



**Washington County
Auditor's Office**

Audit of Surplus Property Management

Final Report
April 11, 2019



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County Auditor

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AUDIT OF SURPLUS PROPERTY MANAGEMENT

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AUDIT OF SURPLUS PROPERTY MANAGEMENT EXECUTIVE SUMMARY

Why we audited Surplus Property

We conducted this audit to address the following questions:

- Did Real Property Management comply with legal requirements for disposition of county surplus property?
- Did Real Property Management accomplish its objectives for surplus property management efficiently and effectively?

What we found

- Real Property Management complied with most, but not all, legal requirements.
- There are opportunities for Real Property Management to improve the efficiency and effectiveness of surplus property management.

What we recommend

To satisfy the legal requirements, the County should:

- Review auction notices, as published, to ensure that they contain all the needed information;
- Develop a process to ensure all recording requirements are satisfied;
- Provide the commissioners and the public with complete information regarding both state law and county policy relating to the transfer of county surplus property to other governments and/or nonprofit entities.

To improve the efficiency and effectiveness of surplus property management, the County should:

- Dispose of surplus property as quickly as possible to maximize revenues;
- Charge to the surplus property management program an appropriate share of the personnel costs;

- Develop performance metrics for customer service, and report to Facilities management and the Board;
- Propose a new policy for the management and disposition of surplus real property;
- Explore the potential for an interface between its real property management application and other county information systems;
- Establish a system to identify and account program administration and maintenance costs by property and seek reimbursement of those cost when selling each individual property;
- Report annually to the Board on the County's inventory of property;
- Reestablish the priority of real property management to dispose of property with sufficient resources;
- Develop standard operating procedures that satisfy state law and county policy;
- Develop and report performance measures on achieving the objectives of the surplus property program.



BACKGROUND

Property that government owns but has no use for is considered surplus property. For example, if a property owner fails to pay property taxes for many years, a county may acquire the property through foreclosure proceedings. In building roads, government often acquires more property than the finished project occupies. When the project is completed, property not needed for the right of way is considered surplus.

Since surplus property is by definition of no use to its owner, Washington County receives no benefit from owning it. Rather, the county incurs costs to manage and maintain surplus properties, is unable to levy taxes on those parcels, and assumes the risks and liabilities of a property owner. Therefore, it is generally in the public interest to dispose of such properties as quickly as possible and return them to the tax rolls.

In Washington County the management of county-owned property, including surplus property, is a responsibility of the Real Property Management unit of the Facilities and Parks Services Division (Facilities) of the Support Services Department.

Beginning in 1991 and ending in 1996, Washington County adopted several policies now referred to as the Real Property Management Guidelines. In 1992 the county hired a real property manager to manage and dispose of a growing number of county-owned properties that the County did not need. The real property manager's primary responsibilities were:

- Dispose of as many surplus properties as possible,
- Maintain an inventory of all county-owned property,
- Prevent abuses and misuses of surplus property,
- Respond to nuisance complaints and citizen inquiries about surplus property,
- Work with other county department and outside public agencies interested in county surplus properties, and
- Recover, upon the sale of any surplus property, administrative and maintenance costs incurred by the county in managing the property.

In January 1996 Facilities reported to the Board on the progress of the program and the current inventory of all county-owned property. In its first four years, the program held three public auctions resulting in the disposition of 84 parcels of surplus land. With minimum bids generally set between 70 and 80 percent of the assessed valuation, those auctions raised a total of more than \$2.25 million dollars. Over the same period, 91 parcels were added to the inventory, which then stood at 233 total parcels. 110 of those

parcels appeared to be surplus properties.

Since the largest number of those surplus parcels involved small slivers of land of low market value, Facilities proposed, and the Board adopted, additional policies to facilitate the private sale of such parcels at a nominal amount of not less than 20 percent of the assessed value. The Board also adopted a policy that it would “consider purchases of county-owned property by local governments on a case-by-case basis and may, at its discretion, allow local government to purchase property for the amount of costs incurred by the county for the specific parcel of land.”

With those policies in place, Facilities projected that the real property manager would be able to dispose of the accumulated inventory of truly surplus property by June 1998, after which the real property manager could take on additional responsibilities while disposing of properties received each year as tax foreclosures and road projects leftovers.

The real property management coordinator now leads the Real Property unit. In addition to surplus property management, the responsibilities of that unit now include:

- Identifying properties that meet the county's future needs, negotiating lease terms and assisting in lease preparation,
- Managing the Space Master Plan process,
- Managing the county's art inventory, and
- Managing all building signage and wayfinding.

In recent years, the need to relocate many county departments to accommodate projects to retrofit county buildings for earthquake resilience has significantly increased the burden of these added responsibilities. The real property coordinator has also worked to reduce the number of surplus properties acquired by the county by assisting more vulnerable property owners in accessing resources to avoid foreclosure and remain in their homes.

In March 2018 real property management listed almost 380 parcels of county-owned property in its inventory.

The county transferred 22 parcels of surplus property in 16 transactions between January 1, 2017 and June 30 2018. Thirteen parcels were included in a May 19, 2018 public auction, at which eleven parcels sold. The county transferred five parcels through private sales, transferred five to other government entities, and donated one to a community-based nonprofit agency for affordable housing.

We conducted this audit to answer the following questions:

1. Did Real Property Management comply with legal requirements for the disposition of surplus real property?
2. Did Real Property Management accomplish county objectives for surplus property management efficiently and effectively?

**FINDINGS &
RECOMMENDATIONS****Objective 1 *Legal Compliance***

We reviewed all 16 transfers of surplus property between January 1, 2017 and June 30, 2018 for compliance with state law. In general, we found that the County acted within the authority granted by state law in making those transfers and, except as noted below, complied with legal requirements for transfers by sheriff's sale or private sale. We identified two issues in connection with the May 2018 auction of property.

State law (ORS 275.120) requires that properties valued at more than \$15,000 be offered for sale at public auction with publication of a notice of sale in a newspaper of general circulation once a week for four weeks prior to the auction, and specifies the content of the notice. State law (ORS 275.120) also requires that proof of publication of the notice be filed with the county clerk and recorded in the deed record.

We found that although the two-page notice that the County provided to the newspaper contained all the required information, the newspaper published only the first page of the notice. As a result, there was no public notice regarding the sale of several auction properties that appeared on the second page. This lack of notice may have resulted in properties receiving lower bids. We also found that the County did not file and record the proof of publication as required by state law.

We recommend that Facilities review auction notices, as published, to ensure that they contain a complete list of properties scheduled for auction and all information required by state law. Facilities should develop a process to ensure all recording requirements are satisfied.

Objective 2 *Efficiency and Effectiveness in Achieving Program Objectives*

We evaluated the efficiency and effectiveness of surplus property management in thirteen areas itemized below.

The purposes and objectives of the surplus property program were set forth in four documents adopted by the Board. The County Administrator's Office (CAO) regards these as county policies, and many of them reflect industry best practices. They include:

- Dispose of as many county-owned properties as possible to allow properties to be placed back on the tax rolls.
- Be self-supporting by recovering all administrative cost from the sale and rentals of property.
- Prevent abuses and misuses of county property, protect the health, safety, and welfare of the community, and minimize county liability.
- Work with other county departments and outside public agencies seeking opportunities to address other public policy goals with available properties.
- Provide better customer service by responding to certain nuisance complaints and citizen inquiries about county properties in a more timely manner.

To accomplish these goals Facilities intended to:

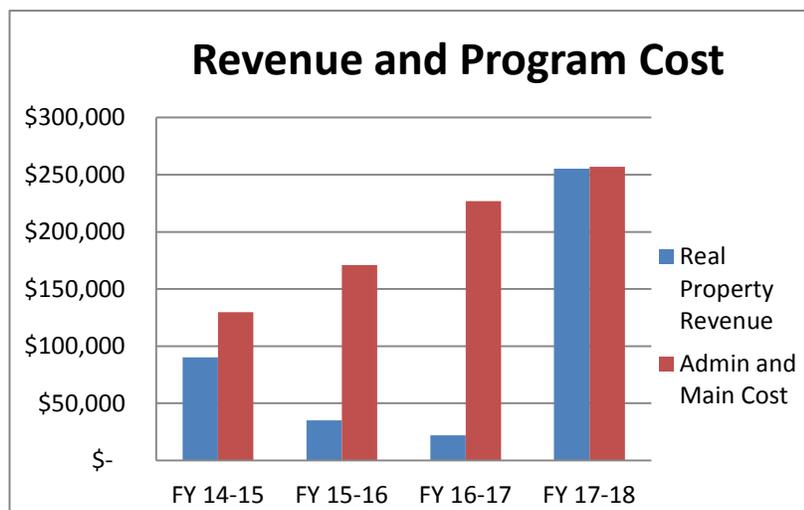
- Create a central entity for property management staffed with an experienced property manager.
- Adopt clear and consistent policies that articulate the goals of surplus property management.
- Maintain a complete and accurate inventory of properties with the information required to determine the appropriate disposition of properties.
- Establish a cost-tracking system to identify and account for administration and maintenance costs by property and seek reimbursement of these costs when selling the related property.
- Examine all properties at least annually to determine if property should be held for some purpose, transferred, or sold, and report to the Board.
- Dispose of all truly surplus properties in inventory, and efficiently and effectively handle all new properties acquired through the annual foreclosure process, civil forfeitures, donations and road projects.

Additional industry best practices for effective surplus property management include:

- Procedures that guide the day-to-day operations.
- Meaningful performance measures for surplus property management that are monitored and reported.

We found room for improvement in ten of these areas.

- **Dispose of as many county-owned properties as possible** - We found that real property management had not been effective in disposing of as many county-owned properties as possible and returning them to the tax rolls. When the audit began, the county had not sold property at a public auction in over 4 years. Almost all of the properties scheduled for auction in May 2018 had been owned by the county for more than 4 years. For more than 150 properties with a total value of nearly \$5.5 million, Real Property Management had not determined whether the county had any use for the property or how it should be disposed of if truly surplus. We recommend that Real Property Management promptly determine whether these properties serve any county purpose. If they do not, Real Property Management should dispose of eligible properties by private sale as quickly as possible and hold property auctions at least once a year for higher value properties.
- **The program shall be self-supporting** – We found that the program was not self-supporting. Expenses have exceeded revenues over the past four years.



Revenues are not realized and maintenance costs increase when surplus properties remain unsold. We recommend that the county dispose of surplus property as quickly as possible to maximize revenues.

We also found that program administration expenses were overstated. Facilities charged 80% of the real property coordinator's time to surplus property management, although the coordinator reported spending only about 50% on surplus property functions. Facilities should allocate to the surplus property management program an appropriate share of the personnel costs of the real property management unit.

- **Minimize county liability** - We found that the program had been effective in minimizing County liability and preventing abuse and misuse of county property. The Real Property Management Coordinator works with the Sheriff's Office and maintenance crews, responds to public reports, and conducts property inspections to prevent abuses and misuses of county property. Risk management reported no liability claims arising from county surplus property during our scope period.
- **Working with other departments and outside agencies** - Real Property Management also appeared to work effectively with other County departments and outside agencies seeking to address other public policy goals with available properties. Before disposing of properties, Real Property Management routinely alerted other County departments and outside agencies to provide them an opportunity to express interest. We found that many county-owned were held pending temporary or future use by County departments or other public agencies.
- **Better customer service** - We were unable to evaluate whether the program provided better customer service by responding to nuisance complaints and inquiries more quickly because the program did not collect data on response times. As a result, the program coordinator is unable to report to Facilities management or the Board on whether this program achieved that objective. We recommend that Real Property Management develop performance metrics for customer service, and report to Facilities management and the Board on customer service performance.

- **A central agency staffed by an experienced property manager** - We found that Real Property Management operated as a single, central entity for surplus property management. A professional property manager with extensive experience staffed the program.
- **Clear and consistent policies** - The CAO regards the guidelines and policies adopted by the Board in the 1990's as county policy. These documents articulate clear goals and objectives for surplus property management. However, those materials are scattered through multiple documents that are more than 20 years old. Those documents have not been updated to reflect current practice and state law. We recommend that Facilities propose a new policy for the management and disposition of surplus real property for adoption in accordance with County Administrative Policies 101 and 102.
- **Complete and accurate inventory** - The inventory of county-owned properties maintained by Real Property Management was largely complete. We found five parcels of county-owned property that were not on Facilities' list of county owned property. However, the team was actively maintaining four of the five parcels.

Inventory information about properties was not always accurate and was often insufficient to support a determination regarding whether the property should be held, transferred, or sold. Gathering sufficient information about properties to determine the appropriate disposition or respond to public inquiries often involved a time-consuming process of extracting information from data systems maintained by the departments of Assessment and Taxation (A&T) and Land Use and Transportation (LUT).

Facilities reports it is updating its real property management software. We recommend Facilities explore the potential for an interface between its application and other county information systems to improve its ability to maintain current, accurate and complete information regarding county-owned properties.

- **Cost tracking and recovery** - Facilities did not have a system to identify and account for program costs by property, so that it could seek reimbursement when selling the property. The program does allocate maintenance costs incurred for

individual properties to those properties. However, Facilities does not allocate all administrative costs of the surplus property program to each property, and does not always recover maintenance costs associated with a particular parcel when selling it. Failure to recover such costs places an additional burden on the General Fund. We recommend that Facilities establish a system to identify and account for program administration and maintenance costs by property and seek reimbursement of those cost when selling each individual property. Facilities should consider adopting a formula to allocate program administrative costs among surplus properties based upon real market value, assessed value, size, maintenance costs incurred, or some combination of such characteristics.

- **Annual report to the Board** – Facilities has not reported to the Board on the performance of the program since the mid-1990s. We recommend that Facilities report annually on the number and proposed disposition of surplus properties remaining in inventory, the number of properties removed from inventory in the past year by auction, private sale, and donation, and the revenue received from dispositions.
- **Dispose of newly acquired properties annually** – We found that Real Property Management had not yet determined the appropriate disposition of 38% of parcels acquired by the county more than a year ago. In 2018, 46 properties from the 1996 inventory required further evaluation before their appropriate disposition could be determined.

Facilities management has not prioritized staff time and resources to evaluate its inventory of surplus real property, which results in increased maintenance cost, increased liability, and decreased tax revenue. Facilities management has prioritized other responsibilities assigned to the real property management unit over its responsibility for management and disposition of surplus property.

The guidelines adopted by the Board contemplated that Real Property Management would undertake such additional duties only after it disposed of the backlog of surplus properties and could efficiently dispose of surplus properties acquired each year. We recommend that Facilities management reestablish this priority and provide Real Property Management with sufficient resources to accomplish those functions that have been added to its primary responsibility for the management

and disposition of surplus property.

- **Procedures that guide the day-to-day operations** - Preparing for the May 2018 auction of surplus property required that Real Property Management staff and County Counsel conduct a comprehensive review of state law and County policy to develop an outline of required steps and a timeline for the disposition of County property by sheriff's sale. This review was necessary because Facilities had no written procedures in place for the steps required to conduct an auction of surplus property. We recommend that Facilities develop standard operating procedures to ensure it conducts future auctions of surplus property more efficiently and satisfies the requirements of state law and county policy. Facilities should develop additional procedures, as appropriate, to ensure the efficiency and effectiveness of other surplus property processes.
- **Meaningful performance measures monitored and reported** – Real Property Management does not report meaningful performance measures for its surplus property management function to Facilities management or the Board. We recommend that Real Property Management develop and report performance measures for surplus property management to inform Facilities management and the Board regarding its progress in achieving the objectives of the program.

Other Matters

Local Transfers

The county transferred several parcels of surplus property to other local governments and one to a community based nonprofit during the scope period of the audit. Because county policies adopted in the 1990s specifically addressed sales of county surplus property to other local governments and nonprofit entities, we reviewed these transfers.

We found that the Board agenda items for these transfers referenced the provisions of state law authorizing the Board to make the transfers, but did not reference provisions of county policy that appear to impose additional restrictions on such transfers.

The Board has the authority to grant exceptions to county policy. Whenever staff recommends Board action that is inconsistent

with county policy, it should inform the Board regarding the applicable policy and the circumstances supporting an exception. Without such information, the Board is unable to consider whether an exception is appropriate or whether the policy should be revised or revoked. Without such information, the public is unable to present arguments for or against applying the policy or granting an exception.

In the interests of transparency and accountability, Facilities should provide the commissioners and the public with complete information regarding both state law and county policy relating to the transfer of county surplus property to other governments and/or nonprofit entities.

**OBJECTIVES, SCOPE
& METHODOLOGY**

The County Charter provides that the County Auditor shall evaluate the effectiveness and results achieved by County programs and activities.

We conducted this audit to address the following questions:

- Did Real Property Management comply with legal requirements for disposition of county surplus property?
- Did Real Property Management accomplish its objectives for surplus property management efficiently and effectively?

We reviewed applicable state law and county policy for real property management. We examined budgets and financial reports for the real property management unit. We reviewed literature and best practices for real property management. We interviewed staff and management of Facilities and Real Property Management and consulted County Counsel. We compared the inventory of surplus property maintained by Real Property Management to the official county records maintained by the Department of Assessment and Taxation. We reviewed all transfers of surplus property between January 1, 2017 and June 30 2018.

**COMPLIANCE WITH
AUDIT STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards, except for an external peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

signed:



Audit Team: County Auditor: John Hutzler, CIA, CGAP, CCSA
Lead Auditor: Keith Shoop, CGAP
Reviewer: Peter Morris, CGAP

**SUMMARY OF AUDIT
RECOMMENDATIONS**

1. Facilities should review auction notices, as published, to ensure that they contain a complete list of properties scheduled for auction and all information required by state law.
2. Facilities should develop a process to ensure all recording requirements are satisfied.
3. We recommend that the county dispose of surplus property as quickly as possible to maximize revenues. Real Property Management should determine the appropriate disposition of surplus properties in inventory, dispose of eligible properties by private sale, and hold a property auction at least once a year whenever there are surplus properties whose values require that they be sold at auction.
4. Facilities should charge to the surplus property management program an appropriate share of the personnel costs of the real property management unit.
5. Real Property Management should develop performance metrics for customer service, and report to Facilities management and the Board on customer service performance.
6. Facilities should propose a new policy for the management and disposition of surplus real property for adoption by the Board in accordance with County Administrative Policies 101 and 102.
7. Facilities should explore the potential for an interface between its real property management application and other county information systems.
8. Facilities should establish a system to identify and account program administration and maintenance costs by property and seek reimbursement of those cost when selling each individual property. Facilities should consider adopting a formula to allocate program administrative costs among surplus properties based upon real market value, assessed value, size, maintenance costs incurred, or some combination of such characteristics.

9. Facilities should report annually to the Board on the number and proposed disposition of surplus properties remaining in inventory, the number of properties removed from inventory in the past year by auction, private sale, and donation, and the revenue received from dispositions.
10. Facilities management should reestablish the priority of real property management's responsibility for surplus property and provide sufficient resources for that unit to accomplish any functions added to that primary responsibility.
11. Real Property Management should develop standard operating procedures, to ensure it efficiently and effectively performs its surplus property functions and satisfies the requirements of state law and county policy.
12. Real Property Management should develop and report performance measures for surplus property management to inform Facilities management and the Board regarding its progress in achieving the objectives of the surplus property program.
13. Facilities should provide the commissioners and the public with complete information regarding both state law and county policy relating to the transfer of county surplus property to other governments and/or nonprofit entities.



April 1, 2019

To: John Hutzler, County Auditor

From: Robert Davis, County Administrator *RD*
Don Bohn, Assistant County Administrator *DB*
Martin Granum, Facilities and Parks Manager *MG*

Subject: Audit of Surplus Property Management

Thank you for the opportunity to respond to the audit of surplus property management dated March 22, 2019.

The County Administrative Office and Department of Support Services agrees with the recommendations to improve the surplus property management program and appreciates the contributions of the Auditor's Office, and notably Keith Shoop, lead auditor.

For our response, the thirteen audit recommendations have been organized into six broad categories and presented below with timelines for implementation:

- Develop Administrative Policy for the management and disposition of real property (incorporating recommendations 3,6)
 - Facilities and Parks Services staff will partner with County Counsel to prepare a consolidated administrative policy that will update and replace current guidelines. This work will be completed by November 1, 2019.
- Develop Standard Operating Procedures (incorporating recommendations 1,2,4,8,11,13)
 - Facilities and Parks Services staff will partner with County Counsel and document administrative procedures for the surplus property management function. This work will be completed by November 1, 2019 as part of the administrative policy development process noted above.
- Develop Performance Metrics (incorporating recommendations 5,12)
 - Facilities and Parks Services will develop and report customer service and other key performance measures to the Board of Commissioners and public. This work will be completed by March 1, 2020 based on activities during the 2019 calendar year.

County Administrative Office

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- Provide Annual Report to the Board of Commissioners (recommendation 9)
 - Facilities and Parks Services will prepare and provide an annual report to the Board of Commissioners and public by March 1, 2020 based on activities during the 2019 calendar year.
- Provide adequate resources to surplus property management (incorporating recommendation 10)
 - The requested budget for FY 2019-20 includes the addition of a 1.0 FTE Administrative Specialist II to provide enhanced administrative support to the surplus property management function. The additional resource will assist in executing the audit recommendations, administering the surplus property portfolio, implementing a new software application and communicating with the public.
- Explore the potential for interface between the real property management system and other county information systems (recommendation 7).
 - Facilities and Parks Services will review such opportunities in partnership with the Information Technology Services (ITS) Division. This work will be completed as part of the implementation of a new real property management application solution. It is projected this work will be completed by December 31, 2020.

The Support Services, Facilities and Parks Division staff is committed to continuous process improvements. As we look forward to implementing your recommendations, we also make note of the invaluable work of the property management team. Because of their passion, skills and diligence, the County has capably managed increasingly challenging and complex surplus real properties; worked with a host of public agencies and property owners (and families) to avoid tax foreclosure for vulnerable residents; and continuously problem-solve a host of complex internal space planning needs. It is a testament to their public service ethic – that we are positioned to take this program to the next level.

We look forward working with our staff on any follow-up audits related to the surplus property program.