



SURPLUS REAL PROPERTY:
Policy, central management, and inventory of real
property holdings needed

April 2015

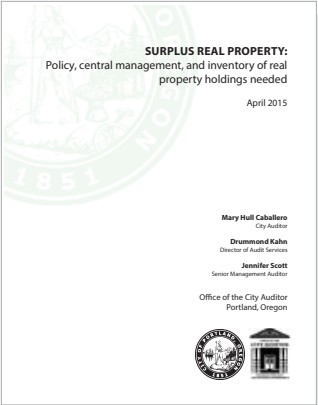
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April 2, 2015

TO: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Fred Miller, Chief Administrative Officer, Office of Management and Finance
Bryant Enge, Director, Bureau of Internal Business Services, Office of Management and Finance

SUBJECT: Audit Report: *Surplus Real Property: Policy, central management, and inventory of real property holdings needed* (Report #461)

The attached report contains the results of our audit work on the City's surplus real property disposition policies and practices. The joint response letter from the Mayor and the Office of Management and Finance is included.

We ask the Director of the Bureau of Internal Business Services to provide us with a status report in one year, through the Mayor's Office, detailing the steps taken to address our audit recommendations.

Mary Hull Caballero
City Auditor

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Attachment

SURPLUS REAL PROPERTY:

Policy, central management, and inventory of real property holdings needed

Summary

The City of Portland owns and manages land and buildings (real property) to provide City services – office buildings house employees, customer service and permit centers; warehouses and parking lots store maintenance equipment; parks contain open space, trails and playgrounds. Over time, due to system improvements and program changes, some City real property has become obsolete and is no longer needed for its originally intended purpose. Real property is an important asset, but it can also present risks and challenges since the City spends money maintaining land and facilities, and the City can be liable for incidents that take place there. In addition, unused real property can likely be put to higher and better uses that may benefit the economy and the public. Property asset management best practices recommend that unused real property be disposed of, but also recommend it be done as part of a planned strategy for real property management.



Portland City Hall, Gabriel Park, Mt. Tabor Reservoir, Portland Building - examples of the different type of real property the City owns.

In 2013, the City Ombudsman received a complaint from a group of Portland neighbors regarding the sale of a piece of City-owned property. Since 1964, the City of Portland has owned and the Portland Water Bureau has managed real property in a residential area of Southwest Portland where the Freeman Tank sat – an above ground water tank. The Water Bureau was no longer using the tank and in 2008, the Bureau had the property appraised at \$240,000. In 2010, City Council declared the Freeman Tank property surplus and authorized its sale. There was little action taken to sell the property until 2012, when the Bureau's property manager placed an advertisement in the online listing service Craig's List, which contained an asking price of \$187,000. In September 2012, the Water Bureau entered into a contract with a developer to sell the Freeman Tank property for \$140,000. Neighbors learned about the Bureau's contract to sell the property to a developer; they were surprised and upset since they did not know the property had been deemed surplus or that the property had ever been for sale.

Freeman Tank



The Freeman Tank property in Southwest Portland.

The neighbors expressed their opposition to the sale, but the City told them that its hands were tied since the Water Bureau had entered into a contract with the developer and the City could be sued if they withdrew. The neighbors filed a court order and a preliminary injunction to stop the sale, but a judge ruled against them. The neighbors also filed a complaint with the City Ombudsman, who concluded that though the Water Bureau hadn't followed best practices in the sale of the property, there were no legal grounds to void the sale agreement.

Since the Freeman Tank property sale demonstrated that at least one City bureau lacked transparent procedures for the sale of surplus real property, we decided to audit the City's structure for real property management and how the City and bureaus identify and dispose of surplus real property. Our audit objectives were to:

1. Determine whether the City's process to manage real property aligns with best practices.
2. Determine whether the City's processes for identifying and disposing of surplus real property align with applicable State law, City rules/policies, and common surplus public real property practices.

We found there is no overall City strategy for real property management and there is little guidance regarding the identification and disposal of surplus real property. State law does not cover the identification of surplus real property and provides little instruction on how land sales should be carried out. There is no City guidance on how bureaus should identify surplus real property and little on how real property sales should be carried out.

We found the City's structure for real property management is decentralized. The Office of Management and Finance's Facilities Services is authorized in City Code to carry out real property management for the City, but bureaus are not obligated to use their services. City bureaus that own real property each have property managers. The decentralized structure of real property management means there may be redundancies that waste City money and inconsistent real property disposal decisions.

We found the City lacks a comprehensive inventory of City-owned real property and is not periodically reviewing real property holdings. Individual bureaus have inventories, but some are incomplete. Without a complete inventory, Facilities Services managers told us they must compile information and create lists each time one is requested. Additionally, without an inventory, the City as a whole is unable to proactively and strategically manage real property and buildings because real property holdings cannot be reviewed periodically.

Shortly before we began this audit, two bureaus adopted a pilot policy for the sale of surplus real property; this is a positive step, but a solution for the City as a whole is needed. Also shortly before we began this audit, Facilities Services began work to develop a Citywide policy for surplus real property sales that involves Facilities Services in more aspects of bureau real property sales. Facilities Services also began work to develop an inventory of City real property. We recommend Facilities Services continue their in-process work and we make additional recommendations designed to improve the City's management of real property.

Background on City's real property management

The City of Portland owns a variety of land and buildings (real property) in order to provide City services. For example, the City owns land for parks, properties that house pump stations, lots where maintenance equipment is stored, and downtown blocks where office buildings sit. In this report, we also refer to real property as land.

Future park site



The site of a future Portland park in Southwest Portland.

Though the City of Portland owns all City real property, the bureaus of Environmental Services, Fire, Parks, Transportation, and Water are considered land owning bureaus, and are sometimes listed on the titles of the land they manage. Land owning bureaus each have property managers and each bureau identifies surplus real property and initiates sales internally. Nearly all bureau property managers told us that their bureau's land has unique characteristics that require there be an internal property manager to oversee property management, including sales or transfers. Non-land owning bureaus such as Police lease buildings managed by Facilities Services, the City's general real property manager. Land owning bureaus also lease real property not directly related to infrastructure needs like office space, through Facilities Services.

The figure below represents the City of Portland’s owned land, based on current County Assessor Data. The Facilities Services Manager who provided the data told us that his level of confidence for the overall total is moderate, and that his level of confidence for the bureau assignments is low. As part of the development of a citywide real property inventory that we detail later in this report, bureaus are currently reviewing this data to verify ownership and acreage. The Facilities Services Manager said that he expects to have more accurate totals within the next few months.

Estimation of City of Portland’s owned real property

Bureau Owner	Number of tax lots owned	Number of Acres
Parks	1,827	8,786
Water	243	5,418
Bureau of Environmental Services	499	846
Bureau Unidentified	7	19
Bureau of Transportation	616	81
Mixed Bureau ownership	53	367
Portland Development Commission*	91	45
Office of Management and Finance	54	69
Fire	35	12
Housing*	24	8
Bureau of Planning and Sustainability*	2	1
Total	3,451	15,652

* Bureaus not included in our review.

Source: Facilities Services, based on current County Assessor Data as of January 2015

According to City Code, Facilities Services is authorized to “provide property management services for the inventory and rental of city-owned real property. Provide property management services for the purchase, sale and replacement of city-owned real property.” However, according to Management and Finance managers, there is no requirement in Code that City bureaus use Facilities’ property management services, and a few land owning bureaus do when selling real property. A few years ago, the Director of Internal Business Services who oversees Facilities Services, convened the Portland Property Management Committee. Property managers from Environmental Services, Management and Finance, Parks, Transportation, and Water regularly attend, while Fire and Housing representatives have attended a few meetings. This group meets monthly to discuss real property management issues.

There is a cross-bureau City Asset Managers Group with representatives from the Budget Office, Bureau of Environmental Services, Management and Finance, Planning and Sustainability, Water, Transportation and Parks. However, these bureau representatives are not bureau Property Managers. According to Management and Finance managers, there is some cross over between issues that both groups address, but there is little direct involvement between the two. The managers told us that the asset management group is focused on management of bureau infrastructure assets, while the Portland Property Management Committee is focused on issues such as real property sales. A member of the Asset Managers Group told us that their assessments focus on physical infrastructure and do not include the land on which an asset sits or vacant land.

Audit Results

City real property management lacks a consistent and strategic focus

Plans, policies and procedures are necessary for consistent and transparent decision making

Real property is a tool used by the City to provide services, but it is also an asset. Because there are a number of potential uses for real property and real property needs change over time, industry best practices argue that effective land management decisions are those that follow a plan articulating how real property fits into an entity's mission and achievement of goals, and how it should be treated once it is no longer needed. Additionally, because a variety of bureaus are responsible for real property management decisions, the plan should be accompanied by clear policies and procedures that guide the process for surplus land disposal to ensure consistency and public transparency.

In our focused review of the policies for 12 major West Coast and Oregon jurisdictions available online, we concluded that 6 appear to have documented procedures for declaring real property surplus and 7 appear to have written policies on the disposal of surplus real property.

Oregon law allows a variety of disposition methods

There are two Oregon Revised Statutes (ORS) that directly apply to the sale of city-owned real property. ORS 221.725 *Sale of city real property; publication of notice; public hearing* outlines requirements for public notification and hearings about city real property sales, including timelines and location where notice should be published. On the other hand, ORS 221.727 *Alternative procedure for sale of city real property, public notice and hearing* allows a city to ignore the detailed public notification procedure outlined in ORS 221.725 if they adopt "after public notice and hearing, a procedure for the sale of individual parcels of a class of city-owned real properties...under a single program ...for the sale of that class of properties."

Based on the Freeman Tank property sale, it was not clear to us which State Statute the City was following since we did not see evidence of the public notification called for in ORS 221.725, and we could not determine if the City had a procedure for the sale or a single program as called for in ORS 221.727. We also found

no reference to either Statute in City Code, Charter, Portland Policy Documents, or either the draft bureau policies or the draft citywide policy on real property sales. We also did not find reference to either Statute in Council ordinances authorizing surplus real property sales.

City Attorney's Office staff told us that – "The City's legal position is that it is in compliance with state law including 221.727, and City Charter and City Code in its disposals of real property." They went on to tell us – "ORS 221.727 does not restrict property disposition to one method but allows for alternatives in disposition methods. The City's program has City Council making the disposition determination through ordinances directing the disposition methods for the identified real property. A fair market value sale is one method for disposition. The law permits the City to have flexibility to determine other disposition methods."

Based on the surplus real property decisions we reviewed, we found that bureaus take real property sale and exchange ordinances to Council, but that individual ordinances can apply to multiple properties, and ordinances do not have details about proposed sale timelines.

Portland Charter, Code, and Policy Documents lack guidance

Because the Oregon Revised Statutes discussed above do not cover the identification of surplus land and provide little instruction on how real property sales should be carried out, we looked to City plans and policies for guidance on surplus real property sales. We found that City Charter, City Code and Portland Policy documents do not provide guidance on the disposal of surplus real property.

We found that besides stating that the City may sell real property no longer needed with a favorable vote of at least four-fifths of all Council members, Portland City Charter contains little guidance as to how surplus land decisions should be made or how sales should be conducted.

Portland City Code has clear policies on the disposal of surplus personal property, (which is tangible items such as office furniture). City Code also addresses the sale of tax foreclosed properties that the City has acquired. However, there are no written policies on the identification or sale of surplus City real property. City Code states that the Director of Internal Business Services is authorized to execute real property agreements, and that Facilities Services will “provide property management services for the purchase, sale and replacement of city-owned real property.”

We also examined Portland Policy Documents but found nothing about the sale of surplus land.

The most detailed City rule regarding surplus real property is a financial accounting rule. FIN 6.12 says that capital assets (which include real property) retired from service should be done in the most effective and efficient manner possible and in an environmentally responsible manner. FIN 6.12 says that transfers of capital assets between bureaus should be at book value, which is the price at which the asset was purchased minus depreciation. FIN 6.12 also says that Management and Finance’s Business Operations is responsible for the sale of real property, which is in conflict with City Code.

Bureau policies to identify and sell surplus real property are lacking

In the absence of an overarching Citywide plan and guidance for real property management, we looked at how Environmental Services, Fire, Management and Finance, Parks, Transportation, and Water identify and sell surplus land.

We found that Parks has a pre-disposition policy that outlines how real property holdings should be reviewed to identify surplus. Parks' policy also provides guidance on the type of real property that should be deemed surplus (real property that does not meet bureau needs anymore). With the exception of Parks, bureaus do not have documented criteria to help determine what real property should be considered for surplus and disposal. We also found that bureaus don't consistently have written policies about how to sell surplus real property.

Without a real property management strategy for the City and citywide policies and procedures, City interests may not be maximized and there may be inconsistent sales with little transparency

Without a documented City approach to real property management, the City misses an opportunity to articulate how real property retention and disposal fits into their provision of services and overall goals. Bureau interests may take precedence over the goals of the City because in some instances, the City's and bureaus' overall goals may not be the same. For example, in 2012, the City disposed of a piece of real property managed by Facilities Services to help achieve broad goals of job creation and economic improvement. These are Citywide goals that likely would not have been prioritized by a City bureau.

Without a Citywide real property management approach or policies and procedures for the identification of surplus real property and

its sale, bureaus are left to determine internally how they identify and sell surplus real property, potentially resulting in inconsistencies across the City. Additionally, bureaus do not consistently have written internal policies and procedures to outline the identification and sale of surplus real property, meaning that bureaus rely on institutional knowledge and that surplus real property decisions may be inconsistent within a bureau over time. The property managers for all but one bureau told us that their bureaus rarely or never dispose of surplus real property. While there may be many reasons why a bureau does not dispose of surplus land, we believe one cause may be the lack of policies and procedures to guide the identification and disposal of surplus land.

Two bureaus and Facilities Services are working to clarify the sale process

After the Freeman Tank property sale and the corresponding legal challenge and public attention, the Commissioner in Charge of Water and Environmental Services spearheaded an effort to develop a pilot policy to guide the surplus land sale processes for those bureaus. According to Environmental Services' former Property Manager, they followed the policy when they brought two recent surplus real property ordinances to City Council and will follow the policy when they sell the properties. The former Property Manager told us that there were no difficulties using the policy, and that based on the success of having the properties declared surplus and approved to sell by Council, the former bureau Director asked staff to look for more surplus land.

Using the Water/Environmental Services pilot policy, Facilities Services began working with the Portland Property Management Committee to develop the Surplus Real Property Identification, Disposition and Notification Process (Citywide policy), which will guide the real property sale process Citywide. Both the Environmental Services/Water pilot policy and the Citywide policy place significant emphasis on early public notification of real property sales through posting signs and communicating to affected neighborhood and business associations. Both policies also have steps to ensure that other City bureaus and some other government entities are offered the properties before they are placed for sale on the open market, which would maintain the real property as public.

We did not perform an in-depth analysis of the pilot policy or the Citywide policy since neither was final at the time that we wrote this report. We did note that neither policy reflect the requirement in FIN 6.12 that capital assets be transferred to other bureaus at their book value, or that capital assets be disposed of in the most efficient and cost effective manner possible and in a way that is environmentally responsible. A Risk Management official told us that land the City sells should have a phase 1 environmental review performed so that the City is aware of any environmental issues on the land. It is not clear that the policies call for this type of environmental review. Office of Management and Finance, Internal Business Services and Facilities Services managers question if a review by the City is necessary without a requirement from the buyer. We also noted that the policies do not cover the process to identify surplus real property. The Internal Business Services Director told us that the process to identify surplus land will remain an internal bureau decision.

City real property management is decentralized

A central body should help coordinate real property management

Best practices state that a central body specializing in real property management should be responsible for real property management to reduce duplication of effort and ensure consistency.

The importance of a central body responsible for property management was echoed in 2014 by an independent consultant hired to review the Office of Management and Finance. In a report presented to Council, the consultant reiterated that centralized facilities management is an industry best practice and recommended that facilities management functions spread across the City be centralized within Management and Finance. The consultant told us that a centralized approach to facilities can take different forms, and that bureau land managers could remain in their bureaus. However, the consultant stressed that there should be a more centralized approach to facilities management than there was at the time of the review.

City real property management structure is decentralized

As noted in the background section, we found that the City's structure for real property management is decentralized. Land owning bureaus each have property managers and each bureau identifies surplus land and initiates land sales internally. Though Facilities Services, a central body, is authorized in City Code to provide management services for City-owned real property, bureaus are not obliged to use their services.

Involvement of a centralized real property management function may help achieve City goals and reduce duplication

Having a centralized property management body involved in real property management across bureaus would help the City implement an overarching strategic approach to real property management. Without a Citywide strategy on real property management, without City policies and procedures, and without a centralized real property management function, the majority of management decisions are made at the bureau level, which may benefit interests of individual bureaus rather than the City as a whole, and result in inconsistencies across bureaus. In addition, as noted in the 2014 review of Management and Finance by an independent consultant, redundancies in real property management equipment, services, contracts and activities may exist since real property is managed in multiple bureaus; this could lead to increased costs to the City.

Draft citywide surplus real property sale policy would increase role of centralized management

The draft Citywide policy includes a City Property Coordinator in different aspects of the bureau land sale process, a position that would reside in Facilities Services. The Internal Business Systems Director announced in November 2014 that he planned to institutionalize the Portland Property Management Committee as an advisory group for City real property management, and that part of the City Property Coordinator's work would be to carry out the decisions of the committee. The City Property Coordinator position does not currently exist, and Management and Finance managers told us in February 2015 that there will not be a request to fund the position in FY 2015. Concerns regarding a more central approach to property management exists among land-owning bureaus, primarily regarding funding for the new position and loss of specialized knowledge about bureau properties.

Gabriel Park



Gabriel Park

As a result of the outside consultant's review of Management and Finance, in June 2014, the Chief Administrative Officer's Office began a consolidation inquiry – a research effort to look for opportunities to make a number of service areas, including facilities management, more efficient and/or more effective. The Directors of the Budget Office, Environmental Services, Management and Finance, Parks and Transportation have been involved in the group's meetings to date.

Lack of comprehensive inventory of real property limits City's strategic decision making

A complete and regularly updated inventory of all City-owned real property needed

Industry best practices recommend that there be a complete and regularly updated inventory of all City-owned real property with detailed information, including how land and buildings are used. According to the Urban Institute Center on International Development and Governance's *Guidebook on Real Property Asset Management for Local Governments* (Guidebook), an accurate database and inventory

is a crucial first step in establishing an effective property asset management system. According to the Guidebook, an inventory allows the government to monitor and analyze real property to develop and implement a strategic plan for managing assets. The federal government has adopted this practice. In 2004, an Executive Order mandated that the federal government's General Services Administration develop and manage a new inventory system to serve as "a single comprehensive, and descriptive database of all real property under the custody and control of all executive branch agencies. . ."

The table to the right shows examples of inventory elements that the Federal Real Property Council requires and the Urban Institute recommends.

It is important that the inventory contain sufficient information so that real property managers and policy makers can review the inventory and quickly assess how a property plays in the provision of services or goals of the government. For example, it is important to know if a property is a park, a surplus parcel sitting idle, or a warehouse leased to a partner agency.

Public real property should be managed proactively and strategically

Industry best practices recommend that the body responsible for property asset management use the real property inventory to periodically review land holdings. If the inventory contains sufficient detail, reviews help asset managers and decision makers determine if additional real property is needed, how properties' operating and maintenance costs compare, how properties are being used, and how properties relate to the mission and business operations of the government.

If real property managers determine that certain land holdings do not play a role in the City's mission or do not generate sufficient revenue, best practices argue that these properties should be evaluated for disposal. One of the Federal Real Property Council's guiding principles is to "dispose of unneeded assets". Holding onto surplus land without a plan for its use is not beneficial to the City because there are maintenance costs and risks since the City may be liable for incidents that take place on the property. Finding a property's best use will benefit the City. Another bureau or public agency may put

Recommended components of a comprehensive real property inventory

Federal Real Property Council's guidance for Improved Asset management

Examples of data elements federal agencies are mandated to capture and track

Real property type
Real property use
Legal interest
Status
Historical Status
Reporting Agency
Using Agency
Size
Utilization
Value
Condition Index
Mission Dependency
Annual Operating Costs
Main Location
Unique Identifier
Restrictions

Source: Federal Real Property Council

Urban Institute's Guidebook on Real Estate Asset Management for Local Government

Examples of an effective real estate inventory's elements

Inventory Number
Address
Type of Real Estate
Current Use of Real Estate Property
Size of Facility
Size of Land
Condition of Buildings
Percent of Real Property Used
Entity Where Asset is Recorded in Balance Sheet
Entity Responsible for Management and Maintenance
Number of Tenants
Functional Role

Source: Urban Institute Center on International Development

HydroPark



Marigold Hydro Park, an example of the type of real property owned by the City.

the real property to use rather than have it sitting idle. On the other hand, if the property is sold, revenue will be generated. In addition, the property returns to the tax rolls and development on it will likely improve the economy.

City lacks a comprehensive inventory, which precludes periodic reviews of land holdings

We found that Facilities Services does not maintain a comprehensive inventory of City land holdings. We were told that each time a Commissioner or business requests a list of City real property, staff compile information to create lists. Individual land owning bureaus have inventories or lists of their land holdings, but they record varying levels of detail about properties and use dissimilar inventory systems. Different systems are used across bureaus and within one bureau to record land holdings. We also found that some bureau inventories are not complete.

At the Citywide level, a periodic review of land holdings to identify needs and surplus cannot happen because there is no Citywide inventory. And though bureaus have lists of land holdings, we found that bureau level reviews of land holdings are not consistently taking place. Bureau land managers told us that they rarely sell surplus real property. While bureaus may hold onto surplus land for a variety of reasons, we believe this may be due in part to the lack of periodic review of land holdings, in addition to a lack of guiding plans and policies.

Without periodic reviews of land holdings, the City as a whole does not know what real property they need to meet anticipated demands, or what land holdings may be under used or should be considered for disposal. The City needs central and detailed information about land holdings in order to make strategic decisions about land management.

Facilities Services is coordinating the creation of a City-wide real property inventory

Shortly before we began this audit, Facilities Services, with the assistance of Technology Services, started an effort to create a central real property inventory. The inventory will rely on information provided by individual bureaus and Management and Finance. We did not

complete an in-depth analysis of the proposed inventory because it was not complete when we wrote a draft of this report. When we shared the preliminary findings of this audit with the Portland Property Management Committee in November 2014, we noted that there was no field in the proposed inventory where a property's current use (surplus, leased, in use) would be recorded. Without this information, the proposed inventory cannot be used to identify surplus real property that should be considered for disposal.

Conclusions and Recommendations

With the exception of one bureau, the City lacks policies about how bureaus should identify surplus real property, and with the recent exception of two bureaus, there is little documented guidance in use on how bureaus should go about disposing of surplus property. The current decentralized structure of City real property management may create redundancies. In addition, having property managers in each bureau following different guidance means that surplus real property identification and sales may be inconsistent. The City lacks an inventory of City-owned real property, meaning that land holdings cannot be reviewed periodically, an essential step in proactive and strategic real property management. We make a number of recommendations to address these issues:

**Manage real property
with a consistent,
strategic focus**

1. Facilities Services, in consultation with the Portland Property Management Committee, should create a policy statement in which the City's approach to real property management and surplus real property is clearly articulated. This policy statement should be presented to City Council for its approval.
2. Facilities Services should continue to work with the Portland Property Management Committee to finalize the Surplus Real Property Identification, Disposition and Notification Process (Citywide policy), to be used by all bureaus. It should be brought to Council for its approval. Facilities Services should solicit feedback on the draft Citywide policy with offices that may be affected by real property sales including the City Attorney's Office, Risk Management and Accounting.
3. Facilities Services should track the revision of FIN 6.12 in order to determine its impact upon real property sales and to insure it is updated to reflect its real property sale authority granted in City Code. Until FIN 6.12 is revised, OMF Facilities Services should ensure that the Citywide policy on the sale of surplus real property adheres to FIN 6.12 and other financial accounting rules on the recording of capital assets.
4. Facilities Services, in consultation with the Portland Property Management Committee, should spearhead a project to develop policies and procedures for the identification of surplus real property. If a Citywide approach to the identification of surplus real property is not adopted, Facilities Services, in consultation with the Portland Property Managers Committee, should encourage bureaus to develop documented processes with clear criteria for what real property should be considered surplus.

Strengthen centralized management role

5. Facilities Services should continue to work with the Portland Property Management Committee to establish a more involved role for Facilities Services in the surplus real property disposal process. Facilities Services should listen to the concerns expressed by bureau property managers regarding expertise about real property, cost and revenue sharing, and Facilities Services' staffing issues in order to identify a strategy that maximizes the City's interest. Facilities Services should track the work of the Management and Finance consolidation inquiry because its findings may relate to real property management functions.

Develop comprehensive inventory of land holdings

6. Facilities Services and the Bureau of Technology Services should continue their work to create a City inventory containing all City-owned real property. They should work to incorporate inventory elements from industry best practices reported earlier as they compile information and create a complete and detailed inventory. Facilities Services should ensure that there is staff capacity to keep the inventory up to date over time.
7. Using a complete, detailed and regularly updated inventory and informed by a Citywide real property management policy statement, Facilities Services, in consultation with the Portland Property Management Committee, should encourage bureaus to periodically review City real property holdings to identify needs and real property that should be considered for surplus and disposal. Guidelines for inventory reviews and a criteria for surplus designations should be formalized and incorporated into the policies discussed in recommendation 2 and 4.

Objectives, scope and methodology

We started this audit as a result of the City Ombudsman’s review of the Water Bureau’s sale of the Freeman Tank Property in Southwest Portland. We reviewed the Ombudsman’s file and concluded that the Freeman Tank sale demonstrated that at least one bureau lacked transparent procedures for the sale and disposal of surplus property. As such, we reviewed the City’s structure for land management and how the City identifies and disposes of surplus real property. Our audit objectives were to:

1. Determine whether the City’s process to manage real property aligns with best practices.
2. Determine whether the City’s processes for identifying and disposing of surplus real property align with applicable State law, City rules/policies, and common surplus public real property practices.

To assess the State laws that apply to the sale of public real property, we reviewed applicable Oregon Revised Statutes and discussed them with the City Attorney’s Office.

We reviewed City Charter, City Code, Portland Policy documents, and financial accounting rules for applicable guidance.

We interviewed real property managers from several City bureaus – Water, Environmental Services, Housing, Fire, Transportation, and Parks. We interviewed Facilities Services managers and staff. We reviewed available bureau policies and documents on deeming real property surplus and disposing of it. We reviewed Council ordinances approving real property sales. We reviewed checklists and website postings of real property managed by Facilities Services for sale or lease. We interviewed a manager from the Bureau of Planning and Sustainability about comprehensive planning and complaints about real property sales she received from the public. We interviewed the former City Controller, managers and staff from the City Budget Office. We interviewed City Risk managers. We interviewed Bureau of Technology Services staff. We attended meetings of the Portland Property Management Committee. As part of our review process, we shared an early version of this report with the Portland Property Management Committee and incorporated their feedback into the report.

We reviewed Moss Adams' assessment of the Office of Management and Finance and interviewed the project manager about the findings and recommendations related to facilities consolidation. We also reviewed audits, local and federal government guidebooks, articles, and a book about public real property management and surplus real property sales in order to identify surplus real property best practices. We obtained and reviewed the publicly available surplus real property policies and procedures from the websites of the following jurisdictions: City of Beaverton, City of Eugene, City of Gresham, City of Medford, Oregon City, Multnomah County, Metro, The State of Oregon, City of Los Angeles, City and County of San Francisco, City of Seattle, and the City of Vancouver, WA.

In our audit, we focused on the work of the following bureaus: Management and Finance, Water, Environmental Services, Parks, Transportation, and Fire. The Portland Development Commission and Housing Bureau are real property owners, but they dispose of real property as part of their missions of economic development and the provision of housing, respectively. Our audit scope included bureaus that dispose of surplus real property. According to County Assessor data provided by Facilities Services, the Bureau of Planning and Sustainability owns one tax lot. However, Facilities Services does not consider them to be a land owning bureau like those included in our scope.

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.

RESPONSES TO THE AUDIT



OFFICE OF MAYOR CHARLIE HALES
CITY OF PORTLAND

DATE: March 18, 2015

TO: Mary Hull Caballero, City Auditor

FROM: Mayor Charlie Hales
Fred Miller, Chief Administrative Officer, Office of Management and Finance *Fred Miller*
Bryant Enge, Director, Bureau of Internal Business Services, Office of
Management and Finance *[Signature]*

SUBJECT: Surplus Real Property Audit

Thank you for the opportunity to review and respond to your office's audit of the City's surplus real property disposition policies and practices. We appreciate the thorough and thoughtful work of Audit Services staff, and especially appreciate their willingness to involve the Portland Property Management Committee in the review of the audit findings.

As noted in the audit, the Office of Management and Finance (OMF), through the Bureau of Internal Business Services (BIBS) and its Facilities Services Division (Facilities) have been working with the real property owning bureaus on a number of efforts over the past year and a half. To this end, BIBS convenes the Portland Property Management Committee (PPMC) which is comprised of staff from these bureaus.

We agree it's important for the City to ensure the information it maintains about real property owned by City bureaus is accurate and complete. BIBS has been working with the Bureau of Technology Services and the PPMC to compile an inventory of the real property owned by City bureaus and agencies. At this stage of the effort, the members of the PPMC are reviewing the inventory data and confirming ownership of each of the properties. BIBS is also currently exploring implementing SAP Enterprise Asset Management to meet Facilities' needs. There may be an opportunity to incorporate the real property inventory being developed by the PPMC into the Flexible Real Estate module of SAP, allowing for additional information to be captured regarding use, as well as creating linkages to SAP's financial modules for recording and reporting.

In the coming year, the OMF, in collaboration with the property-owning bureaus, will continue work underway and will initiate new efforts that are relevant to the audit recommendations, as described below.

Audit Recommendation: Manage real property with a consistent, strategic focus

- Recommendations 1 and 2 – BIBS and Facilities have taken the lead on drafting a Citywide policy for identification and disposition of real property, and has engaged the PPMC in this effort. OMF will vet the Surplus Real Property Disposal policy through the City's standard review and comment process, then submit it to City Council for adoption as binding City policy. In addition, OMF is working on a new City policy related to property and asset management that establishes a broad framework for how the City acquires, uses, and disposes of real, personal, and intellectual property.
- Recommendation 3 – OMF agrees the Accounting Administrative Rule FIN 6.12 needs to be updated. The Accounting Division is lead in that effort and will engage OMF's Policy Team and Facilities to ensure appropriate cross references are included in both the accounting policy and in the Surplus Real Property Disposal policy.
- Recommendation 4 – Facilities will work with the PPMC to identify existing bureau procedures and common considerations for how a bureau determines whether a piece of real property is surplus. The findings of this effort could lead to a recommendation to develop a Citywide policy for the identification of surplus real property.

Audit Recommendation: Strengthen centralized management role

- Recommendation 5 – Facilities plans to continue to work with the PPMC to coordinate and collaborate on real property management issues. Facilities has found the PPMC to be a productive forum for discussion and welcomes the Consolidation Inquiry recommendation to create a similar group for staff involved in building and facilities management.

Audit Recommendation: Develop comprehensive inventory of land holdings

- Recommendation 6 – Facilities will continue to work with the PPMC and BTS to develop and confirm the data in the real property inventory and, as well, will continue to explore whether the SAP Flexible Real Estate module could provide a more powerful tool for bureaus' needs vis-à-vis real property management.
- Recommendation 7 – Through the PPMC, Facilities will continue to coordinate and collaborate with bureaus. Bureaus need to identify their bureau business needs and which properties they no longer need to meet those. The inventory, the PPMC, and policies will be resources to help with coordination and collaboration.

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Surplus Real Property: Policy, central management, and inventory of real property holdings needed

Report #461, April 2015

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