

THE STATE'S REAL PROPERTY ASSETS

The State Has Identified Surplus Real Property, but Some of Its Property Management Processes Are Ineffective

REPORT NUMBER 2000-117, JANUARY 2001

Department of General Services' and Department of Transportation's responses as of January 2002

Audit Highlights . . .

Our review of the State's management of its real property assets reveals:

- Although there are numerous properties in the State's surplus property inventories, many are not available for disposal and the disposal process is slow.*
 - The State's approach for identifying surplus property remains flawed.*
 - State agencies' inventory systems do not provide effective property management tools or reliable reports.*
 - General Services can improve its management of the State's office space, including space leased out for child care facilities.*
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In requesting this audit, the Legislature expressed an interest in the availability of surplus state properties in high-cost counties for public use, such as housing, parks, or open space. Therefore, our audit focuses on how much surplus or underused state-owned real property exists in 15 of the State's counties where the cost of real estate is relatively high and housing is relatively scarce and whether agencies are adequately managing their property. Specifically, we assessed the property management procedures for the two agencies primarily responsible for disposing of the State's surplus property: the Department of General Services (General Services) and the Department of Transportation (Caltrans). We also reviewed the property management practices of eight other agencies with large landholdings in high-cost counties. We found that the State has many surplus properties in high-cost areas. However, the State still does not use effective systems or processes to manage its real property despite the State's efforts in response to several past studies regarding its property management.

Finding #1: General Services has 27 properties located in 15 high-cost counties in its surplus property inventory; however, few of these properties are currently available for sale, and the disposal process can take years.

General Services has contributed to delays in the disposal of surplus properties because it has not always maintained adequate staffing in its Surplus Sales Unit (Surplus Sales), which is the unit primarily responsible for selling surplus property. In addition, Surplus Sales has not always promptly assigned surplus properties to staff for disposal. When surplus properties sit idle, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Further, until leased or sold, these properties are not available for other purposes, such as housing.

To help dispose of the State's surplus real estate in a timely manner, we recommended that General Services fill the vacant positions in its unit responsible for selling, leasing, or exchanging surplus properties. We also recommended that General Services promptly assign to staff the properties that require disposal.

General Services' Action: Corrective action taken.

General Services stated that current operating practices ensure that prompt actions are taken to fill vacancies in the unit. Although the unit currently has one vacancy, the position is being advertised and will be filled as soon as possible. General Services stated that it also redirects staff, when necessary, to ensure adequate coverage in the unit. Finally, to ensure prompt processing, properties are assigned to staff immediately after the surplus bill is signed into law rather than waiting until the law takes effect on January 1.

Finding #2: Caltrans' Excess Land Management System (ELMS), which serves as Caltrans' inventory of surplus properties, lists 1,928 properties in the 15 high-cost counties; however, the ELMS is incomplete.

The ELMS also overstates the number of properties actually available for sale. Moreover, after Caltrans identifies a property as surplus, years may pass before the property is available for disposal. When delays occur in the sales of surplus properties, Caltrans, which retains the proceeds from such sales, does not have these funds available to address other needs of the department.

We recommended that Caltrans take the necessary steps to make certain that it properly accounts for and disposes of surplus property as rapidly as possible. These steps should include making sure that Caltrans staff promptly includes and correctly categorizes all surplus property in ELMS. In addition, Caltrans should develop methods to ensure that it completes all aspects of highway projects, including the prompt disposal of surplus property.

Caltrans' Action: Partial corrective action taken.

Caltrans stated that it continues to work on completing a full reconciliation of ELMS and its Right of Way Property Management System (RWPS), and that it has made significant progress in correcting errors and omissions in ELMS. Caltrans also reported several actions it has taken to ensure prompt disposal of properties. These actions include: ensuring

districts' excess lands sections are appropriately staffed, using retired annuitants when necessary, pursuing a consultant contract for surveying services, and issuing guidelines for local agency involvement in right of way acquisition and project delivery.

Finding #3: The State lacks oversight of property management activities designed to ensure landowning State agencies are diligently reviewing their property holdings and identifying property that is surplus to their program needs.

Although these state agencies are responsible for conducting annual reviews of their property holdings to identify surplus property, they generally have not developed and implemented adequate procedures for doing so. Also, few incentives exist for most agencies to actively identify and dispose of surplus property because the proceeds from most property sales do not benefit the selling agency but are deposited in the State's General Fund. The State could improve its real estate management by implementing practices used by other governmental entities such as using an independent body to review property retention processes and criteria and to arbitrate property retention decisions. When surplus properties remain unidentified, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Also, until leased or sold, these properties are not available for other purposes, such as housing, parks, or open space.

To provide consistency and quality control over the review of the State's real property holdings, we recommended that the Legislature consider empowering an existing agency or creating a new commission or authority with the following responsibilities:

- Establishing standards for the frequency and content of property reviews and land management plans.
- Monitoring agencies' compliance with the standards.
- Scrutinizing agencies' property retention decisions.

Alternatively, this entity could be responsible for periodically conducting reviews of the State's real property and making recommendations to the Legislature regarding the property's retention or disposal.

If the Legislature does not wish to establish such an oversight entity, it should consider replacing the current requirement for annual property reviews with a requirement for less frequent but more comprehensive reviews.

The Legislature should also consider providing incentives to state agencies to encourage them to identify surplus and underused property so that they free the real estate for better uses. Such incentives could include allowing agencies to retain the proceeds from the disposition of surplus properties for use either in funding current or planned capital outlays for new property or in improving and modernizing existing facilities when the need exists. Additionally, when agencies need to acquire or improve facilities, incentives for disposing of excess property could include guaranteeing agencies the market value for the surplus property they sell or transfer.

Legislative Action: Unknown.

We are not aware of any legislative action concerning this recommendation.

Finding #4: Caltrans has not performed adequate reviews of its property holdings.

Unreliable inventory reports and weaknesses in its retention review guidelines hinder Caltrans' efforts to conduct property-retention reviews. Consequently, Caltrans cannot be certain that it has identified all surplus property, the disposal of which would generate funds that Caltrans could use to meet its other needs.

To ensure that it adequately reviews its real property holdings and identifies surplus properties, we recommended that Caltrans management improve its support for the retention reviews conducted by its districts. We recommended that Caltrans seek to improve the reviews in the following ways:

- Make certain that the various units at district offices adequately participate in and work together to administer effectively the annual reviews of real property retention.
- Ensure that district offices follow the retention-review guidelines and maintain asset managers to provide year-round coordination of the management of surplus property and to improve the quality of annual retention review efforts.

- Revise the retention-review guidelines so that they include the following elements:
 - ♦ Specific criteria for districts to evaluate the buildings and facilities listed in the Asset Management Inventory.
 - ♦ Procedures for ensuring that the ongoing monitoring of surplus property withheld from disposal is sufficient and appropriate.
 - ♦ Steps for reviewing noninventory property to ensure that the department needs the property for future highway projects.

Caltrans' Action: Partial corrective action taken.

Caltrans expected to deliver by March 15, 2002, a revised Deputy Directive (directive), which comprehensively addresses the department's facility planning and surplus property management practices. Because of a five and a half month delay in issuing this directive, the Division of Business, Facilities, Asset Management, and Security independently completed its business plan in September 2001. The department's efforts to revise its Real Property Retention Review (RPRR) guidelines have also been delayed and it expected to complete the comprehensive revisions to the RPRR concurrently with the new directive by March 15, 2002. Finally, the department reported that it revised its RPRR to include minimum review frequencies for properties conditionally retained or for which disposal is recommended, a review of noninventory properties, and a preliminary review of properties available for sale.

Finding #5: The Statewide Property Inventory (inventory) is not yet an effective property management tool because reporting agencies do not cooperate with General Services to ensure that the inventory includes all property owned by the State. In addition, the inventory does not list required property characteristics and property use information.

We recommended that General Services take the necessary actions to ensure that the inventory contains the information it requires to serve as the statewide property management tool intended by legislation. To accomplish this task, General Services should consider the following steps:

- Working with state agencies to identify the property characteristics the inventory must contain to serve as an effective property management tool and seek changes to the law if necessary.
- Developing changes to methods for operating the inventory system to promote efficiency. For example, new methods could give agencies the ability to enter required property information into the system and to verify the accuracy of the inventory through real-time access to the inventory's data.
- Cooperating with land-owning state agencies to provide standard property identification elements that will facilitate the reconciliation of the inventory systems maintained by the agencies.
- Seeking to change the funding mechanism for the inventory to eliminate the current disincentive for state agencies to provide information to the system.

General Services' Action: Partial corrective action taken.

General Services stated that in April 2001, it sent a memorandum to all state agencies asking them to identify any additional information that they would like to see included in the inventory. However, General Services did not provide details on the results from its request. General Services reported that it communicated with agencies on July 30, 2001, regarding how they can cross-reference with their own property identification numbering schemes for reconciliation purposes. General Services also stated that on July 20, 2001, it updated its intranet Web site to allow users to run a number of inventory reports within specified parameters. However, General Services has not deployed inventory information to the internet because of safety and security concerns. In addition, General Services has begun the process of upgrading the inventory to allow state agencies to have data entry capabilities. The first of three stages to upgrade the inventory involves software upgrades to improve operating efficiency. The proposed completion date for stage one is July 2002. General Services did not indicate when it would complete the final two stages, but reported that it would complete each stage when funding becomes available. Finally, General Services determined that there is no fair or practical alternative to the current method for funding the inventory.

Finding #6: General Services lacks a complete central record of unused or underused property to assist in monitoring the department's progress in selling or enhancing the use of those properties.

Insufficient mechanisms for monitoring excess state-owned property can result in oversights and unnecessary delays in disposing of this property and can make it difficult or impossible to measure and assess General Services' performance in carrying out the disposition of surplus property.

We recommended that General Services implement its plan to include in its surplus property database all unused or underused property assigned to its Surplus Sales and the Asset Planning and Enhancement Branch and update the surplus property database monthly to assist in monitoring its progress in selling surplus property or enhancing its use.

General Services' Action: Pending.

The management of Surplus Sales and the Asset Planning and Enhancement Branch is acting to improve the accuracy and completeness of the surplus property database. General Services expected to complete these improvements by March 1, 2002.

Finding #7: General Services did not promptly submit its most recent surplus property report to the Legislature, and the report does not provide detailed information about delays in selling several properties.

The document also does not identify deficiencies in the State's system for identifying and disposing of surplus property or highlight the issues causing lengthy delays in disposing of excess properties and thus misses opportunities to bring these matters to the attention of policy makers. If they had more detailed information regarding these issues, the policy makers might be able to identify opportunities for legislative intervention that could hasten the disposal process.

To improve the value of reports to the Legislature regarding its surplus property inventory, we recommended that General Services submit these reports promptly and consider including additional detailed information on the status of surplus property. In these reports, General Services should also describe the

weaknesses in the State's real property systems and include suggestions to improve the State's ability to identify and dispose of surplus property.

General Services' Action: Partial corrective action taken.

General Services agreed to submit its report on surplus property to the Legislature in a more timely manner. General Services stated that it would submit this year's report to executive management by February 2002, but did not indicate when it would submit the report to the Legislature. General Services also stated that the report now includes more detailed information on the status of surplus property. However, it did not address whether the report contains information related to program weaknesses and suggestions for improvement.

Finding #8: Caltrans does not maintain complete, current databases on real property. Consequently, the databases do not provide sufficient information to aid Caltrans districts in managing their real property.

In addition, because Caltrans bases its real property reports, including reports to the Legislature and General Services, on information in these databases, the reports do not provide complete, current, or accurate data. Finally, Caltrans does not always produce the annual reports it is required to submit to General Services. Therefore, any decisions or conclusion reached by users of available inventory reports might be based on obsolete information.

To make certain it has reliable information available to manage its real property holdings, we recommended that Caltrans take the necessary steps to correct the information in its real property databases. In addition, until existing reporting requirements are rescinded, Caltrans should take the necessary steps to ensure that it provides accurate, timely annual reports on the status of its real property holdings.

Caltrans' Action: Partial corrective action taken.

As mentioned earlier, Caltrans continues to work on completing a full reconciliation of its ELMS and RWPS. Caltrans also stated that it made significant progress in correcting errors and omissions in ELMS. Further, Caltrans reported that it delivered an accurate and timely report with the status of its real property holdings to General Services on

June 29, 2001, and that its development of an Asset Management System is on schedule for implementation by July 2002.

Finding #9: General Services has not fulfilled all of its obligations to administer a state program to provide space for child care facilities in state-owned buildings.

General Services does not always enforce the requirements of the program, such as executing lease agreements and collecting rent for building space occupied by child care providers. In addition to losing revenue by not collecting rent, General Services may be exposing the State to unnecessary liability because it has not always executed required building space leases.

To ensure that it complies with state laws governing child care facilities in state-owned buildings, we recommended that General Services take the following necessary steps to make certain it fulfills its oversight responsibilities:

- Improving its administrative controls over leases for child care facilities to ensure that required leases are in place and that nonprofit corporations established by employees to provide child care facilities meet all the terms and conditions of the leases, such as the nonprofits' making agreed-upon payments for the leased spaces.
- Developing and implementing a system to communicate among General Services' relevant units, such as those involved in building design, child care facility review, leasing, and accounting, to ensure that all affected units are aware of child care facilities under General Services' jurisdiction.
- Conducting the required initial reviews to determine whether state employees need child care facilities and, after the facilities have operated for five years, comparing state employees' continuing need for the facility to the State's need for additional office space.

In addition, General Services should make sure that it meets the requirements of the law when determining rents for employees' nonprofit corporations that seek to establish child care facilities in state-owned buildings and when enforcing the terms of lease agreements or seek to change the law's requirements.

General Services' Action: Pending.

General Services completed an initial review to identify actions needed to ensure fully operational and viable child care facilities. However, the review raised concerns about the viability of these centers statewide. As a result, General Services chartered another team to develop an action plan and leasing policy that will assure the viability of child care centers in state-owned office buildings. This action plan was completed on December 19, 2001.

The action plan results and recommendations are being considered by executive management. General Services expected the management review to be complete by April 1, 2002.

With regard to assessing the initial and continuing need for child care facilities, General Services stated that its existing policies and practices provide for the conduct of initial child care need studies as required by statute.

Finally, General Services stated that the action plan the charter team developed includes a recommendation related to charging rent to child care facilities. General Services provided its assurance that any rental policies it implements will fully comply with state statutes.

Finding #10: General Services does not conduct regional studies of office space occupied by state agencies and does not prepare plans to accommodate the State's office space needs as often as the department's procedures require. As a result, General Services cannot be sure that it is adequately managing the State's office space.

We recommended that General Services perform planned regional office space studies to ensure that it provides an adequate strategy for consolidating the State's office space.

General Services' Action: Partial corrective action taken.

General Services stated that several plans are complete or underway. General Services also affirmed its goal to complete regional plans within its established guidelines and stated that staff is tasked to create or update plans as operating priorities allow.