AUDIT REPORT

City Real Estate Portfolio Practices

Finance Department – Real Estate Division

May 2020

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May 21, 2020

AUDITOR'S LETTER

The objective of our audit of the city's real estate process within the Finance Department's Real Estate Division was to assess the division's management of the city's real estate portfolio. I am pleased to present the results of this audit.

The audit revealed Real Estate should strengthen its oversight of the city's real estate portfolio. It needs to improve controls and processes over project management of the city's real estate activities, and it needs to review and update division policies and procedures to provide clarity and establish consistency with city policies. In addition, the audit revealed Real Estate has no documented strategic vision and lacks performance measures.

Through consistent and detailed policies and procedures, stronger project management and oversight, and a documented strategic vision and performance measures, the division will be better equipped to manage the city's real estate portfolio and plan for the city's future real estate needs. Our report lists several related recommendations.

I am disappointed Real Estate has chosen to disagree with recommendations that would clearly enhance oversight activities of the city's real estate portfolio. Further explanation is in the Auditor's Addenda included in the Recommendations section of the report on pages 28-34.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, "General Powers and Duties of Auditor," and was conducted in accordance with generally accepted government auditing standards. Those standards require 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.

We extend our appreciation to the Real Estate personnel who assisted and cooperated with us during the audit. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

City Real Estate Portfolio Practices

May 2020

Objective

To determine whether the Finance Department's Real Estate Division is providing proper oversight of the city's real estate activities, such as acquisitions, dispositions, leases, and space planning.

Background

The city's Real Estate Division was established by Executive Order No. 100. The division — within the Department of Finance — is responsible for managing the city's real estate portfolio through property acquisition and disposition, leases, and space planning.

Real Estate's mission is "to be a consistently outstanding strategic, transparent, and accountable partner with the internal and external customers in the management, acquisition, and disposition of the city's real estate assets."

REPORT HIGHLIGHTS

Highlights from Audit

We identified controls and processes that need improvement to promote efficient project management of the city's real estate activities, as well as consistency and clarity of policies and procedures. Real Estate also needs to develop its own strategic plan and performance measures to evaluate the division's success in managing the city's real estate portfolio.

The Real Estate Division Is Not Properly Overseeing the City's Real Estate Portfolio

- Real Estate does not provide adequate project management of real estate activities. Specifically, we found inconsistent documentation in files, no comprehensive real estate portfolio, inconsistencies with policies and procedures compared to the city's Executive Order No. 100, and a lack of details in policies and procedures for the processes employees should perform.
- Real Estate also lacks a documented strategic vision. The division does not have its own strategic plan or performance measures.

Denver Auditor Timothy M. O'Brien, CPA

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BACKGROUND

Executive Order No. 100 — which was signed in 2010 and updated in 2016 — established the Finance Department's Real Estate Division.[1] The division acts as the exclusive asset manager for the city's real estate portfolio — excluding property owned by Denver International Airport, the Denver Water Board, the Denver Art Museum, the Denver Museum of Nature and Science, the Denver Botanic Gardens, and the Denver Zoo.

The first chapter of Executive Order 100 establishes the organization and functions of Real Estate "to deal with the needs of the city in the areas of acquisition, disposition, exchanging, leasing, space programming and space planning, and uses of real property in accordance with City Charter."[2] Executive Order 100 also includes Memorandum No. 100A, which establishes guidelines and reporting requirements for leases to noncity entities that last six months or longer.[3] In addition, Memorandum No. 100B provides requirements for the clearance and release process for disposing of city-owned real estate.[4]

The division's responsibilities, as outlined in Executive Order 100, include:

- Reviewing and advising subject agencies on all proposals for real property acquisitions, dispositions, and leases;
- Coordinating with city agencies on the clearance and release process to dispose of city property, per Memorandum 100B;
- Performing financial analyses and managing space for the city's real property portfolio;
- Reviewing requests to modify space, including workstations, construction, and changes to physical spaces;
- Notifying the Controller's Office upon acquiring or disposing of real property for them to record assets; and
- Anticipating the city's future real estate needs and developing recommendations to meet those needs.

[1] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf.

[2] Ibid., 3-6.

[3] Ibid., 13-14.

[4] Ibid., 15-16.

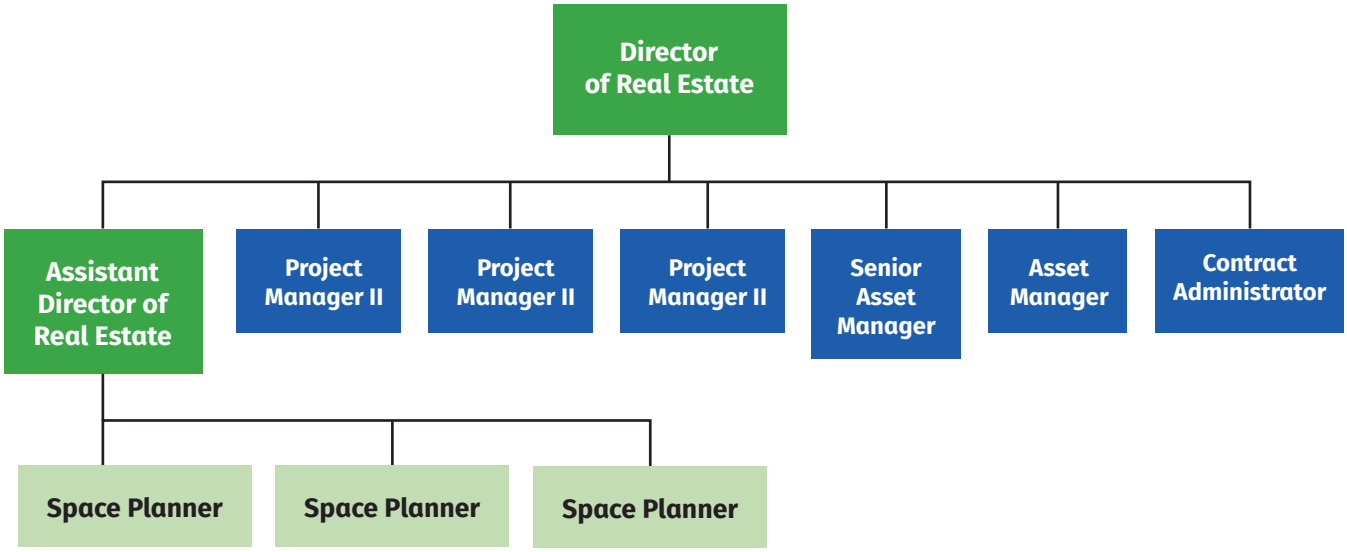
Real Estate's Mission and Organizational Structure

Real Estate's mission is "to be a consistently outstanding strategic, transparent, and accountable partner with the internal and external customers in the management, acquisition, and disposition of the city's real estate assets."[5] The division does not have its own strategic plan. Rather, the division helps develop and implement the strategic plans of other city agencies specific to their real estate needs, and it is involved with current, proposed, and potential uses of city-owned and leased real property.

Between 2014 and 2019, the division increased from four employees to 11, and it includes three primary teams for asset management, rights of way, and space planning.[6] As the division identifies needs for city agencies, the asset management team develops strategies for using existing city facilities, handles special projects, and buys, sells, and leases city properties. In addition, the right of way team executes acquisitions and relocations related to city rights of way and bond and/or land-acquisition projects. Finally, the space planning team evaluates the internal uses of city-owned assets based on agencies' employment and business objectives, and the team performs relocation services.

Figure 1 shows the organizational structure of the division's 11 employees.

FIGURE 1. Real Estate Division Organizational Chart



Source: The Real Estate Division.

Note: This organizational structure is current as of October 2019.

[5] Real Estate Division policies and procedures.

[6] The division provided this organizational structure to the audit team on Oct. 15, 2019.

Real Estate Activities

In November 2018, the division — along with the Office of the Chief Financial Officer — established a biweekly, multi-agency real estate strategy meeting. Participants explore city agencies' major real estate needs and requirements, discuss real estate opportunities that arise, evaluate potential sales of buildings, plan for future real estate needs, align budgets for real estate transactions, and share information to meet the city's future real estate needs. This Interdepartmental Real Estate Committee comprises representatives from Real Estate, the Mayor's Office, the Budget and Management Office, Denver Economic Development & Opportunity, the Technology Services agency, and the departments of Housing Stability, Parks and Recreation, Transportation & Infrastructure, General Services, and Public Safety.

Acquisitions – Real Estate works with city agencies that have specific requirements for acquiring real estate. The division searches for properties using professional real estate networks and the brokerage community and by directly approaching property owners who may be willing to sell their property. (A broker is "an agent who negotiates contracts of purchase and sale," including real estate.[7]) Acquisitions are also completed through bond projects approved by City Council as part of master and strategic plans.

The process for acquiring property includes: due-diligence activities, contract documentation, approval, and notification. Due-diligence activities include obtaining an appraisal, conducting an environmental review to avoid acquiring contaminated or impaired property, requesting a survey, reviewing the current title, and conducting a physical-condition assessment.

Once the division determines a property is applicable for purchase, a "purchase and sale agreement" is drafted in coordination with the City Attorney's Office. The division then coordinates with the Interdepartmental Real Estate Committee, the Budget and Management Office, and the Mayor's Office to draft and file an ordinance request form. As necessary, Real Estate officials brief City Council members and attend council hearings on sales and acquisitions of city property. After the council approves an ordinance for the purchase of a property, the ordinance takes effect the Thursday after the council's vote.

Rights of Way and Eminent Domain – A right of way occurs when the Department of Transportation & Infrastructure determines additional property is necessary to complete a project, such as street widening. To do this, though, the city might need to invoke "eminent domain," which is the taking of private land for public use.

To obtain the private property, Real Estate must first obtain the City Council's approval, through an ordinance, to negotiate, purchase, or condemn parcels of land required for the project. Next, the division obtains title commitments for the affected property — which identify exceptions that may affect the title to the property and inform the division on the title status. The division

[7] "Broker," Merriam-Webster Inc., accessed Jan. 30, 2020, https://www.merriam-webster.com/dictionary/broker.

also sends introduction letters to those property owners explaining the purpose of the project. The city contracts with an appraiser to obtain an appraisal determining fair market value, or "just compensation" for any taking or use of the owner's property. According to federal regulations, "the amount shall not be less than the approved appraisal of the fair market value of the property." The property owner considers the offer and may also provide support relevant to determining property value.[8]

The division sends offer letters and conducts negotiations with each affected property owner. If an offer is accepted, the division works with the City Attorney's Office to draft a contract and close on the property. If the division and the owner do not agree, the division turns the file over to the City Attorney's Office to acquire the property under eminent domain — a power given to the city by the Denver Charter.[9]

Dispositions – There are two types of dispositions: inquiry-driven and city-driven. Inquiry-driven sales are initiated from requests received to purchase a parcel of city-owned land. When a request is received to buy city land, Real Estate and a surveyor verify the city's ownership and how the city acquired the title, which could have been either by "tax title deed" or "fee title." Tax-title properties not sold at auction are deeded to the city through a Treasurer's Deed because of unpaid property taxes, whereas fee-title acquisitions are when properties are purchased and the new owner is given title to the property. City-driven sales encompass all other sales of city-owned real estate.

Figure 2 on the following page illustrates the disposition process. The disposition begins with determining whether a property is necessary or useful for the city's needs.[10]

Under Memorandum 100B, disposition of city-owned real estate should occur only after property has been determined to be surplus to city needs through what is called the clearance and release process.[11] This includes determining whether a property is necessary for essential government services, potentially cost-prohibitive to remain in the portfolio, meets an identified future need, and/or is suitable for affordable housing purposes. Real Estate submits clearance and release forms to agency leaders and designees, including the managers of the departments of Community Planning and Development, Transportation & Infrastructure, and Parks and Recreation; the director of Denver Economic Development & Opportunity; and the director of Housing Stability. Forms "must be returned within

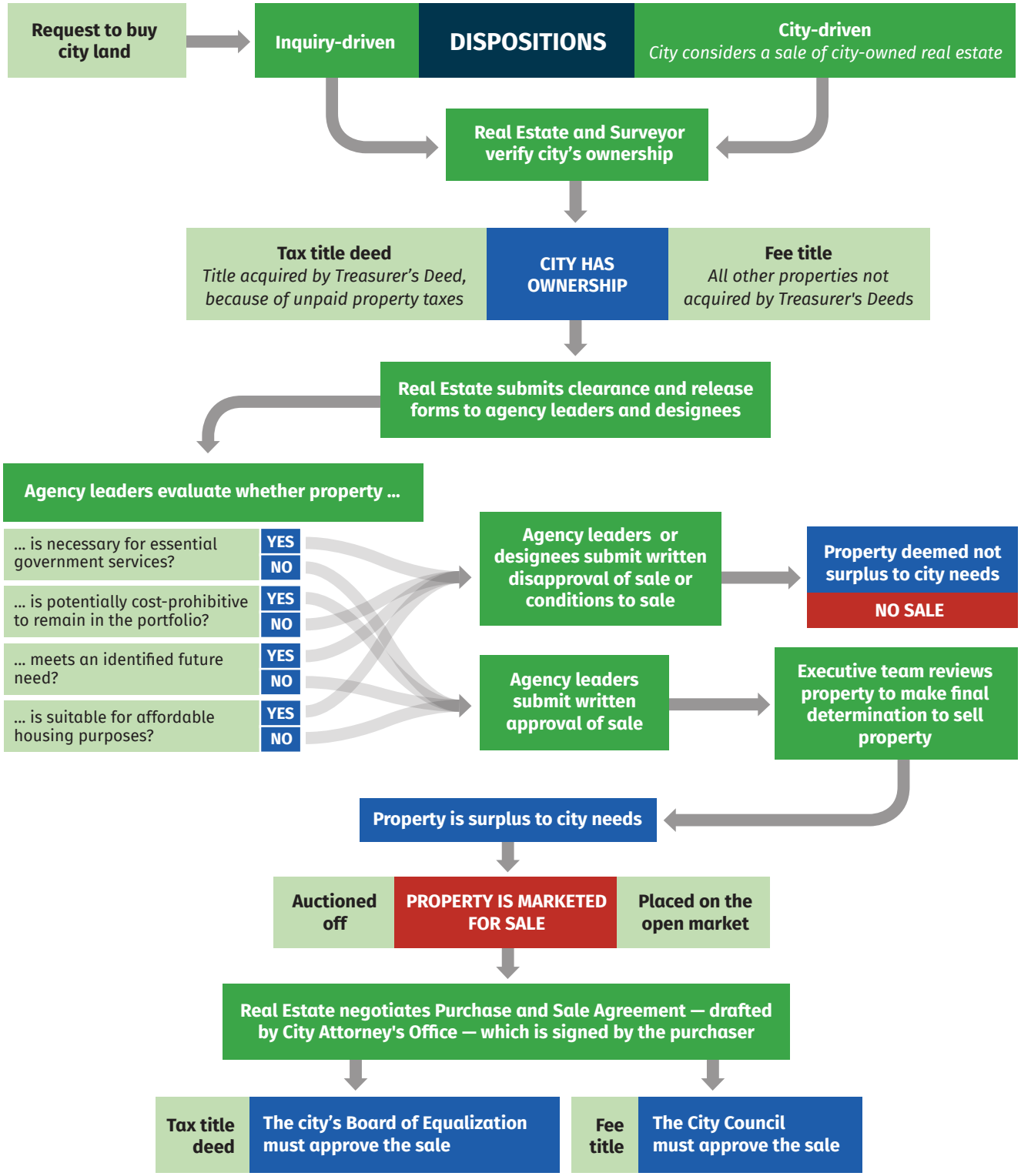
[8] 49 C.F.R. § 24.102(d) and § 24.102(f).

[9] Denver Charter § 3.2.5.

[10] Real Estate Division policies and procedures.

[11] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 15-16.

FIGURE 2. Representation of the Dispositions Process



Source: Illustration by Auditor's Office staff using information from Real Estate Division.

15 calendar days with written explanation of approval, disapproval, or conditions."[12]

Once a property is released for sale after the clearance and release process, Real Estate determines its "minimum acceptable offer" or chooses to market the property without a stated minimum price. City-owned property can be auctioned off or placed on the open market. About 30 days before the sale, letters are sent to adjacent property owners and affected registered neighborhood organizations notifying them of the city's intent to sell. All City Council members are also notified.

The city's Board of Equalization must approve the sale of all tax-title properties. The Board of Equalization is responsible for the "equalization, reduction, abatement, and rebate of general taxes."[13] Once the board approves, the Assessor's Office and Real Estate prepare a resolution. The deed is then drafted and approved by the City Attorney's Office, sent to the mayor for execution, and then sent to the Clerk and Recorder's Office for certification.

The City Council approves fee-title dispositions through the ordinance request-and-approval process. After approval, the City Attorney's Office prepares a "quit claim deed," sends the deed to the mayor for execution, and then it goes to the Clerk and Recorder's Office.

Leases – Real Estate oversees two types of leases: income leases and expense leases.

Income leases typically include city property leased to outside organizations for providing services to residents. Income leases sometimes involve other city agencies, or "partner agencies," in which the lease is co-managed. The division negotiates lease terms, including rental rates, which are either market-based or nominal. Nominal-rent leases are typically provided to entities providing services to residents.

Under Memorandum 100A, beneficiaries of a city lease paying nominal rent are required to submit annual reports documenting performance accomplishments for services and benefits provided within 60 days of the end of each calendar year.[14] The report must demonstrate the lessee's continued public purpose in exchange for receiving the nominal rent.

Expense leases occur when Real Estate determines additional space is needed to accommodate a city service, such as a Denver Motor Vehicles branch. The city enters into a lease agreement with a building owner and pays rent for the space.

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[12] Ibid.

[13] "Board of Equalization," City and County of Denver, accessed Oct. 29, 2019, https://www.denvergov.org/content/denvergov/en/mayors-office/about-the-office-of-the-mayor/boards-commissions/board-of-equalization.html.

[14] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 13-14.

For example, the city entered into a lease agreement with Denver Post LLC in July 2016 to lease the seventh floor of the Denver Post building in downtown Denver through Aug. 31, 2023. In March 2018, an amendment was added to lease the eighth floor through Feb. 28, 2025. Then, in June 2018, a second amendment leased the ninth floor through May 31, 2028. Finally, a third amendment, signed in February 2019, has the city agreeing to reimburse Denver Post LLC for cosmetic work, ongoing improvements, and repairs to the first, seventh, eighth, and ninth floors — totaling $370,000. Square footage leased — including through the original lease and the three amendments — totals 119,795 square feet at a cost of $31.6 million. In February 2020, the City Council approved a fourth amendment to lease an additional 25,193 square feet on the 11th floor for another $9.9 million for the duration of the lease until 2029.

All income leases require City Council approval. Expense leases of $500,000 or more require City Council approval.[15]

Space Planning – Real Estate's space planning team analyzes the city's current and future space needs through physical planning and project management. Based on their needs, city agencies request space planning services using a questionnaire. Space planning projects are funded either by the agency that requests the project or through the city's annual capital improvement budget process. Funding must be available before a project begins.

The space planning team communicates with the requesting agency to determine the project scope. Once a scope is agreed upon, the space planning team determines which other partner agencies, such as Transportation & Infrastructure or Technology Services, should be involved. After a project, Real Estate and the partner agencies complete a walk-through to ensure project deliverables were completed as defined.

Systems – The Real Estate Division uses several software systems and tools to fulfill its responsibilities, such as a deeds database, Accela, and Salesforce.

- The deeds database is a Microsoft Access database used to maintain deeds filed with the Clerk and Recorder's Office.
- Accela software is used to aid the review workflow for the clearance and release process.
- Salesforce software is used for space planning activities. However, the division received approval and funding to implement a new system called Archibus. The space planning module of Archibus will assist the space planning team in streamlining how it monitors agency vacancies and occupancies, and it will help the team to update office space drawings in real time.

[15] Exec. Order No. 8, City and County of Denver (2011), accessed Sept. 30, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf, 14.

FINDING

The Real Estate Division Is Not Properly Overseeing the City's Real Estate Portfolio

The Finance Department's Real Estate Division lacks proper oversight of the city's real estate portfolio to ensure proper management of real estate activities and ensure policies and procedures are updated, detailed, and consistent with city policies.

Specifically, we identified project-management inefficiencies related to the division not having a centralized way to monitor milestones in space planning projects, including possible delays. In addition, documentation retained in property files and project files is inconsistent and does not contain analysis to justify the division's decisions. We also found inconsistencies between processes performed, division policies and procedures, and the city's policy for city-owned and leased real estate. Finally, the division does not maintain a documented comprehensive real estate portfolio.

Without proper management of real estate activities, inefficiencies may exist resulting in the inability of the division to provide adequate oversight of the city's real estate portfolio.

The Real Estate Division Does Not Provide Adequate Project Management of Real Estate Activities

Real Estate management lacks a centralized mechanism — such as a project-tracking spreadsheet — to monitor space planning activities for milestone achievements or potential delays. In addition, space planning projects do not have a central project manager to monitor progress with partner agencies.

We also found inconsistencies in the documentation retained in electronic and physical files related to acquisitions, dispositions, and space planning activities. Finally, we noted that files lack documentation of analysis to provide justification and support for acquiring and disposing of city property.

Inadequate Project Management – After auditors asked about how Real Estate management monitors space planning projects to ensure milestones are achieved and potential delays are tracked, we found management did not have a centralized method to capture such information. Management explained it monitors progress through email and weekly meetings with the division's three space planners, and division officials said they felt this method is sufficient.

We also reviewed the division's process for space planning projects and

found no central project management to monitor progress to include the activities of partner agencies. The division initiates space planning projects and assigns them to a space planner who works with the requesting agency to determine the scope of work. Project scope may include the need for additional services outside Real Estate, such as construction or technology — which are overseen by the Department of Transportation & Infrastructure, the Department of General Services' Facilities Division, or the city's Technology Services agency. As these agencies oversee the additional services, Real Estate's space planners remain involved; however, communication is managed by the partnering agencies, not Real Estate.

When we reviewed the space planners' files, we noted inconsistencies in how each space planner monitored deliverables and the progress of individually assigned projects. While space planners explained they have regular meetings with partner agencies, each is responsible for managing their own services performed, and documentation of this communication is inconsistently retained. For example, of six space planning project files reviewed, we noted only two, or 33%, contained a mechanism for project monitoring, such as a checklist or spreadsheet.

We noted inconsistencies in how each space planner monitored deliverables and the progress of individually assigned projects.

In December 2018, the space planning team identified a need to improve its project management processes, documentation, agency collaboration, and customer service. The team participated in Denver PEAK Academy, a city employee training program, where members developed a project flowchart detailing the milestones for every project and a "standard of work" guidebook.[16] The guidebook details each phase of a project, coordination with partner agencies, the scope agreement, the project's charter, completion of work, and project closeout. In addition, Real Estate leadership created assignments to designate space planners for specific agencies.

While we recognize improvements made in the division's processes, Real Estate should monitor project milestones for delays, even when they are caused by partner agencies, to ensure projects remain on track. Since multiple agencies attend the Interdepartmental Real Estate Committee meetings, delays caused by partner agencies and noted by space planners could be evaluated and resolved so the information could be communicated to the subject agencies.

According to the Project Management Institute, each project should have a defined life cycle and milestones, established requirements and scope, defined project roles and a system of communication, and methods of evaluation and issue resolution.[17]

Another concern we found is that space planners must physically walk each building and every floor to obtain occupancy and vacancy information.

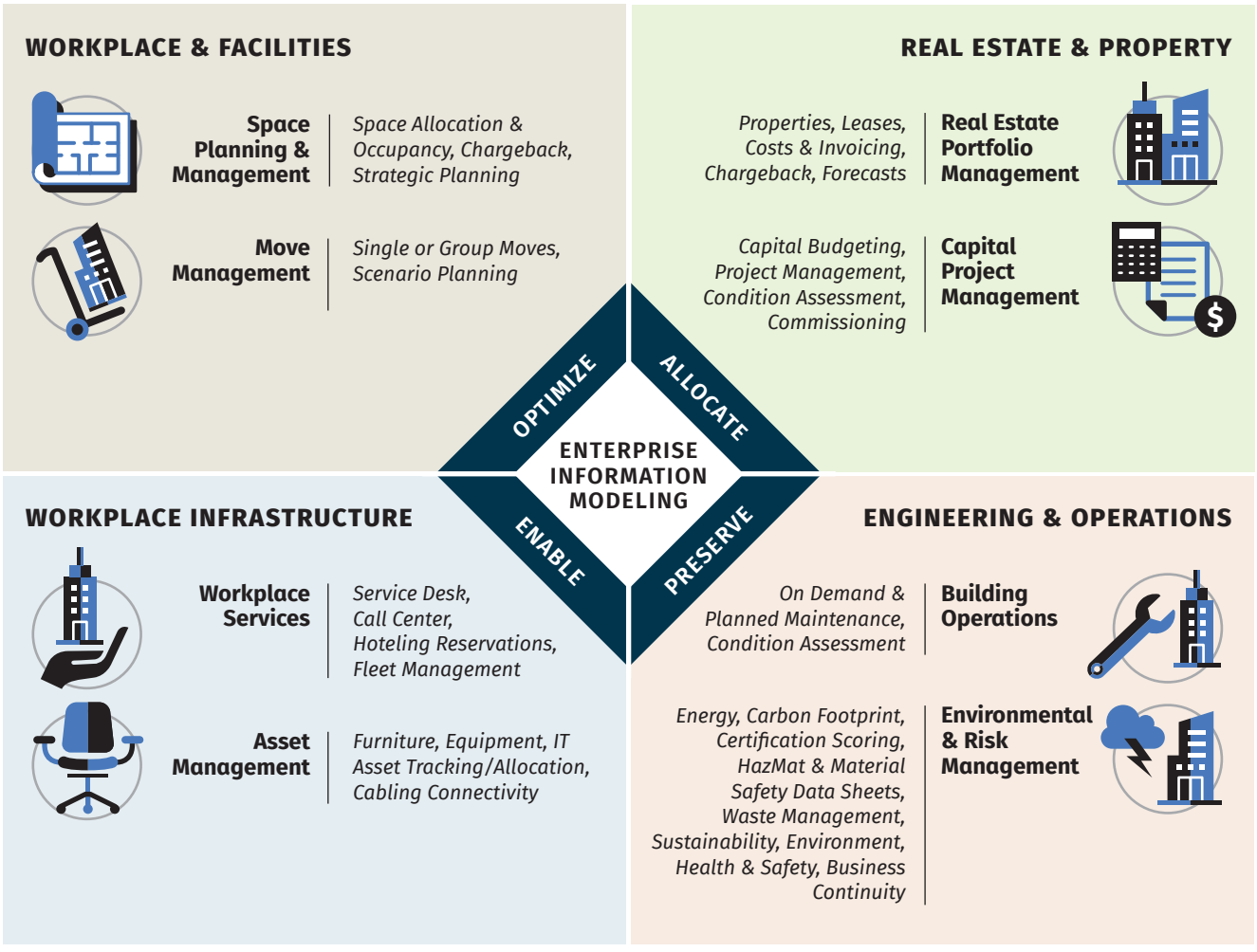
[16] "About PEAK Academy," City and County of Denver, Mayor's Office, accessed Oct. 28, 2019, https://www.denvergov.org/content/denvergov/en/mayors-office/programs-initiatives/peak-performance/peak-academy/About.html.

[17] Salapatas, James N., "Best Practices – The Nine Elements to Success," Project Management Institute (2000), accessed Dec. 6, 2019, https://www.pmi.org/learning/library/best-practices-effective-project-management-8922.

As a way of addressing this inefficiency, Real Estate received approval in January 2020 to implement the space planning module of Archibus. The projected cost for year one is estimated at $97,395. However, the division's return on investment calculations indicate a savings of $44,166 a year for the first three years and $81,720 for the next three years. In addition, the division estimates a 50% reduction in time spent by space planners to track real-time vacancy and occupancy rates, to manage inventory, and to conduct and manage other space planning activities.

Archibus will provide Real Estate with detailed space planning and performance management, as well as the capability for a broad range of products, including comprehensive real estate portfolio management. The division plans to purchase Archibus in 2020. Installation of the system may also begin sometime in 2020. Division management said additional modules of Archibus may be implemented if the software performs well. Figure 3 illustrates the functions of the Archibus system.

FIGURE 3. Functions of the Archibus System



Source: Illustration by Auditor's Office Staff using information from the Real Estate Division and the Archibus Solution Alignment Diagram.

Note: The Real Estate Division plans to purchase the Space Planning & Management module in 2020.

Finally, we found the division does not retain Interdepartmental Real Estate Committee agendas and/or notes for each meeting that may assist the division in monitoring the items discussed, potential issues and resolutions, or actions to be taken with regard to managing the city's real estate portfolio. Although the committee's agendas contained limited information because of confidentiality, we noted the agenda did contain notes related to items discussed and actions to be taken. Division management overwrites agendas rather than retaining them from each meeting.

"Internal controls" are policies, procedures, techniques, and mechanisms that help achieve an organization's objectives and address identified risks. According to U.S. Government Accountability Office standards, management should oversee an organization's internal control system through ongoing monitoring and through documenting the results of ongoing monitoring to identify internal control issues. Differences identified between the monitoring results and an established baseline may indicate control issues or potential control deficiencies.[18]

In addition, "documentation is a necessary part of an effective internal control system" and "is required for the effective design, implementation, and operating effectiveness of an entity's internal control system."[19] Also, documentation assists management in "establishing and communicating the who, what, when, where, and why of internal control execution to personnel" and "provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel."[20]

We also noted the files typically did not contain analysis to support justification for decisions made, which diminishes transparency and the ability to pass on institutional knowledge.

Inconsistent Documentation – When we reviewed electronic and physical property files for acquisitions and dispositions, we found inconsistencies in which documents were retained in the files. We also noted the files typically did not contain analysis to support justification for decisions made, which diminishes transparency and the ability to pass on institutional knowledge.

For example, the city's policy related to contracts states acquisitions over $500,000 require the City Council's approval by way of an ordinance.[21] We reviewed 12 acquisitions for 2018 and 2019 and noted several inconsistencies in the documentation retained.

- Of the 12 acquisitions, seven were over $500,000. Of those seven, one file did not contain evidence of the City Council's approval by either ordinance or resolution.

[18] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. 16.09, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

[19] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. OV4.08, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

[20] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. 3.10, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

[21] Exec. Order No. 8, City and County of Denver (2011), accessed Aug. 30, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.

- Three of the 12 acquisitions did not contain evidence of an appraisal.
- And, five of the 12 files reviewed did not contain the "Purchasers Statement of Settlement," which summarizes fees and charges involved in the acquisition.

Documents such as these provide support for each step of the division's acquisition process outlined in its internal policies and procedures.

We also reviewed nine disposition files and noted six, or 66%, did not contain the clearance and release form, as required by the division's policies and procedures. Additionally, under Executive Order 100, dispositions "should occur only after property has been determined to be surplus to city needs through a clearance and release process."[22] We did, however, find that the disposition files contained an ordinance evidencing City Council's approval of the dispositions. Retaining the form in the property files may provide additional assurance that the required process was followed.

While reviewing acquisition and disposition files, we also looked for documentation that would provide evidence of analysis and justification for Real Estate's decisions. The division's responsibilities, under the city's executive order, refer to performing financial analyses and space management of the city's real property portfolio.[23] In addition, the division's responsibility is to anticipate the city's future needs and develop recommendations to meet those needs.

During our review of acquisition and disposition files, we found documentation was inconsistently retained. We found instances when the files contained the City Council presentation, which documented the division's presentation to City Council and the detail of the transaction and ordinance request. Other files contained explanation in the form of a memorandum. However, the division added the memoranda to the files solely for our audit purposes; they were not originally part of the files.

The division's policies and procedures do not require files to contain documentation to support Real Estate's decisions for acquiring or disposing of property.

We also noted a lack of documentation for justification related to a property in which the city exchanged one parcel of land for another for only $10. This presents another example of why it is necessary to include justification in the property file to ensure important transaction details are retained. Further review revealed the process involved acquiring one property and disposing of another, and division management explained the nominal amount was because of the inability to state the land had zero value.

While the division's policies and procedures contain a list of documents required for property files, the files do not contain a checklist that would help ensure required documents are consistently retained in both the physical and electronic files. In addition, the division's policies and

[22] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 15-16.

[23] Ibid., 3-6.

procedures do not require files to contain documentation to support Real Estate's decisions for acquiring or disposing of property.

We also noted inconsistencies in the naming conventions of transactions between physical and electronic property files and the division's deeds database. For example, the electronic file name for one disposition was "29th and Fairfax," while the same property in the deeds database was named "Parks Property Exchange." Management said there was no standard method for naming files between the different formats, and file names could be the property address, property owner, or city agency name. Inconsistent naming conventions may lead to the inability for employees to find files needed to conduct real estate activities.

No Document Retention Policy – The division does not have a documented records retention policy. The city's records management policy establishes the city's records management program and a records retention schedule.[24] Under that schedule, listings of property — including buildings and real estate — should be retained until replaced. We noted Real Estate's policies and procedures state records of contracts and deeds documenting real estate activities "shall be preserved" by the division as "deemed appropriate by the city's record manager."[25] In addition, the division "shall maintain copies of management, concession, lease, or use agreements related to city-owned real property." However, the division's policies do not address the methods to retain documentation in accordance with the city's records retention policy.

While we noted the division is coordinating with the city's record manager to inventory and move files to ensure compliance with the city's records retention schedule, their policies and procedures do not contain detail on procedures to ensure compliance.

No Comprehensive Real Estate Portfolio – The division does not maintain a centralized, comprehensive real estate portfolio of city-owned and leased properties. Real Estate maintains several sources of property information such as physical and electronic property files, the deeds database, a property card catalog — which contains historical property information from the 1960s to 1980s in physical and scanned form — and working spreadsheets to manage properties in the city's real estate portfolio.

We also noted the division's website states there is not a list of city-owned or surplus property available. The division relies on the Assessor's Office to provide a list of city-owned property, and it relies on the office's processes to ensure information is complete and accurate. When we asked for a list of vacant and surplus property, the division provided an example of a prior request regarding affordable housing, in which the division obtained a list of properties from the Assessor's Office, then filtered the list to identify

[24] Exec. Order No. 64, City and County of Denver (2002), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/64-Records-Management.

[25] Real Estate Division policies and procedures.

The division does not maintain a centralized, comprehensive real estate portfolio of city-owned and leased properties.

which may be suitable for affordable housing. Upon review of the list, we noted the Assessor's Office classified one property as a "commercial lot," and it originally classified two others as nonusable tracts. Through its analysis, Real Estate deemed the three lots potentially eligible for affordable housing, which contradicts the division's reliance on the Assessor's Office data.

We surveyed other cities to determine their methods of maintaining a real estate portfolio. We received responses from the cities of San Diego; Dallas; Seattle; Charlotte, North Carolina; and Austin, Texas. While methods vary between the cities, all retain a type of centralized, comprehensive real estate inventory. Their methods include: the REportfolio system, a web-based portal created by the City of San Diego's information technology department; the Cityworks web-based system; and an internal database.

OTHER CITIES' REAL ESTATE ORGANIZATION PRACTICES

For more on other organizations' practices, reference the Appendix.

Property information tracked includes: acquisition date, current use, managing agency, council district, status, acreage, square footage, ordinance and resolution information, purchase price, reason acquired, deed identification number, date of sale, and sale amount. Other methods the cities use to track inventory include geographic information systems, which are maps that link to their real estate websites, such as in the cities of San Diego; San Francisco; Austin, Texas; and Seattle. Reference the Appendix for additional information on our survey results.

As previously mentioned, U.S. Government Accountability Office standards state documentation is necessary to ensure effective design, implementation, and operating effectiveness of the internal control system.[26] Further, documentation assists management in "establishing and communicating the who, what, when, where, and why of internal control execution to personnel" and "provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel."[27]

In addition, the Urban Institute's Center on International Development and Governance has a real estate management guidebook for local governments, which states an "accurate database and inventory of local government assets" is the "first step in establishing an effective asset management system."[28] The guidebook adds: "The institutionalization of a thorough database will allow the local government to monitor and analyze

[26] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. OV4.08, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

[27] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. 3.10, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

[28] Urban Institute, "Guidebook On Real Property Asset Management For Local Governments" (2012), accessed Nov. 20, 2019, https://www.urban.org/research/publication/guidebook-real-property-asset-management-local-governments.

real property assets and portfolios, and to develop and implement a strategic plan for managing various types of municipal assets."

Without proper monitoring of project milestones, city projects may not be completed efficiently, and trends in delays may be missed and go unresolved.

In addition, inconsistent documentation in property files may lead to personnel not complying with procedures, as well as a loss of institutional knowledge and historical property information. Finally, without documented justification for transactions and a documented, comprehensive real estate portfolio, the City Council may lack assurance that Real Estate's actions are in the best interests of the city. This may lead to the council rejecting the division's proposals — as happened on at least one occasion, specifically in January 2020 involving the Denver Post building lease. The council ultimately approved the proposal in February 2020 after receiving additional information from Real Estate.

Implementation of additional Archibus modules — such as real estate portfolio management — may further assist the division in developing and maintaining a comprehensive real estate portfolio.

RECOMMENDATION 1.1

Centralize Project Monitoring – The Real Estate Division should develop and implement a centralized tool to monitor space planning projects, including tracking milestones and delays.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

RECOMMENDATION 1.2

Document Project Delays – The Real Estate Division should coordinate with other agencies that provide additional services for space planning projects to monitor delays. Communication and resolution should be documented for follow-up purposes.

Agency Response: Disagree, Implementation Date – Dec. 31, 2020

Auditor's Addendum: See page 28 under Recommendation 1.2

RECOMMENDATION 1.3

Retain Meeting Agendas – The Real Estate Division should retain agendas for each Interdepartmental Real Estate Committee meeting to track and monitor projects, milestones, and delays.

Agency Response: Agree, Implementation Date – Jan. 1, 2020

RECOMMENDATION 1.4

Document Transaction Details and Justification – The Real Estate Division should include memoranda in property files to document transaction details and justification to ensure institutional knowledge is retained.

Agency Response: Agree, Implementation Date – Dec. 12, 2019

RECOMMENDATION 1.5

Standardize Property File Documentation – The Real Estate Division should standardize the retention requirements for property file documentation, and it should develop a property file checklist that includes all documents to be retained in each file. The checklist should also include comments to note exceptions to documentation retention requirements.

Agency Response: Agree, Implementation Date – Feb. 13, 2020

RECOMMENDATION 1.6

Standardize Data Entry – The Real Estate Division should establish a standardized data-entry and file-naming convention for real estate transactions across all methods of retaining documentation.

Agency Response: Agree, Implementation Date – Feb. 12, 2020

RECOMMENDATION 1.7

Establish Document Retention Policy – The Real Estate Division should establish and document a records retention policy to ensure compliance with the city's records management policy and records retention schedule.

Agency Response: Disagree, Implementation Date – June 30, 2020

Auditor's Addendum: See page 30 under Recommendation 1.7

RECOMMENDATION 1.8

Develop and Maintain Comprehensive Real Estate Portfolio – The Real Estate Division should develop and maintain a comprehensive real estate portfolio. Information in the portfolio should include but not be limited to:

- Date of acquisition or disposition
- Leases
- Managing agency
- Acquisition or disposition price
- Reason for acquisition or disposition
- Total acreage or square footage
- Occupied square footage
- Approving ordinance or resolution

Agency Response: Disagree, Implementation Date – Aug. 31, 2020

Auditor's Addendum: See pages 31-32 under Recommendation 1.8

Policies and Procedures Are Inconsistent with the City's Executive Order and Lack Detail for Processes Performed

We compared Real Estate's policies and procedures to the city's Executive Order No. 100 and noted inconsistencies in the clearance and release process.[29] We also compared the division's policies to the procedures personnel perform and noted the division's policies lack detail regarding

[29] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 15-16.

Real Estate's role in conducting activities such as acquisitions, dispositions, space planning, easements, eminent domain, and leases.

In addition, we found the division has not documented procedures for reporting real estate inventory to the Controller's Office for financial reporting purposes, and the division does not have a documented process for training new employees to ensure the transfer of institutional knowledge.

Inconsistencies in Clearance and Release Process – We compared the division's policies and procedures regarding the clearance and release process to the city's executive order and noted inconsistencies. The executive order states: "Clearance and Release forms must be returned within 15 calendar days with written explanation of approval, disapproval, or conditions."[30] The division's policies and procedures also require forms be returned within 15 calendar days; however, it also states that "if responses are not received by the deadline, your response will be recorded as: Approved – due to non-response."

THE CLEARANCE AND RELEASE PROCESS

For more on dispositions, reference pages 4-6 of the Background.

As previously stated, when we reviewed disposition files for the clearance and release form, we noted that six of the nine files reviewed did not contain the form, as required by division policies and procedures. For the three remaining files, we noted some agencies only partially completed the forms, with no explanation from all agencies listed on the form of their approval, disapproval, or conditions. The "automatic" approval with no response is inconsistent with the requirements of the city's policy, specifically regarding the requirement of a written explanation of approval, disapproval, or conditions.

Inadequate Detail in Acquisitions Policies – The division's policies and procedures related to the acquisition process lacked detail on what actions should be taken to complete the tasks. For example, we noted the policies and procedures stated only to "order appraisal" but did not include details such as how an appraisal should be ordered, what approvals would be needed, and how the appraisal should be paid for.

We reviewed the City and County of San Francisco's Real Estate Division policies and procedures and noted additional detail contained in its procedures for acquisitions. This included a description of the process for selecting an appraiser through competitive bid selection, submission of a contract, approval by the city attorney, and additional information if the process was associated with eminent domain.

[30] Ibid.

Inconsistencies in Space Planning Policies – Real Estate's policies and procedures for space planning were updated in early 2019 after the space planning team took part in Denver PEAK Academy. However, we noted the procedures refer to a customer survey sent to agencies after the completion of space planning projects. But Real Estate suspended the use of this customer survey in 2017, because the division did not believe the questions in the survey were good measures of the work space planners do for the city.

In addition, we noted policies included an "exception to policy" for space planners to complete projects outside the regular requirements. However, there are no detailed steps or requirements in the policies and procedures for what qualifies as an "exception."

Finally, we learned from Real Estate that, depending on the size of the project, a full "project charter" may not be required for documentation in the project file. Under the division's space planning policies and procedures, a project charter is the "primary document used to detail project activity and includes information such as: project background and description, scope, deliverables, parties involved, high-level timelines, and references and resources." However, this exception to requiring a project charter is not mentioned or detailed in the policies and procedures.

Incomplete Easement Policy – An "easement" is when a property owner grants someone else the right to use their land in some specified way.[31] The city uses easements for land conservation, temporary construction, and permanent easements.

WHAT IS A CONSERVATION EASEMENT?

A voluntary legal agreement between a landowner and a land trust or government entity that contains permanent restrictions on the use or development of land in order to protect certain values of that particular property

While reviewing property files for easements, we noted a news article stating the public's concerns regarding the removal of the conservation easement on the Park Hill Golf Course property. In June 2019, the Colorado Legislature determined a judge must rule that a property can no longer "fulfill its conservation purposes that are defined in the deed of conservation easement" before a conservation easement can be removed.[32] But the division has not yet updated its policies and procedures to include the division's cost estimate and negotiation roles with conservation easements.

Insufficient Detail in Eminent Domain Policy – While the city charter provides Denver the right to exercise the power of eminent domain, the division's

[31] "Easement," Merriam-Webster Inc., accessed Feb. 13, 2020, https://www.merriam-webster.com/dictionary/easement.

[32] House Bill 19-1264, 72nd Gen. Assemb., 1st Reg. Sess. (Colo. 2019), accessed Dec. 4, 2019, https://leg.colorado.gov/sites/default/files/2019a_1264_signed.pdf.

policies and procedures do not include the division's role in eminent domain transactions, and they lack detail defining the process.[33] We found additional information on the division's website that provides some insight into the eminent domain process, but this was not included in the division's policies and procedures.[34]

The sensitive nature of eminent domain warrants the process to be as detailed as possible to prevent liability to the city.

We recognize the Division of Real Estate may not initiate all real estate-type activities, such as easements and eminent domain. However, division roles and responsibilities related to these activities should be documented in the division's internal policies and procedures.

Insufficient Detail in Leases Policy – While the division has processes to monitor leases monthly, its policies and procedures lack details regarding the steps Real Estate employees should take. The division did make progress on its general processes for leases since the Auditor's Office followed up in December 2018 on its July 2017 revenue leases audit.[35] The division's progress included improving tracking of lease terms on the "lease log," verifying current certificates of occupancy, and monitoring rent payments using the city's financial system, Workday. However, division policies and procedures lack these details.

We also found during our review that the division does not require tenants to submit annual reports for nominal leases when a service agreement exists, which is not included in the division's policies and procedures. Memorandum 100A requires tenants who receive nominal rent to submit an annual report that documents the services and benefits provided to the city to justify the nominal rent.[36] Division management said service agreements have "more stringent" requirements than reporting requirements. We reviewed the service agreements and noted the requirements contain additional monitoring requirements and detail; however, neither the division's policies and procedures nor Memorandum 100A specifies detail regarding service agreement requirements in place of annual report submission by tenants.

Informal Financial Reporting Process – While Real Estate has been reporting transaction data to the Controller's Office, the process is not formalized. The city's Executive Order 100 requires Real Estate to report all acquisitions and dispositions to the Controller's Office.[37] Based on statements from both the

[33] Denver Charter § 3.2.5.

[34] "Right of Way," City and County of Denver, Real Estate Division, accessed Jan. 31, 2020, https://www.denvergov.org/content/denvergov/en/denver-department-of-finance/our-divisions/real-estate.html.

[35] City and County of Denver Auditor's Office, "Revenue Leases" Follow-Up Report (2018), accessed Aug. 26, 2019, https://denverauditor.org/project/follow-up-real-estate-leases.

[36] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 13-14.

[37] Ibid., 3-6.

division and the Controller's Office, the two entities communicate regarding the acquisitions and dispositions for the year to ensure capital assets are properly recorded for year-end financial reporting. Real Estate staff have been sending emails as acquisitions and dispositions occur, and they have been sending the deeds database to Controller's Office staff once per year, but this process is not documented.

Controller's Office staff said they would benefit from having additional details about each transaction and each property to classify the transactions accurately. They said they often must conduct further research, which takes additional time. According to the Controller's Office, such beneficial information would include: the close date, the cost and number of payments, the Workday identifier, the funding source, the purpose for property acquisition or disposition, property details, and the agency responsible for the property.

We were made aware of a finding in an external audit that a portion of $75 million worth of land was conveyed to the city in 2017 for the National Western Center but was not recorded until 2018.[38] Based on the framework agreement and the deed of the property, the land was conveyed from the Western Stock Show Association to the City and County of Denver in 2017.[39] Additional property detail from Real Estate noted above may have assisted the Controller's Office in reporting the land in the proper year.

The division does not have a formal process to review policies and procedures on a regular basis.

Informal New Employee Training – During discussions with division management, we noted a tenured division employee performs new employee training "on the job." The division provides the Department of Finance's welcome packet to new employees, and while the packet may be useful to learn about the overall Finance organization, there is limited information about the Real Estate Division itself. We also found the division uses cross-training with other employees, but there is no standardized format to ensure all necessary institutional knowledge is conveyed.

In addition to the concerns related to incomplete policies and procedures, we found the division does not have a formal process to review policies and procedures on a regular basis.

According to U.S. Government Accountability Office standards, management should document policies to include objectives and related risks, control activity design, implementation, and operating effectiveness at a level of detail that allows management to effectively monitor the activity.[40] In addition, as discussed, the standards emphasize the importance of reviewing policies and procedures, of having documentation to communicate procedures to employees, and of retaining institutional

[38] City and County of Denver, "Single Audit Reports Year Ended Dec. 31, 2018" (2019), accessed Jan. 13, 2020, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Financial_Reports/Single_Audit/Report_SingleAudit.pdf.

[39] The Denver City Council approved the National Western Center framework agreement between the City and County of Denver, Colorado State University, and the Western Stock Show Association in August 2017.

[40] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) para. 12.03, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

knowledge within the organization.[41]

Outdated policies that lack detail and are not regularly reviewed may lead to inconsistent practices, incomplete and inconsistent documentation, and a loss of institutional knowledge. In addition, a lack of justification and documented historical transaction information may also lead to a loss of institutional knowledge. Finally, not having a documented process for reporting real estate inventory to the Controller's Office may result in inaccurate financial recording and reporting. Inaccurate financial statements may lead to over- or understated capital assets.

RECOMMENDATION 1.9

Clarify Clearance and Release Policy – The Real Estate Division should review the clearance and release requirements in Executive Order No. 100's Memorandum 100B and ensure division policies and procedures are consistent with the executive order — specifically that Memorandum 100B does not include a statement regarding an automatic approval after 15 days with no response.

Agency Response: Agree, Implementation Date – Feb. 20, 2020

RECOMMENDATION 1.10

Formalize Reporting with Controller's Office – The Real Estate Division should work with the Controller's Office to formalize and document reporting requirements — including the frequency of reporting and the method of communication. Requirements should specify the points of information for each property necessary for accurate reporting by the Controller's Office.

Agency Response: Agree, Implementation Date – June 30, 2020

RECOMMENDATION 1.11

Regularly Review Policies and Procedures – The Real Estate Division should implement a formal process to regularly review and update the division's policies and procedures. This should include ensuring policies and procedures are consistent with Executive Order No. 100 and include changes as Archibus is implemented for the space planning team. The policies and procedures should also contain adequate detail of the division's role performed for various transactions, including those not initiated by the division.

Agency Response: Agree, Implementation Date – May 31, 2020

[41] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014) paras. 3.10 and 12.05, accessed Nov. 14, 2019, https://www.gao.gov/assets/670/665712.pdf.

The Real Estate Division Lacks a Documented Strategic Vision

We recognize Real Estate Division personnel are qualified staff who hold a wealth of real estate experience and knowledge, both within the city and from the private sector. However, the division lacks an overall strategic vision and oversight, which may affect the division's ability to provide a long-term perspective for delivering services and budgeting.

Specifically, the division does not have its own strategic plan or performance measures. While Real Estate is involved in some real estate strategic-planning processes of the agencies it serves, the division does not have its own documented strategic plan. In addition, Real Estate does not formally collect and track performance measures, which means the division cannot monitor the achievement of its goals.

No Documented Strategic Plan – The division's policies and procedures state Real Estate assists other city agencies in implementing their strategic plans, specific to their real estate needs, and that decision-making is driven by the Interdepartmental Real Estate Committee.

The City and County of Denver has a six-year capital projects plan that mentions Real Estate's role in capital planning and in prioritizing capital improvements while preserving asset value.[42] However, this document is not a Real Estate-specific strategic plan.

As previously mentioned, the division participated in Denver PEAK Academy in December 2018 and identified the need for a strategic plan to improve prioritization and planning, to justify budget requests, and to increase the division's ability to be proactive versus reactive. However, the division did not address this finding in its action plan, and division management said they consider addressing the needs of other agencies to be the implementation of this strategic planning goal.

The Government Finance Officers Association recommends all government entities use some form of strategic planning to provide a long-term perspective for delivering services and budgeting.[43] As part of strategic planning, the association's best practices recommend developing strategies to achieve broad goals, creating an action plan, and developing measurable objectives. A strategic plan would help the division anticipate the city's future real estate needs and develop recommendations to meet those needs, as stated in Executive Order 100.[44]

We surveyed other cities' real estate organizations to determine how they have implemented strategic planning.

- The City of Toronto has a "City-wide Real Estate Portfolio Strategy" to

[42] City and County of Denver, "Elevate 2020: Six Year Capital Improvement Plan 2015-2020," accessed Dec. 27, 2019, https://www.denvergov.org/static/documents/344/2013-2018_CIP_6Year_Plan.pdf.

[43] "Establishment of Strategic Plans," Government Finance Officers Association (2005), accessed Dec. 6, 2019, https://www.gfoa.org/establishment-strategic-plans.

[44] Exec. Order No. 100, City and County of Denver (2016), accessed Aug. 1, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/100-City-Owned-Leased-Real-Estate.pdf, 3-6.

organize citywide real estate assets by property type and use, to deliver a strategic framework and principles to use real estate more efficiently, to identify major real estate needs and how to address those needs more efficiently, and to propose strategic actions to make better use of real estate by property type.

OTHER CITIES' REAL ESTATE ORGANIZATION PRACTICES

For more on other organizations' practices, reference the Appendix.

- The City of San Diego has a portfolio management plan to enable the city's management to better understand the city's real estate assets and how can they can best be used to benefit the city's residents. The plan includes an overview of the city's real estate portfolio, reports on activities of each division for the current year, each division's accomplishments, an action plan, and a long-term plan.
- The cities of Austin, Texas, and San Francisco also have strategic planning documents for their real estate organizations. Austin has a strategic administrative occupancy plan, and San Francisco has an annual report that includes the reasons behind projects as well as goals for upcoming projects.
- Lastly, the cities of Dallas, Austin, and Seattle have recognized the need for real estate strategic planning and are in the process of or have hired consultants for this purpose.

Even with Real Estate's knowledgeable and experienced personnel, not having a strategic plan means the division lacks the ability to provide a long-term perspective for service delivery and budgeting — which could result in inefficient and ineffective services and use of tax dollars.

Some City Council members said Real Estate's lack of a strategic or comprehensive long-term plan was one reason why the council initially did not approve the new Denver Post lease.

In addition, without strategic planning, Real Estate faces difficulty in justifying to the public or elected officials the reason for its decisions when there is no specified long-term goal. For example, in January 2020, the City Council rejected the division's request to lease more space in the Denver Post building. According to some council members, Real Estate's lack of a strategic or comprehensive, long-term plan for city real estate was one reason why the council initially did not approve the new lease. While council members eventually passed the resolution in February 2020, some members continued to express concern with the division's lack of a comprehensive real estate plan.

Undocumented Performance Measures – Real Estate reported on the following performance measures in the city's annual budget from 2013 to 2016: customer satisfaction survey results, designed and space planning cost avoidance, inventory management savings, and vacancy rates. Designed and space planning cost avoidance measures are cost savings achieved by

THE DENVER POST BUILDING

While the proposed lease of additional space at the Denver Post building in downtown Denver was initially rejected in January 2020, the proposal passed in February 2020 despite continued concern by some City Council members regarding the Real Estate Division's lack of a comprehensive real estate plan. (Photo by Auditor's Office staff.)

providing services to agencies internally rather than outsourcing the work to a third-party vendor.

In 2017, division management felt the survey was not a good measure of customers' satisfaction with Real Estate, because other city agencies were involved in space planning processes. The division instead began tracking items as needed, such as building vacancy rates. We requested documentation of Real Estate's previous customer satisfaction survey results but were informed by Real Estate personnel that they were not maintained. As a result, we were unable to verify the effectiveness of the measures.

The division's policies and procedures refer to performance measures for nonrecurring events such as timely environmental assessments, title review, execution of closing documents, clearances and releases, and coordination with the City Attorney's Office for terms. The policies and procedures also mention annually recurring matters such as exercising real estate-related options and ensuring communications with the city Risk Management Office to obtain current certificates of insurance.

However, no specific goals or methods to measure these items are specified,

and we were not provided any documentation to show the division tracks these measures. The division's policies and procedures state the nature of real estate negotiations and transactional matters do not easily lend themselves to numerical measures. Additionally, during discussions with the division, management stated Real Estate does not have tangible items conducive to being tracked annually.

But the Government Finance Officers Association states "performance measures provide an important link between the goals, strategies, actions, and objectives stated in the strategic plan and the programs and activities funded in the budget." In addition, "performance measures provide information on whether goals and objectives are being met."[45]

We surveyed other cities' real estate organizations to determine whether and what performance measures they track to measure success of their organizations. We found San Diego, Dallas, and Austin track performance measures, such as staff days to complete a transaction, the percentage of real estate transactions that were on time, the number of properties reviewed for potential disposition each year, any savings realized, revenue generated, and the percentage of rent reviews completed on time each fiscal year. Therefore, there are numeric measures Real Estate could consider in assessing its performance.

Without performance measures, Real Estate may not effectively evaluate its success in meeting its strategic goals or its ultimate success in managing the city's real estate portfolio.

RECOMMENDATION 1.12

Develop and Implement Strategic Plan – The Real Estate Division should develop and implement a strategic plan to ensure the city's real estate needs can be anticipated and addressed, in accordance with the division's stated purpose under Executive Order No. 100. The division should consider using examples from other cities' real estate organizations.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

[45] "Establishment of Strategic Plans," Government Finance Officers Association (2005), accessed Dec. 6, 2019, https://www.gfoa.org/establishment-strategic-plans.

RECOMMENDATION 1.13

Implement and Monitor Performance Measures – The Real Estate Division should develop and track performance measures to evaluate the division's success and ensure these performance measures align with the division's strategic plan, as implemented under Recommendation 1.12. The Real Estate Division should consider using best practices and examples from other cities' real estate organizations.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

RECOMMENDATIONS

The agency narratives below are reprinted verbatim from the agency's response letter, shown in the next section of this report.

1.1 **Centralize Project Monitoring** – The Real Estate Division should develop and implement a centralized tool to monitor space planning projects, including tracking milestones and delays.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

Agency Narrative: The Division currently utilizes a centralized excel spreadsheet with tabs to track projects for each project manager.

The Division has received approval in the 2020 budget to purchase the space planning software, Archibus, upon final approval from Technology Services. The Division anticipates implementation in late 2020.

1.2 **Document Project Delays** – The Real Estate Division should coordinate with other agencies that provide additional services for space planning projects to monitor delays. Communication and resolution should be documented for follow-up purposes.

Agency Response: Disagree, Implementation Date – Dec. 31, 2020

Agency Narrative: As documented in the flow chart developed with PEAK Academy, the space planning team already works closely and meets regularly with the Division of Transportation and Infrastructure (DOTI) project managers, General Services, BMO, internal clients and stakeholders as well as others to not only monitor delays but to also effectively avoid and manage delays and balance them with others' expectations and budget realities. Space planning staff regularly communicate and coordinate with client agencies, as well as each other, and follow a unified, approach to project delays as a part of the project management process.

The Division agrees that, as the Project Management Institute states, each project should have a defined lifecycle and milestones. As part of the separation of duties between the Division of Real Estate and DOTI, the responsibility to establish lifecycle and milestones rests with DOTI.

Auditor's Addendum: We agree other agencies involved in space planning projects, such as the Department of Transportation & Infrastructure, are responsible for establishing their own milestones for completing their portions of a project. However, the Real Estate Division should still document projected milestones and the communication and coordination with those agencies regarding delays and resolutions to issues as they occur. Real Estate is the key division city agencies contact for space planning needs and the status of projects, and this practice would provide necessary project documentation in a central repository within the Real Estate Division. This can be documented in the central tool mentioned in Recommendation 1.1.

1.3 **Retain Meeting Agendas** – The Real Estate Division should retain agendas for each Interdepartmental Real Estate Committee meeting to track and monitor projects, milestones, and delays.

Agency Response: Agree, Implementation Date – Jan. 1, 2020

Agency Narrative: The Division agrees and is already retaining Meeting Agendas for the Interdepartmental Real Estate Committee meeting to track and monitor projects, milestones and delays while maintaining protection of all confidential information.

1.4 **Document Transaction Details and Justification** – The Real Estate Division should include memoranda in property files to document transaction details and justification to ensure institutional knowledge is retained.

Agency Response: Agree, Implementation Date – Dec. 12, 2019

Agency Narrative: While there is no conflict between Division policy and the current approach, the Division agrees it is good practice to document appropriate transactional details when transactions are not standard transactions (i.e. appraisal not required) and will implement the change.

1.5 **Standardize Property File Documentation** – The Real Estate Division should standardize the retention requirements for property file documentation, and it should develop a property file checklist that includes all documents to be retained in each file. The checklist should also include comments to note exceptions to documentation retention requirements.

Agency Response: Agree, Implementation Date – Feb. 13, 2020

Agency Narrative: Standardized property file documentation protocols have already been developed and implemented and are now uniformly retained in both "soft" and "hard" files. Checklists have been refined for all types of transactions.

1.6 **Standardize Data Entry** – The Real Estate Division should establish a standardized data-entry and file-naming convention for real estate transactions across all methods of retaining documentation.

Agency Response: Agree, Implementation Date – Feb. 12, 2020

Agency Narrative: The Division agrees and has implemented a standard data-entry and file-naming convention for real estate transactions across all methods of retaining documents.

1.7 **Establish Document Retention Policy** – The Real Estate Division should establish and document a records retention policy to ensure compliance with the city's records management policy and records retention schedule.

Agency Response: Disagree, Implementation Date – June 30, 2020

Agency Narrative: The Division follows the city's retention policy and works closely with the City's Records Retention Manager to ensure compliance. Additionally, the city follows federal right of way guidelines for permanently maintaining federally funded right of way records.

Auditor's Addendum: While the division says in its response it follows the city's retention policy and federal right of way guidelines for permanently maintaining federally funded right of way records, the division's procedures do not outline specific details related to *how* the division maintains compliance.

For example, the city's retention policy states sale and acquisition records must be retained six years after disposition of property. In addition, supporting documentation for easements and rights of way should be permanently retained. However, the division's policies do not include details related to the process of how they will adhere to these requirements.

As stated in the report, the division's policies state records of contracts and deeds documenting real estate activities "shall be preserved" by the division as "deemed appropriate by the city's record manager." In addition, the division "shall maintain copies of management, concession, lease, or use agreements related to city-owned property." Although Real Estate's policies may include references to maintaining specific types of records, they still lack details regarding who is responsible for managing these tasks and the time frames involved.

Internal policies and procedures detailing how city and federal guidelines are implemented and specific time frames of retaining various records help ensure consistency throughout the division as well as compliance with requirements.

1.8 **Develop and Maintain Comprehensive Real Estate Portfolio** – The Real Estate Division should develop and maintain a comprehensive real estate portfolio. Information in the portfolio should include but not be limited to:

- Date of acquisition or disposition
- Leases
- Managing agency
- Acquisition or disposition price
- Reason for acquisition or disposition
- Total acreage or square footage
- Occupied square footage
- Approving ordinance or resolution

Agency Response: Disagree, Implementation Date – Aug. 31, 2020

Agency Narrative: The Division disagrees with this recommendation. The Division has previously established and continuously updates comprehensive portfolio information through a variety of databases and reports. As reflected in the report, the Division tracks critical assets and maintains portfolio reports, tracks income and expense leases, city owned buildings, city owned vacant land

and other portfolio data that incorporate information from the Assessor's and Clerk and Recorder's Offices. These reports were provided to the Auditor.

The Audit Report refers to other cities' methods of portfolio information tracking, acknowledging that there are varied methods by which cities can track portfolio information, including "an internal database." However, none of the examples provided by the Auditor of portfolio tracking performed by other cities uses the specific set of information called for in this recommendation. The information set called for is already tracked. The requested information already resides in city systems, especially in data tracked and maintained by the Assessor and the Clerk and Recorder. The Division has always maintained, accessed and used the information included in this recommendation, including maps of city owned facilities by council district and other tracking tools not identified by the Auditor. The Division already provides maps directly to council members including interactive maps showing city owned facilities and city owned vacant land by council district. Therefore, the Division disagrees with the conclusion that the Division has not developed or maintained a comprehensive real estate portfolio.

However, the Division agrees that the information it maintained should be more publicly available and provided in a user-friendly, accessible format. The Division and Technology Services have already initiated a project to add real estate information to the Division's denvergov.org web page in a fully integrated MapIt approach.

Auditor's Addendum: As described in the report and as acknowledged by the Real Estate Division in its response, the Real Estate Division tracks information in disparate systems — not in a centralized, comprehensive real estate portfolio of city-owned and leased properties. This means that to conduct real estate processes, Real Estate staff may need to refer to multiple systems including Assessor's Office data and multiple spreadsheets or handwritten cards.

Auditors requested a "description of information systems that record data on real estate acquisition, disposition, exchange, leasing, programming and use activities" from Real Estate in September 2019, when the audit was initiated. Requests also included a list of open and closed transactions for 2018 and 2019, a list of vacant/surplus properties, and a list of city-leased properties (i.e., income and expense leases). We received the following:

- A vacant/surplus property list obtained from the Assessor's Office during Real Estate's review for affordable housing
- Open and closed transactions compiled from the deeds database and individual, working spreadsheets
- Income and expense lease information from working lease tracking spreadsheets
- A copy of the deeds database containing transactions from 2018 and 2019

When we reviewed the information provided, we found the property information did not contain fields for certain important details, such as occupied square footage, and that information across the spreadsheets from the different sources of information was difficult to reconcile because of different naming conventions.

Throughout the audit and during several interviews, Real Estate personnel told auditors the division relies on a combination of the city's geographic information system, working spreadsheets, and data from the Assessor's Office to obtain a comprehensive list of city-owned property. Division personnel also said they do not often know the city even owns a parcel until someone brings it to

their attention. Division management said that because the Assessor's Office maintains records of all property owned in the city and not just property owned by the City and County of Denver, the list of properties received from the Assessor's Office is comprehensive. However, this information does not include specific data such as reason for acquisition or disposition of property, occupied space of various city-owned buildings, and ordinances or resolutions that would be necessary for a comprehensive portfolio.

Further, the "maps of city owned facilities by council district and other tracking tools not identified by the Auditor" mentioned in the division's response were not provided to auditors in response to requests during the audit and were not provided until after the division had received a copy of the draft report and after auditors met with Real Estate personnel for the exit conference meeting on April 8 after audit work had concluded. A "master list" of city-owned properties in Excel was also provided after the exit conference, with a file creation date of Jan. 15, 2020. Because we received these documents after audit work concluded, auditors were unable to validate the information or determine how Real Estate ensures the data is accurate.

However, when we compared the information on the new "master list" to information we received during the audit, we found the format was different and contained different information. In addition, the new "master list" did not contain information such as occupied square footage or acquired date. While total acreage or square footage may be maintained by the Assessor's Office, it should be maintained and updated by Real Estate in its comprehensive portfolio. The information should be coupled with occupied square footage to manage information such as vacancy rates of city-owned buildings.

It should also be noted that auditors discussed the need for a comprehensive portfolio during a status update meeting with Real Estate management on Jan. 21, 2020; however, these additional tools Real Estate provided in April were not mentioned nor provided at that time either.

The division's statement that none of the examples provided in the Appendix of this report use the specific set of information stated in the recommendation is not accurate. In fact, the following attributes listed can be found on page 48 of the report:

- Date of acquisition or disposition – Dallas
- Managing agency – San Diego
- Acquisition or disposition price – Dallas
- Reason for acquisition or disposition – Dallas
- Approving ordinance or resolution – Dallas

While methods vary among the cities we surveyed, all real estate organizations that responded retain a type of centralized, comprehensive real estate inventory — meaning real estate data is available within a single system maintained by each city's respective real estate function.

Auditors recommended fields for the Real Estate Division to use based on the division's processes. The division is not limited to these fields and may include additional fields as needed.

1.9 **Clarify Clearance and Release Policy** – The Real Estate Division should review the clearance and release requirements in Executive Order No. 100's Memorandum 100B and ensure division policies

and procedures are consistent with the executive order — specifically that Memorandum 100B does not include a statement regarding an automatic approval after 15 days with no response.

Agency Response: Agree, Implementation Date – Feb. 20, 2020

Agency Narrative: The Division has already revised this policy to address the 15-day non-response issue.

1.10 **Formalize Reporting with Controller's Office** – The Real Estate Division should work with the Controller's Office to formalize and document reporting requirements — including the frequency of reporting and the method of communication. Requirements should specify the points of information for each property necessary for accurate reporting by the Controller's Office.

Agency Response: Agree, Implementation Date – June 30, 2020

Agency Narrative: The Division is already developing policies to formalize reporting with the Controller's Office.

1.11 **Regularly Review Policies and Procedures** – The Real Estate Division should implement a formal process to regularly review and update the division's policies and procedures. This should include ensuring policies and procedures are consistent with Executive Order No. 100 and include changes as Archibus is implemented for the space planning team. The policies and procedures should also contain adequate detail of the division's role performed for various transactions, including those not initiated by the division.

Agency Response: Agree, Implementation Date – May 31, 2020

Agency Narrative: The Division has implemented a quarterly review and update of the Division's policies and procedures.

1.12 **Develop and Implement Strategic Plan** – The Real Estate Division should develop and implement a strategic plan to ensure the city's real estate needs can be anticipated and addressed, in accordance with the division's stated purpose under Executive Order No. 100. The division should consider using examples from other cities' real estate organizations.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

Agency Narrative: The Department of Finance (Department) is currently developing an updated strategic plan, for which the Division will be tasked with developing strategic measurements to achieve department-wide goals. The Division agrees and will work with the Department to implement specific strategies, measurements and annual plans relating directly to the Division's work in support of the larger department-wide goals. Additionally, the Division will continue to assist in the development of strategic visions and master plans with our major agency clients separate from our forthcoming strategic initiatives and annual plan.

1.13 **Implement and Monitor Performance Measures** – The Real Estate Division should develop and track performance measures to evaluate the division's success and ensure these performance measures align with the division's strategic plan, as implemented under Recommendation 1.12. The Real Estate Division should consider using best practices and examples from other cities' real estate organizations.

Agency Response: Agree, Implementation Date – Dec. 31, 2020

Agency Narrative: As mentioned in response to Recommendation 1.12, the Division will continue to work with the Department to initiate performance measures that directly relate to the Division's work in supporting the larger department-wide goals.

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

CITY AND COUNTY OF DENVER

Department of Finance
Division of Real Estate

201 WEST COLFAX
DEPARTMENT 1010
DENVER, CO 80202-4705
PHONE: (303) 913-1525
FAX: (720) 865-5599

April 17, 2020

Auditor Timothy M. O'Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O'Brien,

The Office of the Auditor has conducted a performance audit of City Real Estate Portfolio Practices.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on March 12, 2020. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING
The Real Estate Division is not properly overseeing the city's real estate portfolio.

RECOMMENDATION 1.1 The Real Estate Division should develop and implement a centralized tool to monitor space planning projects, including tracking milestones and delays.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	12/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.1
The Division currently utilizes a centralized excel spreadsheet with tabs to track projects for each project manager.

The Division has received approval in the 2020 budget to purchase the space planning software, Archibus, upon final approval from Technology Services. The Division anticipates implementation in late 2020.

RECOMMENDATION 1.2 The Real Estate Division should coordinate with other agencies that provide additional services for space planning projects to monitor delays. Communication and resolution should be documented for follow-up purposes.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Disagree	12/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.2
As documented in the flow chart developed with PEAK Academy, the space planning team already works closely and meets regularly with the Division of Transportation and Infrastructure (DOTI) project managers, General Services, BMO, internal clients and stakeholders as well as others to not only monitor delays but to also effectively avoid and manage delays and balance them with others' expectations and budget realities. Space planning staff regularly communicate and coordinate with client agencies, as well as each other, and follow a unified, approach to project delays as a part of the project management process.

The Division agrees that, as the Project Management Institute states, each project should have a defined lifecycle and milestones. As part of the separation of duties between the Division of Real Estate and DOTI, the responsibility to establish lifecycle and milestones rests with DOTI.

RECOMMENDATION 1.3 The Real Estate Division should retain agendas for each Interdepartmental Real Estate Committee meeting to track and monitor projects, milestones, and delays.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	Completed 1/1/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.3
The Division agrees and is already retaining Meeting Agendas for the Interdepartmental Real Estate Committee meeting to track and monitor projects, milestones and delays while maintaining protection of all confidential information.

RECOMMENDATION 1.4 The Real Estate Division should include memoranda in property files to document transaction details and justification to ensure institutional knowledge is retained.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	Completed 12/12/19	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.4
While there is no conflict between Division policy and the current approach, the Division agrees it is good practice to document appropriate transactional details when transactions are not standard transactions (i.e. appraisal not required) and will implement the change.

RECOMMENDATION 1.5 The Real Estate Division should standardize the retention requirements for property file documentation, and it should develop a property file checklist that includes all documents to be retained in each file. The checklist should also include comments to note exceptions to documentation retention requirements.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	Completed 2/13/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.5
Standardized property file documentation protocols have already been developed and implemented and are now uniformly retained in both "soft" and "hard" files. Checklists have been refined for all types of transactions.

RECOMMENDATION 1.6 The Real Estate Division should establish a standardized data-entry and file-naming convention for real estate transactions across all methods of retaining documentation.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	Completed 2/12/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.6
The Division agrees and has implemented a standard data-entry and file-naming convention for real estate transactions across all methods of retaining documents.

RECOMMENDATION 1.7 The Real Estate Division should establish and document a records retention policy to ensure compliance with the city's records management policy and records retention schedule.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Disagree	6/30/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.7
The Division follows the city's retention policy and works closely with the City's Records Retention Manager to ensure compliance. Additionally, the city follows federal right of way guidelines for permanently maintaining federally funded right of way records.

RECOMMENDATION 1.8 The Real Estate Division should develop and maintain a comprehensive real estate portfolio. Information in the portfolio should include but not be limited to: • Date of acquisition or disposition • Leases • Managing agency • Acquisition or disposition price • Reason for acquisition or disposition • Total acreage or square footage • Occupied square footage • Approving ordinance or resolution		
Agree or Disagree with Recommendation	**Target date to implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Disagree	8/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.8
The Division disagrees with this recommendation. The Division has previously established and continuously updates comprehensive portfolio information through a variety of databases and reports. As reflected in the report, the Division tracks critical assets and

maintains portfolio reports, tracks income and expense leases, city owned buildings, city owned vacant land and other portfolio data that incorporate information from the Assessor's and Clerk and Recorder's Offices. These reports were provided to the Auditor.

> The Audit Report refers to other cities' methods of portfolio information tracking, acknowledging that there are varied methods by which cities can track portfolio information, including "an internal database." However, none of the examples provided by the Auditor of portfolio tracking performed by other cities uses the specific set of information called for in this recommendation. The information set called for is already tracked. The requested information already resides in city systems, especially in data tracked and maintained by the Assessor and the Clerk and Recorder. The Division has always maintained, accessed and used the information included in this recommendation, including maps of city owned facilities by council district and other tracking tools not identified by the Auditor. The Division already provides maps directly to council members including interactive maps showing city owned facilities and city owned vacant land by council district. Therefore, the Division disagrees with the conclusion that the Division has not developed or maintained a comprehensive real estate portfolio.

However, the Division agrees that the information it maintained should be more publicly available and provided in a user-friendly, accessible format. The Division and Technology Services have already initiated a project to add real estate information to the Division's denvergov.org web page in a fully integrated MapIt approach.

RECOMMENDATION 1.9
The Real Estate Division should review the clearance and release requirements in Executive Order No. 100's Memorandum 100B and ensure division policies and procedures are consistent with the executive order – specifically that Memorandum 100B does not include a statement regarding an automatic approval after 15 days with no response.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	Completed 2/20/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.9
The Division has already revised this policy to address the 15-day non-response issue.

RECOMMENDATION 1.10
The Real Estate Division should work with the Controller's Office to formalize and document reporting requirements – including the frequency of reporting and the method of communication. Requirements should specify the points of information for each property necessary for accurate reporting by the Controller's Office.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	06/30/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.10
The Division is already developing policies to formalize reporting with the Controller's Office.

RECOMMENDATION 1.11 The Real Estate Division should implement a formal process to regularly review and update the division's policies and procedures. This should include ensuring policies and procedures and consistent with Executive Order No. 100 and include changes as Archibus is implemented for the space planning team. The policies and procedures should also contain adequate detail of the division's role performed for various transactions, including those not initiated by the division.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	5/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.11
The Division has implemented a quarterly review and update of the Division's policies and procedures.

RECOMMENDATION 1.12 The Real Estate Division should develop and implement a strategic plan to ensure the city's real estate needs can be anticipated an addressed, in accordance with the division's stated purpose under Executive Order No. 100. The division should consider using examples from other cities' real estate organizations.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	12/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.12
The Department of Finance (Department) is currently developing an updated strategic plan, for which the Division will be tasked with developing strategic measurements to achieve department-wide goals. The Division agrees and will work with the Department to implement specific strategies, measurements and annual plans relating directly to the Division's work in support of the larger department-wide goals. Additionally, the Division will continue to assist in the development of strategic visions and master plans with our major agency clients separate from our forthcoming strategic initiatives and annual plan.

RECOMMENDATION 1.13
The Real Estate Division should develop and track performance measures to evaluate the division's success and ensure these performance measures align with the division's strategic plan, as implemented under Recommendation 1.12. The Real Estate Division should consider using best practices and examples from other cities' real estate organizations.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	12/31/20	Jeffrey Steinberg 720.865.7505 and/or Lisa Lumley 720.913.1515

Narrative for Recommendation 1.13
As mentioned in response to Recommendation 1.12, the Division will continue to work with the Department to initiate performance measures that directly relate to the Division's work in supporting the larger department-wide goals.

Please contact Jeffrey Steinberg or Lisa Lumley at 720.865.7505 or 720.913.1515 with any questions.

Sincerely,

Jeffrey Steinberg
Director

cc: Valerie Walling, CPA, Deputy Auditor
Dawn Wiseman, CRMA, Audit Director
Sonia Montano, Audit Supervisor

OBJECTIVE

To determine whether the Finance Department's Real Estate Division is providing proper oversight of the city's real estate activities, such as acquisitions, dispositions, leases, and space planning.

SCOPE

The audit assessed Real Estate's management of the city's real estate portfolio, including compliance with state and local laws and regulations, as well as the division's internal policies and procedures, the accuracy and completeness of the city's real estate inventory, communication with subject agencies, adequacy of documentation and document retention, implementation of a strategic plan, and performance measures.

We reviewed documentation to support practices and internal controls, compliance with laws and regulations, and property files between January 2017 and December 2019.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objective. The methodologies included but were not limited to:

- Interviewing and/or observing the following:
  - Personnel from the city's Real Estate Division
  - Personnel from the city's Controller's Office
  - Personnel from the San Francisco Budget and Legislative Group
  - Personnel from the City of Austin, Texas' Real Estate Services
  - Personnel from the City of Seattle's Real Estate Services
  - Personnel from the City of Charlotte, North Carolina's Real Estate Division
  - Personnel from the City of St. Paul, Minnesota
  - Personnel from the City of Atlanta
  - Personnel from San Bernardino County, California
  - Participants and discussions of an Interdepartmental Real Estate Committee meeting
- Reviewing the following criteria:
  - Executive Order No. 100 — specifically its Chapter 1, Memorandum No. 100A, and Memorandum No. 100B
  - Executive Order No. 64
  - Sections four and seven of Executive Order No. 8

- The Real Estate Division's internal policies and procedures
- Denver Revised Municipal Code and Section 3.2.5 of the Denver Charter
- State laws, including Colorado House Bill 19-1264, which revised the release of a conservation easement
- Federal data quality standards
- Governmental Accounting Standards Board statements and implementation guides
- Government Finance Officers Association guidance on performance measures
- The Urban Institute's Center on International Development and Governance guidance on real property asset management for local governments
- Websites and best practices related to strategic plans and performance measures for San Francisco and Toronto

- Surveying other cities' real estate organizations — specifically their policies, procedures, strategic plans, and performance measures. We surveyed 12 large cities and received responses from five: the cities of San Diego; Seattle; Dallas; Austin, Texas; and Charlotte, North Carolina.
- Analyzing the following:
  - Active and closed property files for acquisitions, dispositions, easements, and eminent domain for 2018 and 2019
  - Clearance and release forms from 2018 and 2019
  - Real Estate's operating budgets for 2017 through 2019
  - Real Estate personnel's real estate experience
  - The space planning team's project files from 2018 and 2019
  - Income leases for 2019
  - A list of vacant and/or surplus properties
  - Job descriptions of Real Estate personnel
  - Strategic plans and performance measures from other municipalities
  - Interdepartmental Real Estate Committee agendas and minutes
  - City and County of Denver Single Audit by BKD LLC for the year that ended Dec. 31, 2018
  - Denver PEAK Academy "Space Planning Project Flow Workshop" summary
  - Archibus demonstration presentation and return-on-investment calculation
  - Auditor's Office survey results from City and County of Denver agencies about space planning
  - Email communications between space planners and agencies
  - Email communications between Real Estate staff and lessees
- Performing sampling and testing against reviewed criteria for the following:
  - A random sample of 12 (or 57%) out of 21 closed acquisition transactions for 2018 and 2019. We

reviewed the project files for appropriate approvals and documentation requirements.

- A random sample of nine (or 56%) out of 16 disposition transactions for 2018 and 2019. We reviewed the property files for appropriate approvals and documentation requirements.
  - Of the nine selected, we reviewed property files for eight fee-title properties and one tax-title property. Of the eight fee-title files reviewed, we selected four from 2018 and four from 2019.
  - Of the nine selected, we reviewed the only disposition transaction involving a tax title for 2019. We reviewed the property file for appropriate approvals and documentation requirements.
- A random sample of nine (or 15%) out of 60 income leases as well as a judgmental sample of one (or 2%) out of that same population. We reviewed documentation for evidence there was monitoring of lease terms, including timely payment of rent and required reports.
- A random sample of six (or 10%) out of 60 space planning projects for 2018 and 2019. We reviewed files for appropriate documentation and communication.
- All three easement transactions for 2018 and 2019. We reviewed the property files for documentation requirements.
- A list of 1,610 city-owned vacant properties. We reviewed the list for evidence of analysis by the Real Estate Division and justification for the city's possession of the properties.

APPENDIX

Other Cities' Real Estate Organization Practices

Auditors sent a survey to 12 other cities that have a centralized real estate organization. Five cities responded to the survey: San Diego; Seattle; Dallas; Austin, Texas; and Charlotte, North Carolina. In addition, we reviewed other cities' real estate websites and researched best practices for the cities of San Francisco and Toronto.

We focused on three areas: strategic planning, performance measures, and centralized portfolio management. Not all cities we surveyed or researched had examples of best practices in all three areas; for example, not all cities had a strategic plan.

Based on the surveys and research, the following three tables highlight some examples of best practices drawn from these different cities.

TABLE 1. Strategic Planning of Benchmark Cities' Real Estate Organizations

	Toronto	San Diego	Austin, Texas	San Francisco
Strategic Planning Document Name	"City-wide Real Estate Portfolio Strategy"	"Portfolio Management Plan"	"Strategic Administrative Occupancy Plan"	"Annual Report"
Sections Included in the Document	Background, purpose, defined real estate portfolio strategy, citywide view of portfolio, core objectives, municipal real estate asset types and/or needs, and approach to portfolio plans	For each division: current program, annual accomplishments, short-term action plans, and long-term action plans	Strategies, long-term programs, recommendations, and priorities	Overview, services, facts and figures, project highlights, and ongoing and upcoming projects
Examples of Strategic Goals and Action Plans Included	• Promote partnerships and collaboration with internal and external stakeholders • Improve service delivery and efficiencies through modernizing assets • Maximize city building opportunities and public benefits on city lands • Maintain the right asset mix to support long-term city goals and objectives	• Provide acquisition services and real estate-related support services to the Pure Water Program • Plan for future city occupancy costs in owned and leased space with clearly defined • Objectives for the numbers of full-time employees • Transition month-to-month agreements to long-term leases where appropriate	• Use a transparent, data-driven process to prioritize improvements to and management of customers and employees • Transition out of leased space into 1.2 million square feet of owned space by 2026	Work on a public-private partnership for a multi-tenant, one-stop shop for all permit-related functions within the Civic Center to provide a better, more efficient and accessible customer experience for use of outdoor plaza space

Source: Auditor's Office analysis of benchmark survey and research.

TABLE 2. Performance Measures of Benchmark Cities' Real Estate Organizations

	Toronto	San Diego	Austin, Texas	Dallas
Example Performance Measures	• Number of affordable housing units added • Amount of commercial space added • Number of energy efficiency and/or Smart projects enabled • Number of partnerships established	• Number of properties reviewed for potential disposition each year • Percentage of appraisals completed within 90 days of commencement • Percentage of lease agreements on a month-to-month holdover status	• Percentage of real estate transactions processed on time • Percentage of properties acquired under threat of condemnation within eight months • Percentage of leases completed within 18 months of approval by the strategic facilities government team to take occupancy	• Number of staff days to complete public-private transactions • Percentage of transactions completed within service-level agreements • Number of relocation transactions processed

Source: Auditor's Office analysis of benchmark survey and research.

TABLE 3. Benchmark Cities' Centralized Systems to Manage Real Estate Portfolios

	San Diego	Dallas	Austin, Texas	San Francisco
Type of Real Estate Management System	REPortfolio, a real estate management software customized to track all city-owned properties	Custom web-based portal that tracks all real property and improvements, properties owned, properties held in trust, properties leased, and/or properties licensed	Custom database to track parcel and transaction time frames	Custom database with Microsoft Access and a web-based application to track all city-owned property
Geographic Information System Layers	Uses GIS layers to track property information	Not specified	Uses separate GIS layers for city-owned property and easements	Uses GIS layers within the custom real estate database
Link to Scanned Documents	Paper files are scanned into a system called Doculynx, a document management software that links to REPortfolio	Not specified	Not specified	The database links to scans of documents
Examples of System Fields for Each Property	• Current use • Managing agency • Status • Restrictions • Notes	• Acquisition date • Ordinance, resolution, or council information • Purchase price • Maintaining agency • Reason acquired • Deed ID • Sale amount and date of sale • Status: vacant, developable, improved, commercial, residential, habitable, or occupied	Not specified	• Classification: fully utilized for municipal use, underutilized for municipal use, interim use, unused, excess, or surplus • Current use • Future use

Source: Auditor's Office analysis of benchmark survey and research.

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public's investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.