



Real Estate Audit - #832

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of city-owned real estate. The Real Estate Division, located within the Public Works Department, assists other City departments in the acquisition, disposition, and leasing (as lessee or lessor) of real property by the City. In addition, there are certain city-owned properties that are not managed by the Real Estate Division. These are properties managed by the Office of Economic Development, downtown properties under the supervision of the Downtown Investment Authority, and properties that have been designated as affordable housing which fall under the responsibility of the Housing and Community Development Division in the Neighborhoods Department.

As of September 30, 2018, per the Property Appraiser's records, the City owned 2,483 parcels (or 36,347 acres of land) with a total assessed value of \$1,724,401,843.

What CAO Found

Overall, the Real Estate Division maintained a fairly accurate inventory of City-owned real estate and the collection and deposit of revenues generated from the sale or leasing of real estate appears to be accurate. However, we did find some issues that need to be addressed.

- Real Estate Division was not periodically confirming with responsible departments if properties were still needed.
- Unauthorized use and encroachment issues on City land.
- A lessee was not paying rent.
- No formal lease agreement between the City and a tenant.
- Information system access rights issues.
- Title search and title insurance not always obtained or documented as to why not needed.
- Appraisals were not always performed for direct sales.
- Accuracy issues in the Capital Assets Inventory database and with how acquisitions and dispositions of real estate were handled from an accounting perspective in some instances.

What CAO Recommends

We recommend that the Real Estate Division:

- Periodically confirm with City departments whether they still use or need the properties assigned to them.
- Review and resolve the encroachment issues identified.
- Work with applicable areas to resolve the rent collection and lack of lease issues.
- Address access rights issues with the applicable information systems.
- Ensure that title searches, title insurance, and appraisals are obtained or properly documented as to why not needed.

The Accounting Division should perform periodic reconciliations of their capital assets inventory, add all missing properties, remove properties no longer owned by the City, and fix all input errors in their database.



Council Auditor's Office

Real Estate Audit

August 15, 2019

Report #832

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EXECUTIVE SUMMARY

AUDIT REPORT #832

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



March 12, 2020

Report #832

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of city-owned real estate. The Real Estate Division, located within the Public Works Department, assists other City departments in the acquisition, disposition, and leasing (as lessee or lessor) of real property by the City. In addition, there are certain city-owned properties that are not managed by the Real Estate Division. These are properties managed by the Office of Economic Development, downtown properties under the supervision of the Downtown Investment Authority, and properties that have been designated as affordable housing which fall under the responsibility of the Housing and Community Development Division in the Neighborhoods Department.

As of September 30, 2018, per the Property Appraiser's records the City owned 2,483 parcels (or 36,347 acres of land) with a total assessed value of \$1,724,401,843.

The City acquired 311 properties from October 1, 2016 through September 30, 2018, of which 31 properties were purchased and 280 properties were acquired as tax-reverted properties. Many of the tax reverted properties have low market value which sometimes makes them difficult to sell. The tax reverted properties are properties transferred to the City after taxes have not been paid for a set period of time, the tax deed has been applied for, and then no one purchases the property at the tax deed auction.

The City disposed of 661 real estate properties from October 1, 2016 through September 30, 2018, as shown in the table below:

Dispositions	Count	Total Revenue
Auctioned Properties	596	\$1,563,145
Direct Sales *	61	1,289,727
Donations	4	0
Grand Total	661	\$2,852,872

*This includes the direct sale of two parcels sold for \$1,106,000 located at Cecil Commerce Center. These two parcels were outside our audit scope since they were already tested during a prior audit (Report #809).

A direct sale is when a property is sold by the City directly to an interested buyer without an intermediary such as an auction company.

The Real Estate Division is using GovDeals.com to auction off real estate properties that the City no longer needs that have been deemed surplus. The City does not pay any fee to the auction company for their services. Instead, it is the buyer's responsibility to pay a fee (a buyer's premium) that is 12.5% of the bid amount, plus any applicable sales taxes and recording fees.

We also identified a total of 65 leases where the City was the lessor as of September 30, 2018. Of these leases, 12 were excluded from the scope of this audit because they were located at Cecil Commerce Center and they were already tested under a previous audit (Council Auditor Report #809). We determined that the City collected \$1,661,509 in rent revenue from the remaining 53 leases within our scope from October 1, 2016 through September 30, 2018.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine if the Real Estate Division maintained an accurate inventory of all City-owned real estate properties.
2. To determine whether the City is aware of and is taking proper corrective action for all unauthorized uses of City-owned properties.
3. To determine if the revenue generated from the sale or leasing of surplus City-owned real estate properties was accurately collected and deposited.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit included all real estate properties owned by the City and all existing leases of City real properties as of September 30, 2018. The audit scope also included all real estate transactions (acquisitions and dispositions) as well as all rent/lease revenue transactions from October 1, 2016 through September 30, 2018.

In the context of this audit, we defined a lease as a contractual agreement where there is a landlord/tenant relationship and where the landlord (City of Jacksonville) grants a tenant a legal right to exclusive possession and use of the premises for a period of time longer than one year in return for the payment of rent or other in-kind services provided to the City or the community.

We excluded from this audit any real estate transactions or leases of real estate property located at Cecil Commerce Center which were already audited under a previous audit (Council Auditor Report #809), properties owned by the independent agencies (e.g. JEA, JPA, JTA, JAA, etc.), and tax-reverted properties under the control of the Clerk of the Courts whose ownership has not yet been legally transferred to the City of Jacksonville.

We conducted staff interviews to obtain an understanding of the real estate business processes and reviewed applicable laws, rules, and regulations.

Objective 1

We obtained from the Real Estate Division a listing of all real estate parcels that are owned or were previously owned by the City. Then, we extracted from the inventory master file all real estate properties currently owned by the City as of September 30, 2018. We also obtained from the Property Appraiser's Office a copy of the certified Duval County 2018 Tax Roll Database which contains an inventory of all existing real estate parcels located in the Jacksonville area as of September 21, 2018. Then, we extracted all City-owned parcels from the database. We compared the property inventory provided by the Real Estate Division to the property inventory per the Property Appraiser's database by matching the real estate number of each property. We investigated any discrepancies between inventory lists and determined whether there were properties missing or properties that the City no longer owned included in the Real Estate Division's property inventory.

Objective 2

We judgmentally selected for testing all 80 residential properties owned by the City which could be vulnerable to encroachment or unlawful occupation (squatters). Then, we selected a statistical sample of 92 real estate properties from the remaining population of 2,366 city-owned properties included in our audit scope. During our testing, we first reviewed the property information, satellite images, and street view images to determine whether the properties had any potential encroachment or squatter issues. For properties identified with potential squatter issues, including all residential properties, we obtained the most recent utility bill from JEA and verified that there was not an active utility account on any vacant property. For properties with potential encroachment issues, we physically inspected or asked the Engineering Division to confirm whether the owners of neighboring properties were encroaching onto City properties. If an actual encroachment/squatter was identified, we verified whether or not the City knew and was taking any corrective action regarding the unauthorized use of the property by searching the property in the list of open ejectment cases provided by the Real Estate Division and the Office of General Counsel.

Objective 3

We compiled a list of all existing leases of City-owned properties as of September 30, 2018. First, we obtained a list of leases from major departments or divisions that could potentially lease out real estate properties (e.g. Real Estate Division, Parks and Recreation, Office of Economic Development, Downtown Investment Authority, Sports and Entertainment, and Housing Division). Then, we used the City's Bill Search website, the City's accounting system, the Tax Collector's cash receipt system, a listing of local business tax accounts, and the City vendor master file to find other City leases not yet identified. We found a total of 53 leases to be tested within our audit scope period. For each lease, we verified that there was a fully executed lease agreement on file, and we re-calculated and verified the accuracy of the total lease payments received from October 1, 2016 through September 30, 2018. We also verified that the respective lease payments were properly recorded in the accounting system and that the lease payments were timely paid and deposited.

We then obtained a listing of all properties disposed of during the audit scope period from the Real Estate Division. Each disposition was categorized as a "Direct Sale", "Auction" or "Donation". To test for completeness, we compared the Real Estate Division's disposed property

list to the Duval County 2018 Tax Roll database provided by the Property Appraiser, to the listing of properties recorded with the Clerk of Courts during the same period, and to a list of auctioned properties provided by the auction company.

We tested all properties sold through auction by tracing the sale price of each auctioned property in our population to the corresponding statement provided by the auction company (GovDeal.com) and then compared the amount to the actual payment received and recorded in the accounting system. We also verified that the transaction was properly documented, recorded, and that payments from the auction company were timely received.

For properties disposed of through direct sale or that were donated, we verified that there was proper documentation on file (e.g. signed deed, legislation, closing statement, purchase and sale agreement, etc.) and that the disposition was properly authorized by reviewing the signature on the property deed or City Council legislation, if applicable. For direct sales, we also verified that the net sale proceeds were accurately calculated by reviewing closing statements and other applicable documents and that the amount matched the actual payment recorded in the accounting system.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

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

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Real Estate Division, via Renee Hunter, Chief of Real Estate, in a memorandum dated March 10, 2020; from the Accounting Division, via Terri Marks,

Assistant Comptroller, in a memorandum dated February 27, 2020; from the Sheriff's Office, via William Clement, Chief of Budget Division, in a memorandum dated February 21, 2020; and from the Downtown Investment Authority, via John Crescimbeni, Contract and Regulatory Compliance Manager, in a memorandum dated March 2, 2020.

AUDIT CONCLUSIONS

By Objective

1. Overall, we found that the Real Estate Division maintained an accurate inventory of City-owned real estate properties.
 2. Although the City is aware of and is taking corrective action for several unauthorized uses of City properties, we found some unauthorized uses and encroachment issues the City was not aware of that need to be addressed.
 3. Overall, the collection and deposit of revenue generated from the sale and leasing of real estate properties appears to be fairly accurate. However, we did find some issues that need to be resolved.
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AUDIT OBJECTIVE #1

To determine if the Real Estate Division maintained an accurate inventory of all city-owned real estate properties.

Finding 1 – 1 *Real Estate Division Not Periodically Confirming if Properties are Still Needed with the Responsible Departments*

We found that the Real Estate Division was not regularly verifying with the responsible departments if they were still utilizing all the real properties assigned to them. In other words, the Real Estate Division did not periodically send to each department a listing of all real estate properties allocated to them and ask them to confirm whether they were still using or needed the listed properties. As a result, we found 34 parcels in the Real Estate Division's inventory database that were incorrectly allocated to a City division that was not using or pursuing any initiatives for these properties.

By not periodically verifying the current need by the assigned department, other City departments that need the property may not be able to use it because they are unaware of the availability of the property, which could potentially result in the City buying or leasing other property to fulfill the need. Additionally, if there is no need by any department, the City is being needlessly prevented from selling the property to put it back on the tax roll.

Recommendation to Finding 1 – 1

We recommend that the Real Estate Division periodically (e.g. once a year) send a list of real estate properties to each department and ask them to confirm whether they still use or need the real estate properties assigned to them. This control should operate similarly to the City’s annual capital asset inventory. This process should be continuously performed even when no changes were reported by departments in the prior year. The process should also require positive confirmation where City departments must state whether they need the property.

Real Estate Division Response to Finding 1 – 1

Agree Disagree Partially Agree

The Director of Public Works ("DPW") will send out a list of properties to each Department Director once a year asking whether the allocated properties are still needed.

Finding 1 – 2 *Access Rights Issues*

The Real Estate Division uses the SharePoint platform (a team collaboration software tool) to manage and store electronic documents related to the tracking of City-owned real estate inventory and auction information. We found that 4 out of 17 SharePoint users tested had inappropriate access to the SharePoint of the Real Estate Division. Three users no longer needed access to SharePoint and one user had excessive access rights not needed to perform the employee’s job functions. After this issue was communicated to the Real Estate Division, they either removed the employees' access to SharePoint or changed the employee’s access rights to an appropriate level.

The Real Estate Division also uses an in-house application named REsource to manage projects related to the acquisition and disposition of real estate properties. We found that 2 out of 30 users tested had inappropriate access to the REsource system. It appears that these 2 users had excessive access rights not needed to perform their job functions.

Recommendation to Finding 1 – 2

We recommend that the Real Estate Division periodically review the access rights granted to users of their SharePoint page and the REsource System to prevent possible unauthorized changes to their data.

Real Estate Division Response to Finding 1 – 2

Agree Disagree Partially Agree

Public Works Real Estate ("PWRE") will in the future review user access twice annually in both SharePoint and Resource Systems.

Finding 1 – 3 *List of Surplus Properties Available for Sale Not Updated Periodically*

We found that the list of surplus parcels for sale located on the Real Estate Division’s website was not periodically updated. Only 6 out of 88 (or 7%) properties shown on the list were owned by the City as of 3/20/19. Also, 75 out of 88 (or 85%) properties on the list were already sold over two years ago.

Recommendation to Finding 1 – 3

We recommend that the Real Estate Division update the list of surplus properties available for sale on a regular basis to ensure that it is current and accurate.

Real Estate Division Response to Finding 1 – 3

Agree Disagree Partially Agree

PWRE will publish a list of surplus properties available for sale on the City's website and review it for accuracy prior to auctions.

AUDIT OBJECTIVE #2

To determine whether the City is aware of and is taking proper corrective action for all unauthorized uses of city-owned properties.

Finding 2 – 1 *Unauthorized Use of City Land*

The City purchased three houses located within the High Pointe Estate subdivision for a total price of \$502,000 in 2003 (real estate # 015322-0010, 015322-0135, and 015322-0140). See table below for more information about these three houses.

#	RE#	Street Address	Purchase Date	Purchase Amount	Status as of May 31, 2019
1	015322-0010	9017 Country Mill Lane	02/17/03	\$166,000	House on City property
2	015322-0135	9024 Country Mill Lane	02/12/03	\$174,000	House on City property
3	015322-0140	9010 Country Mill Lane	01/31/03	\$162,000	House removed

Total \$502,000

These parcels were purchased for the construction of a pond related to improvements to Old Middleburg Road under the Better Jacksonville Plan. The City sold the three houses, not the land, to the highest bidder for a total consideration of \$12,660 with the intention that the buyer would remove the houses after a notice to proceed was issued by the City. In 2007, a notice to proceed was issued for one of the houses (9010 Country Mill Lane) and the house was successfully removed. However, it appears that a notice to proceed was never issued for the other two houses (9017 Country Mill Lane & 9024 Country Mill Lane) and they were never removed.

Furthermore, it appears that the buyer may have been using (or renting) out these two houses located on City property for over a decade without any authorization from the City. The JEA utility bill history of these two properties showed that the buyer has had an active utility account for these houses and that both houses have been actively used since at least February 1, 2010.

During our physical inspection on June 3, 2019, we observed a vehicle and other personal property at the house located at 9017 Country Mill Lane. It appeared that this property was occupied at the time. Regarding the property located at 9024 Country Mill Lane, we found that the buyer had the property listed for rent online as of June 3, 2019.

Per the Public Works Department, there was no written lease agreement between the City and the buyer authorizing the use of City land and City Council never approved any lease agreement regarding these properties. Therefore, it appears that the buyer has been receiving a financial benefit from the unauthorized use of these City properties since at least February 1, 2010.

Also, it appears that the City had not been periodically monitoring these two properties since they were listed as pond sites and allocated to the Right of Way and Stormwater Maintenance Division (RWSM) in the Real Estate Division's inventory instead of being listed as residential parcels.

Additionally, we were unable to find any recorded deed with the Clerk of Courts showing the transfer of title for these two buildings. However, if these buildings were in fact legally sold, the buyer should have been paying ad-valorem property taxes, solid waste fees, and storm water fees from 2009 to 2018 as long as the houses were located on the property. Based on the assessed value of these buildings for the last decade, the buyer should have paid approximately \$50,000 in ad valorem and non-ad valorem assessments for owning the houses. It appears that this never happened because no deed was ever recorded with the Clerk of Courts and thus the Property Appraiser was never notified about any changes in ownership.

Recommendation to Finding 2 – 1

We recommend that the City thoroughly review the need for and status of these properties. Corrective action should be taken after considering all legal options. This could include legal action to take possession of the houses, issuing the notice to proceed where the buyer must immediately remove the houses off City land, or leasing out the land.

If the City decides to allow the houses to remain on City land, then a formal lease agreement must be properly approved, executed, and monitored. Additionally, sale of the houses needs to be recorded with the Clerk of the Courts so that the Property Appraiser will be notified and applicable property taxes assessed.

Real Estate Division Response to Finding 2 – 1

Agree Disagree Partially Agree

Please see City code section 122.415(a) which explains the Division who is allocated the property manages the property. These properties are allocated to Public Works Engineering

("PWEN"). The properties in question are still under consideration for the Old Middleburg Road Improvement Project. There are two alignments being considered, one of which utilizes these parcels. With respect to the current condition of the vacant homes on the property, in accordance with the relocation contract, the contract notice to proceed has been issued and the homes are to be removed no later than August 2020. Should the City decide to allow the homes to remain on City land, PWEN will coordinate with PWRE to secure a lease agreement with the contractor and the lease will be recorded with the Clerk of Courts to alert the Property Appraiser to assess property taxes.

Finding 2 – 2 *Encroachment Issues on City Land*

We found that 4 out of 92 (or 4.3%) randomly selected parcels had some encroachment occurring on the properties. It appears that all four properties were not actively used by the City at the time of the audit.

For two of the properties, there were businesses on adjacent properties using all or part of the City’s parcels as parking lots. The other two properties had a structure (one is a portion of a house and the other is a portion of a fence) from adjacent houses encroaching onto the City’s properties.

The City owns more than 2,000 properties around the Jacksonville area which could be difficult to monitor. Therefore, it is easy for encroachment to go unnoticed. If the City decides to use or sell these properties in the future, the encroachment on the properties could be problematic.

Recommendation to Finding 2 – 2

We recommend that the City review these properties for encroachment and take the appropriate measures to resolve these issues. Also, the City should periodically monitor all City properties to ensure that they are not being illegally used.

Real Estate Division Response to Finding 2 – 2

Agree Disagree Partially Agree

For the two properties where adjacent businesses appear to be using the City property, these properties are allocated to Rights-of-Way and Storm Water Maintenance (RWSWM). RWSWM found the encroachment of parking consistent with its intended use as a right-of-way. For the other RWSWM parcel, RWSWM agreed to ask the abutting owners to remove the fence and cars from the City parcel. The owners complied.

For the two other properties with structures encroaching on them, these encroachments were inherited when the parcels tax reverted to the City.

One parcel is allocated to Public Works Engineering ("PWEN"). PWEN decided that the property needed to be remediated prior to surplus. The other tax reverted parcel is a right-of-way and the fence did not pose a concern for Public Works.

At the time when the DPW requests each Department Director to advise if it wishes to retain its list of properties, the DPW will also request the departments to review the properties for encroachments, and to manage the encroachments as it deems necessary.

AUDIT OBJECTIVE #3

To determine if the revenue generated from the sale or leasing of surplus city-owned real estate properties was accurately collected and deposited.

Finding 3 – 1 *Lessee Not Paying Rent and City Unaware*

The City owns a land parcel located at 200 N. Lee St. which is currently being used by APEX Color (real estate # 074896-0000). The City and APEX Color entered into a lease agreement in 1997 to develop and use this parcel. Per the Property Appraiser’s website, it appears that APEX Color owns the building (real estate # 074896-0001) located on this City parcel. However, we found that the City was not monitoring the lease nor collecting any rent owed by the lessee to the City. Furthermore, there was no evidence that APEX Color has paid any rent to the City for the last 18 years.

Per the lease agreement, APEX Color must pay the City a lease rate of \$0.20 per square foot for land included in the premises throughout the lease term. Per Addendum 3 of the lease agreement, the area of the premises is approximately 0.75 acres or 32,670 square feet. This amounts to an annual base rent payment of \$6,534. The lessee may owe the City approximately \$117,612 (18 years x \$6,534/year) for rent from 2001 through 2018, plus sales taxes, less any monies paid by the company each year for maintaining the property. Note, the sales tax must be paid regardless of whether the maintenance is larger than the annual rent.

Recommendation to Finding 3 – 1

We recommend that the City review whether there has been a breach of contract by the lessee for not making the required lease payments as well as not being in compliance with any other terms and conditions stated on the lease agreement. The City should also attempt to collect any past lease payments owed by the lessee for the last 18 years. Finally, the City should assign one of its divisions or departments to regularly monitor compliance of the lease agreement and to periodically collect and deposit future rent payments.

Downtown Investment Authority Response to Finding 3 – 1

Agree Disagree Partially Agree

The Downtown Investment Authority (DIA), established in 2013 by Ordinance 2012-364, had no knowledge of this lease prior to receiving an email from the Council Auditor’s Office (CAO) dated August 28, 2019. DIA digital and hard-copy records on file (inherited from the Office of Economic Development) included no document(s) relating to this lease. In a reply email to the

CAO dated August 29, 2019, DIA's CEO agreed to both administer the contract going forward and review the documentation provided by the CAO.

DIA's review of the CAO documentation determined that the Real Estate Division previously invoiced the Lessor annually for the rent of 32,819 square feet. DIA acquired copies of such invoices (annual rent in the amount of \$6,563.80 and sales tax in the amount of \$426.65) for the rental periods of August 17, 1998 to August 18, 1999 and August 19, 1999 to August 18, 2000. DIA also ascertained copies of invoices for grounds maintenance submitted by Lessor for those annual rent periods totaling \$9,550 and \$14,950 respectively.

Since agreeing to administer this contract going forward, DIA established contract compliance procedures for this lease and invoiced Lessor (for annual rent in the amount of \$6,563.80 and sales tax in the amount of \$426.65) for the rental period of August 19, 2018 to August 18, 2019. Lessor submitted to DIA eight months of invoices for grounds maintenance in the amount of \$11,850 and a check for sales tax in the amount of \$426.65.

Inasmuch as the Lessor provided invoices for grounds maintenance expenses in 1999 and 2000 in amounts that exceeded the annual rental charge, and submitted eight months of grounds maintenance invoices for the most recent rental period that totaled nearly twice the amount of annual rent, DIA believes that the Lessor has likely incurred annual grounds maintenance expenses well in excess of annual rent throughout the term of the lease and therefore likely owes no back rent. Evidence that the grounds of the leased property have been adequately maintained by the Lessor was provided by the city's Municipal Code Compliance Division (MCCD) who reported that the leased property has not been the recipient of a notice or warning (for weeds, overgrowth, litter, etc.) from MCCD during the term of the lease.

While the DIA believes the Lessor may owe the payment of back sales taxes, Florida Statute 213.21(7)(a) states "When a taxpayer voluntarily self-discloses a liability for tax to the department, the department may settle and compromise the tax and interest due under the voluntary self-disclosure to those amounts due for the 3 years immediately preceding the date that the taxpayer initially contacted the department concerning the voluntary self-disclosure." Inasmuch as the 3 year period would include the sales taxes paid by Lessor for the most recent annual rent period, the maximum tax liability would be for only the two preceding years (\$853.30), plus interest of 8% per annum for those annual rental periods.

Finally, the question of breach is both legal in nature as well as a question of materiality. DIA submitted a number of questions to the Office of General Counsel (OGC) on this lease and is awaiting their response. While there may exist a technical breach for failure to deliver offsetting expense invoices for the intervening years between monitoring by the Real Estate Division and monitoring by DIA, it is not definitely known whether such receipts were provided to the Jacksonville Economic Development Commission. The materiality of this failure is questionable and failure of the City to request such information would also be considered. DIA anticipates that OGC will ultimately advise whether DIA has any legal ability to collect past due sales taxes.

Real Estate Division Response to Finding 3 – 1

Agree Disagree Partially Agree

Please see City code section 122.415(a) which explains the Division who is allocated the property manages the property. This property is currently allocated to DIA and DIA has assumed responsibility for this agreement.

Finding 3 – 2 *No Formal Lease Agreement between the City and the City & Police Federal Credit Union*

The City & Police Federal Credit Union has a branch located inside the Police Memorial Building at 501 East Bay Street. However, it appears that a fully executed lease agreement between the City and this credit union does not exist. Also, the City was unable to provide any support showing who authorized the City & Police Federal Credit Union to utilize this facility. Furthermore, due to the lack of a formal lease agreement, we were unable to determine the original terms and conditions of this agreement (e.g., rent amount, lease term, landlord rights and obligations, and tenant rights and obligations).

Recommendation to Finding 3 – 2

We recommend that the City review and evaluate the terms and conditions under which the City & Police Federal Credit Union is utilizing the office space at the Police Memorial building. If the City decides to allow the credit union to continue to use this facility, then a formal lease agreement should be properly approved, executed, and monitored.

Jacksonville Sheriff’s Office Response to Finding 3 – 2

Agree Disagree Partially Agree

The Jacksonville Sheriff’s Office will work with the City Real Estate Division to ensure a lease with the Credit Union is properly executed.

Real Estate Division Response to Finding 3 – 2

Agree Disagree Partially Agree

Please see City code section 122.415(a) which explains the Division who is allocated the property manages the property. This property is allocated to the Jacksonville Sheriff’s Office (JSO). JSO is currently coordinating with its tenant and PWRE to ensure a lease is properly executed.

Finding 3 – 3 *Various Issues Relating to Auctioned Properties*

We found the following issues relating to auctioned properties:

- 1) 4 out of 596 (or 0.7%) auction payments received were not accurately collected. The City was underpaid a total of \$273.07. When a property is sold through auction, the winning bidder is responsible for paying intangible taxes on the deed, recording costs, and an auction fee. It appears that taxes or recording fees were not initially added to the total purchase price of these four properties and charged to the buyer. Instead, they were deducted from the City sale proceeds (auction sold amount) and then paid to the Clerk of the Courts, causing the discrepancy. We were informed the auction company believes the issues were previously corrected, but support has not been provided.
- 2) 1 out of 596 (or 0.2%) auction payments were not deposited into the correct account in the accounting system. The sale proceeds of an auctioned property (real estate # 088708-0000) totaling \$8,010 were recorded under the Contamination Assessment account even though the property was not located within an ash site.
- 3) 6 out of 596 (or 1.0%) auction payments were not collected and deposited in a timely manner. It took between 66 and 167 days from the auction date to complete these sale transactions.
- 4) 1 out of 596 (or 0.2%) auction payments was received after the deed had already been signed and delivered. Specifically, we found that a deed was recorded with the Clerk of the Courts before the respective payment check was issued by the auction company to the City.

Recommendation to Finding 3 – 3

We recommend that the Real Estate Division improve their business processes to ensure that revenue generated from auctioned properties is accurately and timely collected and properly recorded in the accounting system.

Real Estate Division Response to Finding 3 – 3

Agree Disagree Partially Agree

PWRE is now implementing a spreadsheet to track the amounts sold at auction and is verifying the amounts against the checks received from the auction company.

With regard to the monies not being deposited into the appropriate account, this was a deposit made by the Neighborhoods Department which has since been corrected.

PWRE will have the auction company advise the winning bidder the winner has 30 days from the end of the auction to pay the auction company.

Finally, PWRE will await receipt of the check from the auction company, rather than relying on the auction company's commitment that payment is pending, before recording a deed in the winning bidder's name.

Finding 3 – 4 *Parcel Information Not Updated Timely in the Property Appraiser Website*

We found that the sale information of a land parcel sold by the City with a deed recorded with the Clerk of Courts on May 9, 2018, had not been updated in the Property Appraiser's website

for more than a year, as of September 20, 2019 (real estate # 036378-0000, book/page # 18381/956). Property taxes were not being assessed to the new owner of the property since changes in tax exempt status caused by the sale of the property had not been updated in a timely manner. The property owner was corrected after we brought this to the attention of the appropriate parties.

Note, we also found 13 parcels that were transferred from the Jacksonville Port Authority to the City and had not been changed for four months when we noted the issue and notified the applicable parties.

Recommendation to Finding 3 – 4

We recommend that the Real Estate Division adopt a procedure to verify that all acquisitions and dispositions are properly reflected on the Property Appraiser’s website to show the actual legal owner of the property.

Real Estate Division Response to Finding 3 – 4

Agree Disagree Partially Agree

When PWRE does its comparison of City property inventory against the City inventory list compiled from the PAO website, PWRE will alert the PAO of inconsistencies so the PAO may update its records accordingly. This will be performed monthly and has been added to the PWRE Standard Operating Procedures.

SUPPLEMENTAL FINDINGS

Supplemental Finding 1 *Lack of Evidence City Council Being Notified About Real Estate Purchases*

We found that for five out of five (100%) properties tested, valued between \$25,000 and \$100,000, the Real Estate Division was unable to provide supporting documentation showing that City Council was notified of the City’s plan to purchase these real estate properties. Therefore, we were unable to confirm that City Council was notified as required by Section 122.402 (b) of the Municipal Code. At the time of the audited period, the City’s Municipal Code stated that the Real Estate Division shall provide written notice to all City Council members before closing any real estate transaction with a value of more than \$25,000.

Due to recent changes in the Municipal Code, Section 122.401(f) now states that the Real Estate Division shall provide written notice to all City Council members before closing any real estate transaction with an assessed value of more than \$50,000. Note three out of five transactions noted above were over \$50,000.

Recommendation to Supplemental Finding 1

We recommend that the Real Estate Division comply with the Municipal Code and notify all City Council members before closing any real estate transaction with an assessed value of more than \$50,000. The notice must contain at least the address, real estate number, the City Council district in which the property is located, the assessed value of the property, and the purchase price of the real property. Also, proper documentation of this City Council notification should be maintained.

Real Estate Division Response to Supplemental Finding 1

Agree Disagree Partially Agree

In accordance with City code section 122.401(f), PWRE will notify all City Council members before closing any real estate transaction with an assessed value of more than \$50,000 and include the address, real estate number, the City Council district in which the property is located, the assessed value of the property, and the purchase price of the property. This notice will be kept in the file.

Supplemental Finding 2 *Accuracy Issues in the Capital Assets Inventory Database*

We found several accuracy issues related to real estate properties in the capital assets inventory database maintained by the Accounting Division:

- 1) We were unable to find the real estate number of 1,119 out of 2,501 City-owned properties in the capital assets inventory database. It appears that these properties were not tracked individually or were missing from the capital assets inventory. Per the 2018 Property Tax Roll, the properties not individually tracked or missing from the capital assets inventory represented a total market value of \$177,836,666 or 10,906 acres of land; therefore, capital assets in the City's financial records might be understated. (In a 2016 audit conducted by the Office of the Inspector General (OIG), the OIG stated that they could not match a significant number of city owned properties to the capital assets listing. It appears that this same issue still existed as of September 30, 2018.)
- 2) We noted 41 line items in the capital assets inventory database that did not have their respective real estate number(s) listed. A single line item may include multiple real estate parcels (e.g., one-line item has the description of "2014 Stormwater Land" and another line item has the description of "LAND 2003 various parks"). This could explain some of the exceptions from item 1. (In the 2016 audit conducted by OIG, the OIG stated that the real estate identification number assigned by the Property Appraiser's Office is not entered into the capital assets subsystem. It appears that this same issue still existed as of September 30, 2018.)
- 3) We found 6 properties listed in the capital assets inventory database that were no longer owned by the City.
- 4) We found 13 properties with an invalid real estate number or with a real estate number that did not match the description and location of the property in the capital assets inventory.
- 5) We found 62 properties listed as buildings that did not have their respective land recorded as a separate property in the capital assets inventory database. It appears that the land and

building were reported together as one property or that the land was not accounted for at all in the capital assets inventory database. For financial reporting purposes, land and buildings need to be tracked separately since buildings are depreciable assets while the land is not.

- 6) We found 5 properties were misclassified as building instead of being classified as land in the capital assets inventory.

Governmental Accounting Standard Board (GASB) statement 34 states that “governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities.” It also states that “capital assets should be reported at historical cost ... Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.”

The Accounting Division’s policies and procedures relating to capital assets state that “a capital asset is defined as real or personal property that has a unit acquisition cost equal to or greater than \$1,000 and an estimated life greater than one year. Capital assets must be capitalized, which means to record the property in the accounting records as assets.”

In order to comply with the general financial and reporting standards mentioned above, the City must maintain an accurate inventory of all City-owned capital assets.

Recommendation to Supplemental Finding 2

We recommend that the Accounting Division perform periodic reconciliations of their capital assets inventory against the Property Appraiser’s inventory database and the inventory maintained by the Real Estate Division. Also, the Accounting Division should add all missing real estate properties, remove properties no longer owned by the City, and fix all input errors in their capital assets inventory database.

Accounting Division Response to Supplemental Finding 2

Agree Disagree Partially Agree

The Accounting Division is in agreement with the recommendation for an annual reconciliation of assets based on the Property Appraiser's inventory database and inventory maintained by the Real Estate Division. The Accounting Division will work with the Real Estate Division to develop reporting necessary to ensure all data elements are included for proper reconciliation of assets between all systems. All missing real estate properties will be added to the ICloud financial system, after further discussion on the financial impacts, input errors corrected and properties no longer owned by the City will be deleted. Standard operating procedures related to this reconciliation will be developed and implemented by August 1, 2020.

Supplemental Finding 3 *Impact of Real Estate Acquisitions and Dispositions Not Properly Reflected on City Balance Sheet*

From October 1, 2016 through September 30, 2018, the City of Jacksonville disposed of 627 real estate parcels generating \$1,746,587. During the same period, the City also purchased 10 parcels for \$796,700 and acquired 301 real estate parcels with a total assessed value of \$3,803,282 through tax-reversion or donations based on the 2018 Property Tax Roll. However, we did not find any journal entry in the accounting system that reflects the balance sheet impact caused by the disposition or acquisition of these assets. Additionally, the Accounting Division’s policies and procedures relating to capital assets did not address how tax-reverted properties should be accounted for in the capital assets inventory database and ultimately the accounting system. Generally, when a capital asset is purchased it should be recognized at historical cost and depreciated over the life of the asset. When a capital asset is sold it will result in a change to the balance sheet as the asset is turned into cash and a gain or loss must be recognized for the amount received above or below the net book value.

Recommendation to Supplemental Finding 3

We recommend that the Accounting Division perform periodic reconciliations of their capital assets inventory against the Property Appraiser’s inventory database and the inventory maintained by the Real Estate Division. The Accounting Division should add all missing real estate properties, remove properties no longer owned by the City, and correct all input errors in their capital assets inventory database. Furthermore, the Accounting Division should adopt and implement procedures on how to record the acquisition and disposition of tax-reverted real estate properties in the capital assets inventory database and ultimately the accounting system.

Accounting Division Response to Supplemental Finding 3

Agree Disagree Partially Agree

The Accounting Division will develop and implement procedures related to tax-reverted real estate properties by June 1, 2020. In order to correct and maintain capital asset inventory of tax-reverted real estate properties, the Accounting Division will complete an annual reconciliation with the Property Appraiser's inventory database and inventory maintained by the Real Estate Division.

Supplemental Finding 4 * Title Search and Title Insurance Not Always Obtained*

We found that for 2 out of 10 (or 20%) properties tested, the City did not perform (or lacked proof of) a title search or acquire title insurance. The 2 properties without a title search and title insurance were purchased at a price of \$222,000 and \$150,000 respectively. The Real Estate Division stated that they did an informal in-house records search for title for the parcel purchased for \$150,000. However, they were unable to provide any documentation that shows such a search was in fact performed.

Section 4a of the Real Estate Division’s policies and procedures regarding land acquisition states that “...a Title Binder is ordered for each fee parcel and each permanent easement in order to ensure that the City gets clear title to the property it acquires. A Title Binder will tell us who the owner is and what encumbrances, if any, are on the property...The title company is contacted by phone or email and an order is placed for the title search work... The title search company deliverables include:

- The name and address of the owner of the land
- Any back taxes owed
- Any liens on the land
- Any mortgage on the property...”

Recommendation to Supplemental Finding 4

We recommend that the Real Estate Division follow its policies and procedures related to obtaining a title binder for each real estate acquisition. If the Real Estate Division changes policies and procedures to not require them in all cases, the rationale should be clearly documented and procedures for what to do in lieu of obtaining a Title Binder should be clearly documented.

Also, the Real Estate Division should ensure that proper documentation is maintained in their files.

Real Estate Division Response to Supplemental Finding 4

Agree Disagree Partially Agree

PWRE will update its Standard Operating Procedures to include documenting when a title commitment is not ordered for acquisitions and what is done in place of ordering a title commitment. PWRE will ensure that proper documentation is maintained in our files.

Supplemental Finding 5 *Surplus Properties Not Always Sold in a Timely Manner*

We reviewed a random sample of City owned properties and found that for 6 out of 10 (or 60%) properties tested, it took over two years (from the date they were acquired) to sell the properties. Per the Real Estate Division, they were told to halt all sales while they were rewriting the code and implementing a new real estate process. However, this only explains a delay of approximately six-months. It still took more than a year to auction off these properties.

We also reviewed a random sample of properties sold and found that for 3 out of 10 (or 30%) properties tested, it took more than 6 years (from the date they were acquired) to sell the properties. These three properties were owned by the City for 6, 11, and 23 years, and they were sold for \$1,800, \$350, \$2,570 respectively. Per the Real Estate Division, disposition of real estate requires the approval of the respective District Council member who did not agree to sell these properties at the time.

Recommendation to Supplemental Finding 5

We recommend that the City attempt to dispose of any surplus real estate in a timely manner. If there are reasons that warrant delays, the reasons should be documented. Also, the Real Estate Division should verify annually with District Council members any properties that the District Council member has not authorized for disposition in prior years.

Real Estate Division Response to Supplemental Finding 5

Agree Disagree Partially Agree

PWRE will document reasons why a sale of property has been delayed. In this instance, PWRE was complying with a directive to halt sales/ auctions while awaiting a rewrite of the Code changing the surplus procedure. This created a backlog of parcels for disposition. As a result of Division resources, properties were sold at auction in blocks rather than all at once. Also, the prior Code did not permit the sale of properties as long as the District Councilmember denied the surplus. The new Code does not allow a District Councilmember to prevent a surplus without approval by City Council. See 122.422(d).

Supplemental Finding 6 *Appraisals were Not Always Performed for a Direct Sale*

We found that for two out of 10 (or 20%) properties tested, there was no appraisal performed to determine the fair market value of the properties. These two properties were sold directly to the buyers (direct sale) at a price of \$4,500 and \$48,000 respectively. Also, we did not find any support documenting the reasons for not performing an appraisal or the methodology used internally to value these properties. While the direct sale of \$48,000 was made up of multiple parcels, it was only one deed and Real Estate should have evaluated the need for an appraisal and documented the evaluation and determination of whether an appraisal was needed.

Note that we tested 3 direct sales and 7 auction sales for a total of 10 properties tested. 2 out of 3 direct sales did not have an appraisal performed. The 7 auction sales did not require an appraisal since the bidding process determined their fair market value.

Municipal Code, Sec 122.422(c) stated that "...the Real Estate Division shall proceed in accordance with the following conditions in the order listed for sale of all property assessed on the tax rolls at more than \$25,000, or when the Real Estate Officer requires an appraisal... (3) The Division shall order an appraisal from an appraiser on the list maintained pursuant to Section 126.308 with a professional designation issued by the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers and doing business in the City." Although, appraisals of real properties to be sold through direct sale are no longer explicitly required due to changes to the Municipal Code that occurred after our testing period ended, that does not mean that they should not be obtained.

Recommendation to Supplemental Finding 6

We recommend that the Real Estate Division ensure that it complies with the City Municipal Code. To assist with this, the Real Estate Division should create a written internal policy for direct sales that specifies under what circumstances an appraisal should be obtained.

Real Estate Division Response to Supplemental Finding 6

Agree Disagree Partially Agree

PWRE has created a written internal policy for direct sales and under what circumstances an appraisal should be obtained.

The tax reverted parcel which was sold directly for \$4,500 without an appraisal was sold in compliance with the Code. Additionally, the property was assessed at \$5,600 on the PAO website. Based on PWRE's auctions of tax reverted properties, such properties were being sold around 25%-35% of their assessed values. This property was sold for 80% of its assessed value.

For the \$48,000 sale of multiple parcels, this was also in compliance with City Code, specifically 2016-484-E. These properties were sent to sealed bids with a reserve, but no bidder met the reserve. As a result, PWRE agreed to send the properties back out for sealed bids and accept the highest offer which was \$48,000.

Supplemental Opportunity for Improvement 1 *Implement a Real Estate Inventory System with a User-friendly Interface*

The Real Estate Division does not have a standalone application with a user-friendly interface that allows them to efficiently track the City real estate inventory, to manage acquisitions and dispositions, as well as tax-reverted and surplus properties.

Instead, the Real Estate Division uses a spreadsheet and a set of macros to make changes to their real estate inventory. This spreadsheet is stored in the Real Estate Division's SharePoint page. Then, the official real estate inventory is stored in a database, located in a City server which is updated about once a month with the use of Microsoft SQL Server. In other words, the real estate inventory database is managed and updated by using a combination of macros in the spreadsheet, and the use of Microsoft SQL Server. Some of the tasks performed are very technical and require changes to the source code which must be performed by an employee with an IT background. Additionally, the current inventory system used by the Real Estate Division does not have an audit log to track changes to the data, no historical information is tracked, and the system lacks an automated workflow with different levels of user access rights and approvals.

Recommendation to Opportunity for Improvement 1

We recommend that the City either implement an in-house application or acquire an off-the-shelf software with a user-friendly interface that allows employees without an IT background to more efficiently manage real estate assets in the Real Estate Division.

Real Estate Division Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

PWRE requested software to assist in the tracking of the City's inventory. ITD included a vendor product acquisition as part of its IT 5-Year Plan. The project is scheduled to begin in fiscal year 20/21.

In the interim, effective, May 2019, ITD assumed responsibility for the technical tasks (e.g. update and maintain various macros) that were being performed by Real Estate personnel. In addition, once a replacement software solution is selected and implemented, ITD will assign two resources that will serve in the capacity of Application Administrators.

We appreciate the assistance and cooperation we received from the Real Estate Division throughout the course of this audit.

Respectfully submitted,

Kyle S. Billy

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