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Audit of the Management of the City's Surplus Real Properties

August 28, 2019

Mark S. Swann
City Auditor

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Executive Summary

Objective and Scope

The audit engagement started in March 2018 to evaluate the City's processes for identifying, managing, and disposing of surplus real property.

The audit scope included management operations and transactions from October 1, 2016, through September 30, 2018.

What We Recommend

The City should evaluate the identified risks and incorporate into the new Land and Building Management System and associated Administrative Directive:

- A city-wide real property management process (application, procedures, and controls).
- User account access monitoring for current and planned real property management applications.

In addition, the Department of Sustainable Development and Construction should update procedures to reflect compliance with State and City requirements for surplus property disposals.

Background

In February 2017, the City Manager's Office and Chief Financial Officer recognized the need for a centralized system to ensure an accurate record of land, buildings, and other major capital assets of the City. The City Manager prioritized the creation of the Land and Building Management System as the City's system of record for land and buildings and anticipates the system will become operational in September 2019.

Refer to [Appendix A](#) to review the City's major milestones in developing the Land and Building Management System.

What We Found

During the audit timeframe, the City did not have a city-wide real property management process and data input standardization requirements to effectively identify, manage, and dispose of all real property. Specifically, the City does not:

- Maintain a descriptive roster and perform an annual inventory of real property owned by the City.
- Have relevant guidance for the identification, management, and disposal of all real property including land and buildings.
- Utilize standardized data requirements that would support cross-organization analysis.
- Monitor user access to the City Property System.
- Prescribe all State and City requirements within the surplus property disposal procedures.

Audit Results:

Section 1 – Management of Real Property

Observation A: City-Wide Real Property Management

The City does not have a city-wide process and data input standardization requirements to effectively identify, manage, and dispose of all real property, including land and buildings. As a result, the City:

- May not effectively identify cost-saving opportunities through consolidation or disposal of underutilized surplus real properties.
- Perform cross-organization analysis to identify surplus properties consolidation.
- Identify cost savings that may result in one-time sales income, lease revenue, and cost reduction for utilities and maintenance.

A City-Wide Process

The City does not maintain a descriptive roster of real property owned by the City and does not conduct an annual examination of the need for city-owned real property (see [textbox](#)).

In addition, the Administrative Directive 6-04, *City of Dallas Encyclopedia of Structures (CODES)*:

- Does not include guidance for all real property including land.
- Is not enforced. The City does not: (1) collect, manage, and communicate building data needed to establish and update CODES; and, (2) conduct an annual inventory review for buildings.

Real Property Management Requirements

The City of Dallas, Texas Code of Ordinances, Volume I, Chapter 2 *Administration* states, “the City Manager shall maintain ... a descriptive roster of real property owned by the City” and “conduct an annual examination of the need for city-owned real property.”

Administrative Directive 6-04, *City of Dallas Encyclopedia of Structures (CODES)* states:

- *The annual inventory data collection activities will be initiated by memorandum from the [Building Services Department] Director to department directors on the Department Building Master List.”*
- *“The annual inventory will occur the fourth quarter of each fiscal year.”*
- *“The Director of [Building Services Department] will disseminate the final CODES reports to department directors upon completion of the review process.”*

Data Input Standardization

Certain departments¹ track real property independently but do not utilize standardized data input requirements (see [textbox](#)) that would support cross-organization analysis. As described in [Appendix B, Exhibit 1](#), departments do not use similar descriptive criteria (data fields). Specifically, 22 of 24, or 92 percent of data fields reviewed, were not similar across departments.

According to City management, the new Land and Building Management System is under development and “will serve as the system of record for all the land and buildings owned by the City.” In conjunction with the Land and Building Management System, a new Administrative Directive to address a city-wide real property management process is currently in development.

We recommend the **City Manager** include the following elements into the city-wide process and new Administrative Directive:

- A.1:** Maintain a descriptive roster of real property.
- A.2:** Delegate personnel to conduct an annual examination of the need for city-owned real property to: (1) consolidate properties for potential cost-savings; or, (2) identify surplus properties for disposal.
- A.3:** Require department directors to submit an annual certification to designated personnel, which assures the accuracy and completeness of city-owned real property.
- A.4:** Designate roles and responsibilities for departments involved in the city-wide real property management process.

Best Practices

The Office of Management and Budget requires Federal agencies to report on real property data elements by March 31 of each year.

The *2018 Guidance for Real Property Inventory Reporting* defines Federal requirements for collecting and defining real property data, see [Appendix B, Exhibit 2](#).

Best practices support the identification and management of all real property. These include:

- Descriptive criteria for each property (data fields).
- Defined categorization of each criteria (character values).
- Comprehensive and centralized records documenting the descriptive criteria and categorization of each property (city-wide system).

¹ The Office of the City Auditor judgmentally selected the following four departments: (1) Building Services; (2) Dallas Water Utilities; (3) Park and Recreation; and, (4) Sustainable Development and Construction.

We recommend the **City Manager** incorporate identified areas of improvement into the Land and Building Management System to ensure:

A.5: Data input requirements include consistent, similar descriptive data fields that support categorization and cross-organization analysis of real property.

Please [see Appendix C](#) for management's response to the recommendations.

Audit Results:

Section 2 – Department of Sustainable Development and Construction's Real Property Management Process

Observation B: User Account Access Management

The Department of Sustainable Development and Construction does not have a user account monitoring process to ensure only authorized users have access to the City Property System.² The Department of Sustainable Development and Construction: (1) adds or deletes user access without using formal documentation such as a Security Authorization Request form; and, (2) does not perform periodic reviews of user access. As a result, individuals could have City Property System access that is not aligned with their roles and responsibilities.

User access testing of the 126 active user accounts (employees, temporary staff, and vendors) as of November 8, 2018, identified:

- Eight, or six percent, separated (resigned, retired, terminated) employees' accounts are still active after they were separated from the City.³
- Thirty, or 24 percent, had not accessed the City Property System in over a year.
- Thirteen, or ten percent, were granted access over a year ago and never logged in to the City Property System.

Additionally, four separated employee user accounts, had activity after the employees' separation date with the City.

- One account had a Last Login timestamp of November 13, 2017. However, the employee's separation date was August 20, 2014. According to management, the account was used by City Property System administrator staff as a test account.

² Selected departments individually track city-owned real property and record city-owned real property data into the Department of Sustainable Development and Construction City Property System at the departments' discretion.

³ According to Department of Sustainable Development and Construction management, the risk of accessing the City Property System is reduced if separated employees' Active Directory accounts are timely disabled. Effective November 2017, in addition to City Property System login, Active Directory login was required to access the City Property System. This requirement was applicable to two of eight separated employees' accounts. The separated employees' Active Directory accounts were removed in compliance with the City of Dallas Enterprise Information Security Standard. **Source:** Office of the City Auditor's analysis

- Three accounts had duplicate Date Joined⁴ and Last Login timestamps of June 10, 2013 at 4:47:10 PM. Separation dates for these employees were April 21, 2012, May 15, 2013, and May 29, 2013. According to management, a system change reset the Date Joined and Last Login timestamps for all accounts in the City Property System as of June 10, 2013.

Criteria

- ❖ The Administrative Directive 2-24, *Computer Security, Section 6.2.6* states, "Executives responsible for safeguarding content of information systems shall restrict access to such systems to only those with the need to access such systems." The City of Dallas Enterprise Information Security Standard, Section 9, *General Policy on User Credentials Accounts and Passwords* requires:
 - Accounts not used at least once in a 90-day consecutive period to be locked/disabled.
 - "All User Accounts for the various systems in the City shall be reviewed annually for User accesses, appropriate roles, staff employment statuses and other logon activities."

We recommend the **City Manager** ensure proper user access for the City Property System and the Land and Building Management System in accordance with City security procedures:

B.1: Complete Security Authorization Request forms for the approval and removal of user access.

B.2: Provide a user access list to departments and request them to validate the appropriateness of user accounts periodically.

B.3: Perform periodic reviews of user accounts to ensure: (1) accounts not used for over 90 days are disabled; and, (2) disabled accounts are monitored for usage.

Please see [Appendix C](#) for management's response to the recommendations.

⁴ The "Date Joined" is a City Property System reporting field that represents the date each user account was granted access to the City Property System.

Observation C: Surplus Property Disposal Written Procedures

The Department of Sustainable Development and Construction's written procedure for surplus property disposals does not align with or prescribe all State of Texas and City requirements. Additionally, the written procedure for surplus property disposals was not formally approved by management.

Without prescribing State of Texas and City requirements in departmental procedures, the department cannot ensure employees perform daily operations as prescribed by the State of Texas and the City.

Surplus Property Identification and Disposal

The Department of Sustainable Development and Construction Real Estate Division receives notifications of surplus properties from City departments and is responsible for communicating the availability of the properties. If no department claims the surplus property, the Department of Sustainable Development and Construction will manage the disposal of the surplus property.

The written procedure for surplus property disposals states the advertisement for sealed bids and public auctions will run once a week for three consecutive weeks prior to the 20th day before the sale. Although the 20-day prior notice is appropriate for public auctions, it is not in compliance with the City's requirement that sealed bids have a 60-day notice before initiation of formal bid procedures.

Additionally, the written procedure for surplus property disposals does not include the requirements that:

- Auction notifications include: (1) description of the real property, including its location; and, (2) the date, time, and location of the auction.
- Surplus property purchasers must state the full name as it should appear in an instrument of conveyance.

Criteria

- ❖ City of Dallas, Texas Code of Ordinances, Volume I, Chapter 2, Administration, Article III *Management and Sale of City-Owned Real Property* states:
 - *"In order to publicize the availability of property for sale and to attract the attention of all potential buyers, at least 60 days before initiation of formal bid procedures, the City Manager shall...prepare a notice of the contemplated offer for sale and descriptive information..."* [Section 2-24]
 - *"A bidder for the purchase of real property or an interest in real property from the city, whether bidding through formal bid procedures or at a public auction, must state the full name of the prospective purchaser as it should appear in an instrument of conveyance."* [Section 2-26]

- ❖ Texas Local Governmental Code Chapter 253, *Sale or Lease of Property by Municipalities*, Section 253.008 (b) requires, *“the notice must include a description of the real property, including its location, and the date, time, and location at which the auction is to be held.”*

We recommend the **Director of the Department of Sustainable Development and Construction**:

C.1: Update the procedure in accordance with State of Texas and City requirements.

Please see [Appendix C](#) for management’s response to the recommendation.

Appendix A: Background and Methodology

Background

The City's Statement of Financial Position as of September 30, 2018 states Total Capital assets for Land at \$838,078,000 and Buildings at \$3,419,267,000. City departments have varying responsibilities to track and report real property. The following departments have significant land and building holdings as part of their core responsibilities:

- Building Services
- Dallas Water Utilities
- Park and Recreation
- Sustainable Development and Construction

The four departments represent significant real property usage with potential for identifying, managing, and disposing of real property.

Building Services

The Building Services Department provides facility management in support of City service delivery and is responsible for major maintenance improvements, daily building operations, preventive maintenance, energy, and custodial services. The Building Services Department operates, maintains, and repairs the mechanical, electrical, plumbing, and roofing systems for city-owned or leased facilities.

Dallas Water Utilities

The Department of Dallas Water Utilities is an Enterprise Fund department that provides water, wastewater, and storm drainage services to roughly 2.5 million people in the City and 27 nearby communities. The Department of Dallas Water Utilities' operations include operating and maintaining water and wastewater treatment plants, storm drainage pump stations, reservoirs, acres of floodplains, and miles of water mains, wastewater mains, and storm drainage pipes.

Park and Recreation

The Department of Park and Recreation is one of the largest municipal parks systems in the nation in terms of park land acres encompassing parks, lakes, surface acres of water, and developed trail miles. Facilities owned and operated by the Department of Park and Recreation include recreation centers, golf courses, tennis centers, community pools, dog parks, and various types of activity centers.

Sustainable Development and Construction

The Department of Sustainable Development and Construction provides various services including real property management. The Real Estate Division of the Department of Sustainable Development and Construction administers real estate owned or to be acquired by the City but does not provide ownership information, title work, appraisals, or other services for non-city-owned property. As part of its services, the Real Estate Division sells surplus and tax foreclosed properties.

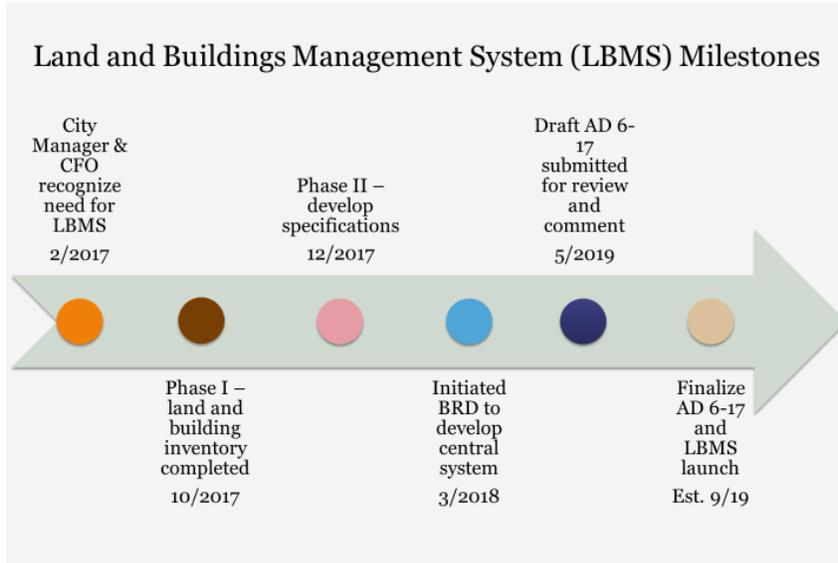
The Real Estate Division's expertise is frequently relied upon by other City departments when disposing of surplus real property. The Real Estate Division receives notifications of surplus properties from City departments and is responsible for communicating the availability of the properties to other City departments. If no department claims the surplus property, the Real Estate Division will manage the disposal of the surplus property.

Land and Building Management System Status and Major Milestones

In February 2017, the City Manager's Office and Chief Financial Officer recognized the need for a centralized system to ensure an accurate record of land, buildings, and other major capital assets of the City. The City Manager prioritized the creation of the centralized system as shown in the major milestones and City Management's graphic:

- October 2017 – The City produced a consolidated inventory of over 5,000 parcels of land and nearly 1,300 city-owned buildings.
- December 2017 – Stakeholders met to review project scope and determine system specifications and department responsibilities.
- March 2018 – A formal Business Requirements Document was initiated to develop the Land and Building Management System.
- May 2019 – A draft of Administrative Directive 6-17, *City of Dallas Land and Building Management System*, requiring departments to ensure land and buildings are recorded and maintained in the Land and Building Management System, was submitted to City departments for review and comments.

Land and Building Management System Timeline



According to City Management, the Land and Building Management System is in place and awaiting finalization of Administrative Directive 6-17. The City anticipates the Land and Building Management System will become operational as the City's system of record for land and buildings in September 2019.

Methodology

The audit methodology included: (1) interviewing personnel from various departments; (2) reviewing policies and procedures, the *Texas Local Government Code*, applicable Administrative Directives, and best practices supporting governmental surplus property; and, (3) performing various analyses.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Frank Mayhew, CISA, CFE – Project Manager

Bob Smith, CPA – Acting Audit Manager

Thandee Kywe, CPA, CFE, CGFM – Interim Quality Control Manager

Appendix B: Real Property Data Standardization

As discussed in page 3, analysis of selected department real property listings showed City departments do not use similar data fields when recording data for city-owned real property records. The table below (Exhibit 1) provides the real property data fields that were present in each department's real property records and the inconsistency of data fields used.

Exhibit 1:

Summary of Real Property Data Fields Used by Selected Departments

Descriptive Field Types	Sustainable Development and Construction	Building Services	Park and Recreation
Responsible Department	X	X	
Role (Owner/Trustee)	X		
Property (ID) Number	X		
Description/Name	X	X	X
Street Address	X	X	X
Street Number	X		
Street Name	X		
City	X	X	
Zip Code	X	X	
Acquisition Date	X		
Built (year)			X
Dallas City Council District (ID #)	X	X	
Vacant	X		
Developable	X		
Improved	X		
Commercial	X		
Residential	X		
Habitable	X		
Occupied	X	X	
Facility Type			X
Area (sq. ft.)	X		X
City-Owned		X	
Leased Property		X	
Park Type			X

Note: "X" represents departments' record in data field.

To facilitate the collection of real property data collection, the Federal Real Property Council has provided requirements for the reporting of real property data in the *2018 Guidance for Real Property Inventory Reporting*. Although the guidance is targeted for federal reporting, many of the areas are applicable to the City. The table below ([Exhibit 2](#)) lists several of those data elements and their descriptive fields.

Exhibit 2:

Federal Guidance For Real Property Data Standardization

Data Element	Data Element Categories
Real Property Type	Land, Building, Structure
Legal Interest	Owned Leased Trust Withdrawn
Leased or Withdrawn Status Category	Current Mission Needed Future Mission Needed Disposed
Historical Status	Historical Landmark Not Evaluated Evaluate, Not Historical
Size	Land in Acres Buildings in Square Feet
Utilization	Unutilized Underutilized Utilized
Replacement Value	Replacement value = Unit Cost * Overhead Factor
Historical Capital Expenditures	The total cost of capital expenditures incurred associated with the property
Estimated Capital Expenditures	Amounts reported should be consistent with capital plans.
Annual Operation Costs	Actual Costs include: Utilities Cleaning/Janitorial Roads/Grounds
Annual Leasing Costs	Full Year Costs
Maintenance Costs	Reoccurring annualized costs for planned activities need to maintain an asset's functionality and capacity over its expected life.
Street Address	Mailing Address Building Name Street Corner Other (PO Box)
City	City Name
County	County Name
District	District ID
Installation Name	Optional
Lease Start Date	
Lease End Date	
Lease Occupancy Date	
Year of Construction	Year of Completed Construction

Appendix C: Management's Response

Memorandum



DATE: August 22, 2019
TO: Mark S. Swann, City Auditor
SUBJECT: Response to Audit Report: Audit of the Management of the City's Surplus Real Properties

This letter acknowledges the City Manager's Office received the *Audit Report: Audit of the Management of the City's Surplus Real Properties* and submitted responses in consultation with the Chief Financial Officer, Communication & Information Services, Sustainable Development & Construction, and Building Services Department to the recommendations.

We agree it is important for the City to have a consistent and centralized record of real properties that facilitates identifying surplus property.

In fact, in February 2017 the City Manager's Office and Chief Financial Officer identified the need for a centralized system that can ensure an accurate record of land, buildings, and other major capital assets of the City. The City Manager prioritized the creation of the centralized system and considerable progress has been made to implement a centralized record of all real property.

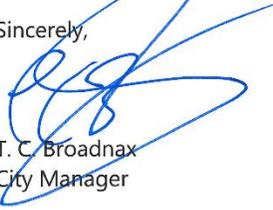
This progress and associated dates are summarized below:

- October 2017 – Produced a consolidated inventory of over 5,000 parcels of land and nearly 1,300 City-owned buildings
- December 2017 – Stakeholders met to review project scope, and determine system specifications and department responsibilities
- March 2018 – Initiated formal Business Requirements Document to develop the Land and Building Management System (LBMS)
- May 2019 – Draft Administrative Directive 6-17, requiring departments to ensure land and buildings are recorded and maintained in the LBMS, is submitted for review and comments

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We anticipate the LBMS will become operational and the Administrative Directive 6-17 will be finalized by September 2019.

Sincerely,



T. C. Broadnax
City Manager

- C: Kimberly Bizer Tolbert, Chief of Staff
- Elizabeth Reich, Chief Financial Officer
- Majed Al-Ghafry, Assistant City Manager
- Joey Zapata, Assistant City Manager
- Hugh Miller, Interim Chief Information Officer, Communication and Information Services
- Kris Sweckard, Director, Sustainable Development & Construction
- Erick Thompson, Director, Building Services
- Girish Ramachandran, Assistant Director, Communication and Information Services
- Ashley Eubanks, Assistant Director, Sustainable Development & Construction

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Recommendation	Concurrence and Action Plan	Implementation Date	Maturity/ Follow-Up Date
We recommend the City Manager include the following elements into the city-wide process and new Administrative Directive:			
<p>A.1. Maintain a descriptive roster of real property.</p>	<p>Agree: In February 2017, the City Manager's Office and the Chief Financial Officer recognized the need for a centralized system to ensure an accurate record of land, buildings and other major capital assets of the City.</p> <p>In July 2017, the City Manager determined a new database was necessary to best ensure current, consistent, and comprehensive listing of City property. The Land and Building Management System (LBMS) guarantees that a descriptive roster of real property is maintained and updated accordingly by departments.</p> <p>Phase I of the project was delivered on October 20, 2017, a placeholder spreadsheet/data file listing over 5,000 properties (land) and almost 1,300 City-owned buildings, compiled from the various lists and systems identified in departments. Phase II of the project began on December 19, 2017. Multiple departments worked to develop specifications and focused on the design of the LBMS.</p> <p>Phase II continued throughout 2018 as departments refined the data fields and cleansed the data. The LBMS is expected to be in place September 2019.</p>	12/31/2019	12/31/2021

Recommendation	Concurrence and Action Plan		Implementation Date	Maturity/ Follow-Up Date
<p>A.2. Delegate personnel to conduct an annual examination of the need for city-owned real property to: (1) consolidate properties for potential cost-savings; or, (2) identify surplus properties for disposal.</p>	<p>Agree:</p>	<p>The City Manager will ensure formal procedures are created requiring the completion of an annual assessment of City-owned property. The assessment will be used to determine if potential cost-saving opportunities exist with the consolidation of properties or if any property is surplus and should be considered for disposal.</p>	<p>12/31/2019</p>	<p>12/31/2021</p>
<p>A.3. Require department directors to submit an annual certification to designated personnel, which assures the accuracy and completeness of city-owned real property.</p>	<p>Agree:</p>	<p>The City Manager will ensure formal procedures are created requiring department directors to annually certify that City-owned real property is captured accurately and completely in the LBMS.</p>	<p>12/31/2019</p>	<p>12/31/2021</p>
<p>A.4. Designate roles and responsibilities for departments involved in the city-wide real property management process</p>	<p>Agree:</p>	<p>The City Manager will ensure departments designate roles and responsibilities within the LBMS.</p>	<p>12/31/2019</p>	<p>12/31/2021</p>
<p>We recommend the City Manager incorporate identified areas of improvement into the Land and Building Management System to ensure:</p>				
<p>A.5. Data input requirements include consistent, similar descriptive data fields that support categorization and cross-organization analysis of real property.</p>	<p>Agree:</p>	<p>The City Manager will ensure the LBMS has standard data fields. The standardization will provide consistent data to support categorization and cross-organization analysis of real property.</p>	<p>12/31/2019</p>	<p>12/31/2021</p>

Recommendation	Concurrence and Action Plan		Implementation Date	Maturity/ Follow-Up Date
We recommend the City Manager ensure proper user access for the City Property System and the Land and Building Management System in accordance with City security procedures:				
B.1. Complete Security Authorization Request forms for the approval and removal of user access.	Agree:	The City Manager will ensure all LBMS users submit completed Security Authorization Request forms before access is granted or removed.	9/30/2020	12/31/2021
B.2. Provide a user access list to departments and request them to validate the appropriateness of user accounts periodically.	Agree:	The City Manager will ensure a user access list is provided to departments periodically. Departments will review the list to validate the appropriateness of user access.	9/30/2020	12/31/2021
B.3. Perform periodic reviews of user accounts to ensure: (1) accounts not used for over 90 days are disabled; and, (2) disabled accounts are monitored for usage.	Agree:	The City Manager will ensure periodic reviews of LBMS access are conducted to validate the appropriateness of user accounts.	9/30/2020	12/31/2021
We recommend the Director of the Department of Sustainable Development and Construction:				
C.1. Update the procedure in accordance with State of Texas and City requirements.	Agree:	The Department of Sustainable Development and Construction will update procedures in accordance with State of Texas and City requirements.	12/31/2019	3/31/2020