

MANAGEMENT AUDIT REPORT
OF
REAL PROPERTY DIVISION
DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES

REPORT NO. 12-105



City of Albuquerque
Office of Internal Audit

Department of Finance & Administrative Services, Real Property Division
Report No. 12-105
Executive Summary

The Office of Internal Audit (OIA) conducted a management audit of the Department of Finance and Administrative Services (DFAS), Real Property Division (Real Property). The audit was included in the fiscal year (FY) 2012 approved audit plan.

Real Property acts as a central professional real estate service organization for the City of Albuquerque. The division operates under the Real Property Transactions Ordinance, §5-2. The division's responsibilities include:

- Acquiring real estate for parks, open space and public facilities
- Selling surplus properties that have been declared non-essential for municipal purposes
- Acquiring and vacating public rights-of-way and easements
- Acting as valuation consultants to determine current market values
- Negotiating and managing City leases

Real Property has eight full-time professional staff. The division has been part of DFAS since 2010, prior to which it was under the City's Legal Department.

Real Property is currently nearing completion of a database of City owned properties. From the development perspective, the project is nearly complete. On the data-entry side, the project is approximately two-thirds complete. The remaining properties are those with little or no data available with which to populate the database. Research on these properties is still underway.

Is the inventory of City-owned properties complete and accurate? Does the database match paper records?

The database of City owned properties was reviewed for accuracy and completeness by matching data fields to source documents. The process compared individual database elements to available paper records or other electronic sources. In a random sample of 23 parcels, we noted that overall the database records were representationally accurate to the physical properties. However, some instances of missing or incomplete data were noted. All discrepancies noted were reported to Real Property. Quality control should be a key component of an electronic information storage system.

Are purchases of City properties negotiated at a fair price to ensure public resources are used in an effective manner? Are purchases in accordance with City Ordinance § 5-2-5?

OIA reviewed recent purchases and sales of real properties, and purchases and vacations of rights-of-way (ROW) properties. Applicable purchases tested were in conformance with City Ordinance § 5-2-5. Audit tests also considered conformance with internal operating procedures. To facilitate processing of all real property transactions Real Property has established written procedures for many key duties. OIA noted two areas for which a written checklist had not been drafted:

- *Appraisal Order and Review Process* and
- *Processing Vacations of Right-Of-Way.*

Is the bidding process for selling non-essential properties conducted in a fair and open manner in accordance with § 5-2-1 and § 5-2-2?

OIA reviewed recent sales of properties deemed non-essential for municipal purposes. Each sale was tested for conformance with City Ordinances, Administrative Instructions and Real Property's internal procedures. No exceptions to City Ordinances or Administrative Instructions were noted. In the course of reviewing each sale for conformance with the division's *Surplus Agent Checklist*, we noted that in each sale, the City shared the closing costs with the buyer. The *Surplus Agent Checklist* contains outdated wording which states that closing costs are paid by the buyer.

Is access to the database properly secured? Is the database backed up on a regular basis? Are user roles and responsibilities appropriately defined?

The database of City owned properties includes a public view and more detailed internal view. The internal view links to scanned images of complete record of the related paper files. Real Property has not yet established a formal procedure for requesting access to the Real Property database.

Recommendations and management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

September 26, 2012

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Management Audit
Department of Finance & Administrative Services, Real Property Division
Audit No. 12-105

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a management audit of the Department of Finance and Administrative Services (DFAS), Real Property Division. The audit included a review of internal controls over professional real estate services provided by the division. The audit also evaluated the division's progress in developing a comprehensive inventory of City owned properties and related database security. The audit was included in the fiscal year (FY) 2012 approved audit plan.

Real Property acts as a central professional real estate service organization for the City of Albuquerque. The division operates under the Real Property Transactions Ordinance, §5-2. The division's responsibilities include:

- Acquiring real estate for parks, open space and public facilities,
- Selling surplus properties that have been declared non-essential for municipal purposes,
- Acquiring and vacating public rights-of-way and easements,
- Acting as valuation consultants to determine current market values, and
- Negotiating and managing City leases.

Real Property has eight full-time professional staff positions. Real Property has been a division of DFAS since 2010, prior to which it was under the City's Legal Department.

Database project

The Real Property database project was initiated as part of an FY 2010 priority objective. Funding for the creation of the database was approved August 8, 2010. As described in the resolution, the initial objective was to:

Develop the parameters for completing a comprehensive inventory of City owned properties in two phases. Phase One will consist of identifying the resources and locations of City property information and assessing the data base requirements needed to input a comprehensive data base as well as link properties with the City's GIS system. At a minimum, the data base will include street address, UPC code, type of property, size, date purchased, Department holder, purchase price and most recent appraised value. Other data elements may be added as deemed reasonable. Phase Two will consist of implementing the data base, entering available data and researching missing elements.

Real Property engaged several contractors in FY11 to:

- Scan Real Property's repository of paper files and convert the files to electronic format,
- Provide cloud-based storage of scanned images, and
- To develop a web interface to the City's existing GIS database.



As of August 9, 2012, there were 1,418 parcels plotted, and populated with available data. This is approximately two-thirds of City-owned properties.

Real Property has had a challenge determining the complete inventory. There is no single-source that is considered a complete list of all properties. Certain properties are shared-use facilities between the City and other entities, such as Bernalillo County and the Albuquerque Bernalillo County Water Utility Authority. Some properties were obtained prior to the establishment of Real Property and lack paper files. The division is therefore relying on multiple data sources to construct a master list. These sources include tax records obtained from the Bernalillo County Assessor, and internal records prepared by other departments/divisions within the City. The division is also contacting various City departments to identify additional properties for which records may be lacking. This is a very time-consuming process and is not yet complete.

The ultimate goal of the Real Property database project is that, upon completion, the database will represent the complete list of City-owned properties, other than public rights of way.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Is the inventory of City-owned properties complete and accurate? Does the database match paper records?
- Are purchases of City properties negotiated at a fair price to ensure public resources are used in an effective manner? Are purchases in accordance with City Ordinance § 5-2-5?
- Is the bidding process for selling non-essential properties conducted in a fair and open manner in accordance with § 5-2-1 and § 5-2-2?
- Is access to the database properly secured? Is the database backed up on a regular basis? Are user roles and responsibilities appropriately defined?

SCOPE

Our audit did not include an examination of all functions and activities related to Real Property. Our scope included a review of documents and records relating to our objectives for the period of July 1, 2010 through April 30, 2012, as well as direct examination of the Real Property database.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, August 8, 2012 and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

To achieve the audit objectives, several methodologies were utilized. These methodologies included the following:

- Review of City ordinances and administrative instructions directly applicable to Real Property
- Review of Real Property's written internal policies and procedures

- Interviews with key Real Property personnel to gain an understanding of how the division processes acquisitions and dispositions of properties
- Interviews with personnel in Real Property and DFAS – Information Technology Services Division to develop an understanding of the database project and progress to date
- Examination of records detailing the acquisitions of real property for parks, open space, public facilities and rights-of-way
- Examination of records detailing the disposition of surplus properties and vacations of rights-of-way
- Evaluation of user access rights to the database of City owned properties
- Obtaining view access to the database of City owned properties to assess database accuracy and completeness through comparison to source documents
- Reviewing IT Governance Institute’s Control Objectives for Information and related Technology (CobiT) audit guidelines
- Reviewing Government Finance Officers Association (GFOA) Best Practices

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

OMITTED INFORMATION

Certain sensitive information has been omitted from this report. This information has been provided to City Administration, City Council and the Accountability in Government Oversight Committee.

1. DFAS, REAL PROPERTY SHOULD SYSTEMATICALLY INSPECT ALL DATABASE RECORDS FOR ACCURACY AND COMPLETENESS.

The database of City owned properties was reviewed for accuracy and completeness by matching data fields to source documents. The process compared individual database elements to available paper records or other electronic sources. Examples of data fields reviewed included:

- Uniform Property Code (UPC),
- Legal Description,
- Physical Address,

- Zone Atlas Page,
- Date Purchased,
- and Last Appraised Value.

In a random sample of 23 parcels, we noted that the database records were representationally accurate to the physical properties. However, we noted some instances of missing data fields and incomplete or incorrect data. OIA reported all discrepancies to Real Property during the week of July 9, 2012. A subsequent review of the database as of August 9, 2012 indicates that updates were made to parts of the database. Updates included corrections of some items noted in OIA's review.

At the time these properties were tested, quality control and review had not been performed on all database records. Quality control should be a key component of an electronic information storage system. CobiT standards state that data owners should "Define and implement procedures to ensure the integrity and consistency of all data stored in electronic form, such as databases, data warehouses and data archives."

RECOMMENDATION

DFAS, Real Property should systematically inspect all database records for accuracy and completeness. The review should be performed by an individual independent of the original data entry process. This quality review should be completed prior to making the database available for public view.

RESPONSE FROM DFAS

"DFAS, Real Property is in agreement that all database records should systematically be inspected for accuracy and completeness. However, OIA's review was conducted while the database was and is actively under development including the research and population of missing data elements as property records are located and verified. As such, during the dates of OIA's fieldwork, the database was not yet at a point of completion whereby a comprehensive evaluation could reasonably yield a result accurately depicting the quality of the data. When all software issues have been resolved and all data has been entered in accordance with all available records, an individual, independent of the development and research team, will conduct a final quality control review".

ESTIMATED COMPLETION DATE

“The database is estimated to be completed within three months with an additional three months needed for quality control review.”

2. DFAS, REAL PROPERTY SHOULD DEVELOP PROCESS CHECKLISTS FOR APPRAISALS AND VACATIONS OF RIGHT-OF-WAY.

OIA reviewed recent real property and rights-of-way (ROW) property transactions. Applicable purchases tested were in conformance with the Real Property Transactions Ordinance, § 5-2-5.

Audit tests also considered conformance with internal operating procedures. To facilitate processing of all real property transactions Real Property has established written procedures for many key duties. These documents are task-based checklists enumerating the essential requirements, by role, for processing real property transactions. These include:

- Acquisition Agent Checklist
- Checklist for Ordering Title Commitments
- Right-Of-Way Agent Checklist
- Surplus Agent Checklist
- Administrative Assistant’s Checklist for Processing Contracts
- Surplus Agent Checklist
- Closing Checklist
- Checklist for Preparing Property Files

OIA noted two areas for which a written checklist had not been drafted:

- Appraisal Order and Review Process
- Processing Vacations of Right-Of-Way

Checklists for the two tasks noted are currently not documented in writing. OIA observed that long-established verbal procedures were in place for these tasks which are performed by the Right Of Way Supervisor, Real Property Agents and Review Appraiser, who all have significant years of service with Real Property. However, should future personnel changes occur, management directives and expectations for these tasks may not be effectively communicated. Without accurate procedures, incorrect or inefficient procedures may be performed, or important processing steps may be skipped.

GFOA standards state that a comprehensive framework of internal control should “provide for the design, implementation and maintenance of effective control-related policies and procedures.”

RECOMMENDATION

DFAS, Real Property should develop checklists for the following tasks:

- Appraisal Order and Review
- Processing Vacations of Right-Of-Way

These checklists should identify (1) the person(s) or department(s) responsible for authorizing each action, (2) actions required by ordinance or administrative instruction, (3) the sequence of required steps for each task, and (4) the person responsible for performing each step. Checklists should have sufficient detail to instruct an alternate employee to perform the tasks should the usual employee be unavailable. Checklists should be reviewed for changes at a fixed interval, and the effective date of the revised checklist should be stated in the document.

RESPONSE FROM DFAS

“DFAS, Real Property is in agreement with the recommendation to develop checklists for Appraisal Order and Review and Processing Vacations of Right-Of-Way.”

ESTIMATED COMPLETION DATE

“Both checklists have been developed and copies were delivered to OIA on September 6, 2012.”

3. DFAS, REAL PROPERTY SHOULD PERIODICALLY EXAMINE ITS INTERNAL PROCEDURES.

OIA reviewed recent sales of properties deemed non-essential for municipal purposes. Each sale was tested for conformance with City Ordinances, Administrative Instructions and Real Property’s internal procedures. No exceptions to City Ordinances or Administrative Instructions were noted. In the course of reviewing each sale for conformance with the division’s *Surplus Agent Checklist*, it was noted that in each sale, the City shared the closing costs with the buyer. The *Surplus Agent Checklist* contains outdated wording which states that closing costs are paid by the buyer.

Real Property's standard procedures for processing sales of real property deemed non-essential for municipal purposes are outlined in the *Surplus Agent Checklist*. The division's procedure for negotiating the sales of surplus properties has changed over time. The *Surplus Agent Checklist* states that "All closing costs are paid by buyer." This practice has changed over time to permit the apportioning of closing costs between the City and the buyer. The procedures have not been changed to match the practice. With the owner department's permission, closing costs may be used as a negotiating tool to facilitate a successful sale.

Without accurate procedures, changing management directives and expectations may not be effectively communicated. Out-dated procedures can contribute to a lack of consistency in performance of required duties, reduces the enforceability of the procedure and weakens the control environment.

GFOA recommends a comprehensive framework of internal control "provide for ongoing monitoring of the effectiveness of control-related policies and procedures, as well as the resolution of any potential problems identified." The documentation of Control-related procedures tends to deteriorate over time. Therefore, such documentation should be reviewed periodically to ensure that the procedures:

- Have been properly designed to achieve what they are intended to achieve;
- Have been implemented as designed;
- Are still functioning as designed; and
- Are still adequate in light of the government's current circumstances.

RECOMMENDATION

DFAS, Real Property should:

- Periodically examine its internal procedures to determine whether the documentation (1) has been properly designed to achieve control-related objectives, (2) accurately communicates steps to be performed, (3) assigns responsibility for each task, and (4) reflects approved changes in operating practice.
- Update procedures at a fixed interval, and the effective date of the changes should be stated in the revised procedure.

RESPONSE FROM DFAS

“DFAS, Real Property is in agreement that it should periodically examine its internal procedures. This process is active and ongoing as evidenced by OIA’s findings that all of the Real Property transactions inspected were fully-compliant with their respective procedural checklists. This includes all elements of the Surplus Agent Checklist, save the notation regarding closing costs, which was recently revised to reflect the option of distributing the closing costs between the City and the buyer.”

ESTIMATED COMPLETION DATE

“The Surplus Agent Checklist has been updated and a copy was delivered to OIA on September 6, 2012.”

4. DFAS, REAL PROPERTY SHOULD DEVELOP A FORMAL WRITTEN ACCESS REQUEST PROCESS FOR INTERNAL ACCESS TO THE DATABASE OF CITY OWNED PROPERTIES.

The database of City owned properties includes a public view and more detailed internal view. The internal view is intended for internal use by the City and includes scanned images of paper files.

Review of current User IDs at the time of the audit indicated that all users with access to the Real Property database were properly authorized. It was noted, however, that there was no formal written procedure for requesting access to the Real Property database. The database is new and formal procedures are not complete. A formal access request procedure should be established prior to making the database available to parties outside the Real Property Division.

If there are no restricted access controls, information could be viewable by unauthorized parties. City employees, contractors and vendors have a responsibility to safeguard sensitive data. Per the City’s Sensitive Data policy, “Access to sensitive data stored in City databases and servers will be restricted to only those individuals with an official need to access the data.”

The City’s User ID Security Policy specifically states that access to City IT assets “shall be granted at the discretion of the owner of the asset.” In this case, the Real Property

Division Manager is the owner of the Real Property Database. The User ID Security Policy further states that “Potential users must secure the approval of the owner of information technology asset prior to requesting that ISD or a Department grant access to the asset. The owner of the asset may restrict a user’s access on a need-to-know, need-to-do basis, notwithstanding the provisions of the New Mexico Inspection of Public Records Act.” Access to the Real Property database should be restricted accordingly.

RECOMMENDATION

DFAS, Real Property should develop a formal written request process for granting access to the non-public view of the City owned property database. The process should address the following elements:

- Each request should be made in writing
- Requests must be justified and approved by the employee’s manager/supervisor
- Database access will granted at the discretion of the Real Property Division Manager
- Access rights will be periodically reviewed by the Real Property Division
- Access rights will be promptly revoked when such access is no longer necessary
- Access requests will conform to DFAS – Information Technology Services Division Sensitive Data and User ID Security policies

DFAS, Real Property should update the Database Security Policy to reflect the access request process.

RESPONSE FROM DFAS

“DFAS, Real Property is in agreement with the recommendation for a formal written request process for granting access to the non-public view of the digital property files. This process had already been developed at the time OIA conducted its fieldwork. To that end, the process delivered to OIA by Real Property is reflected in the recommendation nearly verbatim, with the exception that Real Property will also maintain a log to track access requests.”

CONCLUSION

We believe this audit will assist DFAS, Real Property to refine existing standard operating procedures in order to continue providing quality professional real estate services to the City of Albuquerque.

We appreciate the assistance and cooperation of DFAS, Real Property personnel during the audit.

Management Audit Report

Department of Finance & Administrative Services - Real Property Division

12-105

September 26, 2012

Page 13

Senior Information Systems Auditor

REVIEWED and APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP, CFE
Director, Office of Internal Audit

Chairperson, Accountability in
Government Oversight Committee