Department agrees that there should be a coordinated approach to property management and improved communications within this area. However, the exchange of information requires the cooperation of departments and agencies outside the

Law Department, and those outside parties must too be motivated to open and maintain communication channels, and to timely share information through those channels.

The Law Department has a Memorandum of Understanding (MOU) with DCED, and they have not enforced the reporting requirements.

A MOU provides a structured way to correct weaknesses that have been identified and an agreement between parties of an intended course of action. While not legally binding, when a MOU is not properly monitored, it places a municipality at risk of not achieving the desired expectations and objectives.

In 2019, the Law Department entered into a MOU with DCED for the purposes of delegating lease oversight for certain DCED managed properties. Based on the MOU Recitals, Section E (4) (6) states, "DCED will notify Law quarterly of the status of all DCED Properties lease monitoring, which report will include additions or deletions of DCED Properties. DCED will generate cash receipt schedules and enter lease payments into CFS for DCED properties. On a monthly basis, DCED will provide a report to Law that includes payments received....."⁶ Based on IA's interviews with Real Estate and DCED, these quarterly and monthly reports have not been submitted.

Recommendation 7: Strengthen communication and oversight to ensure MOU's are adhered to.

Department Response: The Law Department agrees that departments and agencies should adhere to the terms of MOUs, and it will work to improve its operations within this area. However, the Law Department does not have the authority to require outside departments and agencies to adhere to MOUs.

Policies and procedures need to be updated, expanded, and documented to reflect current operating procedures.

Policies and procedures are an important management tool and must be current and complete to be effective. Real Estate maintains a one page Coordinated Report Procedure and there are standard operating procedures (SOP) for individual tasks. IA was also informed that there are multiple Municipal Codes and Administrative Regulations that dictate the workflow in Real Estate, however, there is no formalized written policies and procedures that capture all these guidelines.

Further, Real Estate has a functional operation in place, however, important processes and procedures that standardize data entry for the Access database and CAGIS have not been documented. Currently, processes are communicated orally and reliance on long standing and understood practices are executed by experienced and knowledgeable staff.

When there are no established or written policies and procedures to help ensure consistent, and accurate compliance and application, the integrity and accuracy of the process may become compromised or unable to be fulfilled.

⁶ Memorandum of Understanding, Cincinnati Department of Community and Economic Development, 3-8-2019.

Recommendation 8: Update, expand, and document policies and procedures to ensure consistent, effective, and reliable processes.

Department Response: The Law Department agrees that it may gain administrative efficiencies by capturing those processes and procedures in memoranda. It will work to incorporate this recommendation into its operations.

There is no comprehensive real estate asset management plan that includes priorities of tasks.

The purpose of a comprehensive real estate asset management plan is to enable the City of Cincinnati's policy makers to obtain a better understanding of the City's real estate assets and how they can be best utilized to benefit the residents of Cincinnati. Additionally, it provides a framework for the prudent management of real estate assets and justifies actions in this regard. Currently, Real Estate has a course of action they follow, such as trying to rid the City of surplus property, or limit acquisitions to be project focused; however, Real Estate does not have a formal asset management plan documented.

Additionally, per best practices⁷, because property portfolios of local governments are diverse and include many components, they should be sorted into three groups: mandatory, discretionary, and surplus. Formulating financial principles and goals for each group of property for optimal use should be carefully outlined in the asset management plan. Based on what IA found, grouping is currently not done and would be a cumbersome project to retroact.

Recommendation 9: Develop a comprehensive real estate asset management plan and ensure implementation of the plan according to the developed schedule. Additionally, moving forward, Real Estate should attempt to group or sort any new real property acquisitions or modifications.

Department Response: The Law Department agrees with this recommendation and will work to incorporate it into its operations.

Lack of established and documented succession planning for key personnel roles.

Succession planning is the process of identifying internal personnel with the ability to fulfill key roles within an organization and fostering the development of these individuals. As personnel turn over, a succession plan facilitates business continuity. Succession planning is also particularly significant in our current pandemic climate as the City has offered early retirement. As a result, Real Estate has lost employee(s) who represented key personnel roles. These roles include a significant amount of institutional knowledge and multiple decades of work experience in Real Estate. IA was informed that there is no formal succession plan in place. Consequently, sudden personnel changes have significantly compromised internal control systems that oversee real estate asset management as evidenced by several of the findings listed above.

⁷ Guidebook On Real Property Asset Management for Local Governments, February 2012.

Recommendation 10: Management should develop and document a detailed succession plan for key personnel roles.

Department Response: The Law Department agrees that it would be beneficial to cross-train personnel to develop redundancy and broad skill sets amongst its employees, allowing for succession planning, and will work to incorporate this recommendation into its operations.

III. Conclusion

Real Estate Asset Management is a process of decision making and decision implementation regarding real property acquisition, use, modification, and disposition. Local governments often control substantial amounts of real property in their portfolios and asset management requires accurate data at the property level.⁸

The audit revealed several opportunities for improvement in Real Estate's internal controls and practices. The Access database used to track all City-owned and leased properties has posed significant limitations in its effectiveness and accessibility when tracking properties Citywide.

In addition, collection of lease payments is not consistent, and the lease inventory spreadsheet needs to be maintained to reflect current leasing inventory data. There is also room for improvement with interdepartmental communication and oversight of departments who maintain their own real estate portfolios. Further, policies and procedures need to be updated, expanded, and documented to reflect current operating practices, and a formal real estate asset management plan needs to be established.

To improve the efficiency of the Real Estate Asset Management processes, IA recommends procuring new property management software to increase the effectiveness of tracking real estate assets. IA also recommends enforcing all lease agreements, bringing collections up to date and ensuring all data is recorded in a timely manner. Finally, establishing appropriate communication channels to exchange information, updating, expanding, and documenting policies and procedures, and creating a comprehensive real estate asset management plan.

⁸ Ibid.

IV. Law Department Response

Date: October 14, 2021

To: Lauren Sundararajan, CFE
Internal Audit Manager

From: Andrew W. Garth, City Solicitor
Tom Klumb, Real Estate Services Division Manager

RE: Internal Audit of the Real Estate Services Division—Response to Draft Report

Ms. Sundararajan:

This letter responds to the draft internal audit report of the City’s real estate asset management processes, delivered on September 15, 2021.

Thank you for your findings and recommendations. The Law Department welcomes the audit results, understanding that the City and the public will benefit from improved property management practices.

Recommendation 1: *Procure new property management software. The new software should be a software as a service (SaaS) based database that interfaces with CAGIS. The new software should allow for access Citywide. The new software should include access controls that restrict access to City departments specific to their respective properties.*

- **Law Department Response:** The Law Department agrees that the City should pursue developing a citywide, GIS-based property management software for all departments and commissions that manage or control real property assets and commit the resources to do so. The software should consist of at least two components: (i) GIS interface and (ii) document repository. CAGIS operates a property asset management program for the Department of Transportation and Engineering, entitled “DOTE Assets,” which the City could explore expanding and enhancing, as an example.

Recommendation 2: *Following the procurement of the new software, real estate should use data reports to measure and evaluate performance on a routine basis.*

- **Law Department Response:** The Law Department agrees that the City should pursue the development of a comprehensive property management database and commit the resources to do so.

Recommendation 3: *High priority should be given to ensure the CAGIS GIS mapping system is accurate and current. Additionally, multiple personnel should be properly trained and licensed to access the system. The lease inventory spreadsheet needs to be maintained to reflect current leasing real estate data.*

- **Law Department Response:** The Law Department agrees with this recommendation and will work to incorporate it into its operations.

Recommendation 4: *Real Estate should ensure all data is recorded in a timely manner.*

- **Law Department Response:** The Law Department agrees with this recommendation and will work to incorporate it into its operations.

Recommendation 5: *Enforce all lease agreements and bring collections due up to date.*

- **Law Department Response:** The Law Department agrees that all agreements and monies owed to the City should remain current; however, it should be recognized that this is a shared responsibility across all City departments and agencies. Per City code, real property under the jurisdiction and control of another City agency is the responsibility of that agency. If a tenant has fallen behind on its obligations under an agreement managed by another agency, then that agency must engage the Law Department to communicate that an event of default has occurred and request legal guidance or legal services. Likewise, in cases where the Real Estate Services Division collects lease payments on behalf of another department or agency, then Real Estate Services may report an event of default; however, it is still incumbent upon the controlling or managing department to make the determination to enforce the terms of the agreement.

Recommendation 6: *Establish appropriate communication channels to exchange information.*

- **Law Department Response:** The Law Department agrees that there should be a coordinated approach to property management and improved communications within this area. However, the exchange of information requires the cooperation of departments and agencies outside the Law Department, and those outside parties must too be motivated to open and maintain communication channels, and to timely share information through those channels.

Recommendation 7: *Strengthen communication and oversight to ensure MOU's are adhered to.*

- **Law Department Response:** The Law Department agrees that departments and agencies should adhere to the terms of MOUs, and it will work to improve its operations within this area. However, the Law Department does not have the authority to require outside departments and agencies to adhere to MOUs.

Recommendation 8: *Update, expand, and document policies and procedures to ensure consistent, effective, and reliable processes. Property portfolios should be sorted into three groups: mandatory, discretionary, and surplus. Formulating financial principles and goals for each group of property for optimal use should be carefully outlined in the asset management plan.*

- **Law Department Response:** The Law Department agrees that it may gain administrative efficiencies by capturing those processes and procedures in memoranda. It will work to incorporate this recommendation into its operations.

Recommendation 9: *Develop a comprehensive real estate asset management plan and ensure implementation of the plan according to the developed schedule. Additionally, moving forward, Real Estate should attempt to group or sort any new real property acquisitions or modifications.*

- **Law Department Response:** The Law Department agrees with this recommendation and will work to incorporate it into its operations.

Recommendation 10: Management should develop and document a detailed succession plan for key personnel roles.

- **Law Department Response:** The Law Department agrees that it would be beneficial to cross-train personnel to develop redundancy and broad skill sets amongst its employees, allowing for succession planning, and will work to incorporate this recommendation into its operations.