

INTERNAL AUDIT REPORT

2017-08

Municipal Leases Follow-Up

Real Estate Department

September 14, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

September 14, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-08, Municipal Leases Follow-Up, Real Estate Department**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed a follow-up audit of Municipal Leases. The objective of this follow-up audit was to determine the effectiveness of corrective actions taken by the Real Estate Department on the deficiencies contained in Internal Audit Report 2015-01. To accomplish our objective, we reviewed lease and payment tracking information at the Real Estate Department. We also reviewed selected lease agreements to verify if they were current, properly documented, and maintained. In addition, we reviewed and determined if lessees were in compliance with the insurance requirements of the leases. Moreover, we determined whether lease payments were made in accordance with the lease terms and properly handled. Finally, we determined if the Real Estate Department staff had been provided training and developed policies and procedures.

Per our review, management corrected and significantly improved most of the issues identified in Internal Audit Report 2015-01. Our follow-up audit revealed that action taken by the Real Estate Department was effective for eight of the ten deficiencies, partially effective for one deficiency, and not effective for the remaining deficiency. We found that some further management action is still required. Specifically, the Real Estate Department did not always enforce the insurance requirements for leases and did not always have adequate support for insurance coverage.

There were ten follow-up findings in connection with this audit. Two of these follow-up findings each had a recommendation. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

September 14, 2017

Internal Audit Report 2017-08 Municipal Leases Follow-Up Real Estate Department

Introduction. In 2014, we performed an audit of municipal leases at the Real Estate Department and issued Internal Audit Report 2015-01 dated March 3, 2015. To assess the effectiveness of corrective action, we have performed a follow-up audit. This report contains the results of our follow-up audit.

The Heritage Land Bank (HLB) and Real Estate Services are Divisions of the Real Estate Department. According to Anchorage Municipal Code (AMC) 25.10.030, *Powers and duties of Real Estate Department*, the Real Estate Department manages “. . . all municipal land for which no other managing agency has been designated under section 25.10.050.” The Real Estate Department is staffed by the Director, two Land Management Officers, a Property Management Officer, a Foreclosure Specialist, and an Administrative Officer. The HLB was established in 1983 to manage uncommitted Municipal lands acquired from the State of Alaska through the Municipal Entitlement Act for the benefit of present and future residents of Anchorage.

Objective and Scope. The objective of this follow-up audit was to determine the effectiveness of corrective actions taken by the Real Estate Department on the deficiencies contained in Internal Audit Report 2015-01. To accomplish our objective, we reviewed lease and payment tracking information at the Real Estate Department. We also reviewed selected lease agreements to verify if they were current, properly documented, and maintained. In addition, we reviewed and determined if lessees were in compliance with the insurance requirements of the leases. Moreover, we determined whether lease payments were made in accordance with the lease terms and properly handled. Finally, we determined if the Real Estate Department staff had been provided training and developed policies and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control 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 obtained provides reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of May through June 2017. The audit was requested by the Assembly.

Overall Evaluation. Management action corrected and significantly improved most of the issues identified in Internal Audit Report 2015-01. Our follow-up audit revealed that action taken by the Real Estate Department was effective for eight of the ten deficiencies, partially effective for one deficiency, and not effective for the remaining deficiency. We found that some further management action is still required. Specifically, the Real Estate Department did not always enforce the insurance requirements for leases and did not always have adequate support for insurance coverage.

AUDIT FINDINGS FOLLOW-UP

1. Prior Finding: AMC Not Current Regarding Lease Administration.

- a. Corrective Action.** Anchorage Municipal Code 25.10.030 was updated to identify the Real Estate Department as the entity responsible for lease administration. Specifically, Assembly Ordinance 2015-47 was approved on May 14, 2015, updating AMC 25.10.030 to refer to the Real Estate Department.
- b. Evaluation of Corrective Action.** Effective.
- c. Recommendation.** Not required.
- d. Management Comments.** Not required.

- e. **Evaluation of Management Comments.** Not required.

2. **Prior Finding: Controls to Monitor Lease Payments Not Adequate.**

- a. **Corrective Action.** Our review of 30 lease files found that the Real Estate Department had improved controls over lease payment tracking. For example, they created spreadsheets to track pertinent lease information, such as lease payment amounts, due dates, and payment penalties, if applicable. In addition, the Department used Outlook calendar to help track annual lease payments.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

3. **Prior Finding: Expired Leases.**

- a. **Corrective Action.** Our review of 30 lease files found that leases were either current or the lessee vacated premises at termination of the lease. The Real Estate Department developed a Contract Summary and Notification of Change in Status Form (Form) used to review leases. The Form includes contract dates, lease rates, insurance requirements, and other details. Staff used this Form to help review the lease requirements for new contracts, as well as renewals and annual reviews.
- b. **Evaluation of Corrective Action.** Effective.

- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

4. **Prior Finding: Penalty Clause Not Always Enforced.**

- a. **Corrective Action.** We found one instance of a late payment in which Real Estate Department staff did not pursue the late payment penalty. The payment was due January 1, 2017, but not received until January 18, 2017. According to the lease agreement, the late payment was subject to a \$50 late fee. Although we did find an instance when the penalty clause was not enforced, this is a significant improvement from the nine instances identified in the prior audit.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

5. **Prior Finding: Insurance Requirement Not Always Enforced.**

- a. **Corrective Action.** The Real Estate Department did not always enforce the insurance requirements for leases. Specifically, we found that 5 of 30 leases did not have required auto or workers' compensation coverage and four did not list the Municipality as the additional insured.

- b. **Evaluation of Corrective Action.** Not Effective.
 - c. **Recommendation.** The Real Estate Department Director should ensure that lessees satisfy the insurance requirements.
 - d. **Management Comments.** Management concurred and stated, “The Real Estate Department (RED) will ensure that lessees provide a current insurance certificate which satisfies all of the contractual insurance requirements. This will be done more thoroughly through Contract Summaries where peer-review will occur prior to Director approval of the annual Contract Summary. The RED will assess, with Risk Management Division assistance, to determine what level of insurance is appropriate versus using standard template language. RED, if necessary, will amend individual contracts to ensure that lessees satisfy all of the appropriate contractual insurance requirements.”
 - e. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
6. **Prior Finding: Inadequate Support for Insurance Coverage.**
- a. **Corrective Action.** The Real Estate Department did not always have adequate support for insurance coverage. Specifically, in our review of 30 lease files, three lacked insurance coverage support. For example, one file had a certificate of insurance that expired on January 1, 2017. Another had no evidence of required insurance. Finally, one lease had unclear/contradictory coverage requirements, so we were unable to determine if coverage was appropriate.
 - b. **Evaluation of Corrective Action.** Partially Effective.

- c. **Recommendation.** The Real Estate Department Director should ensure that lessees satisfy the insurance requirements.
 - d. **Management Comments.** Management concurred and stated, “The RED will ensure that lessees provide a current insurance certificate which satisfies all of the contractual insurance requirements, including clarifying unclear or contradictory coverage requirements. This will be accomplished through contract reviews being assigned and calendar reminders for insurance expirations. The RED will assess, with Risk Management Division assistance, to determine what level of insurance is appropriate versus using standard template language. RED, if necessary, will amend individual contracts to ensure that lessees satisfy all of the appropriate contractual insurance requirements.”
 - e. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
7. **Prior Finding: Lease Agreements Not Always Properly Amended/Renewed.**
- a. **Corrective Action.** We found that leases were renewed timely and found no evidence of lessees continuing to occupy property with an expired lease.
 - b. **Evaluation of Corrective Action.** Effective.
 - c. **Recommendation.** Not required.
 - d. **Management Comments.** Not required.
 - e. **Evaluation of Management Comments.** Not required.

8. **Prior Finding: Lease Rate Not Always Adjusted Properly.**

- a. **Corrective Action.** In our review of 30 files, we found that seven leases had adjustment clauses and had been properly adjusted in a timely manner. There was supporting documentation in the lease file for each adjustment.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

9. **Prior Finding: Deposits Not Always Made Daily.**

- a. **Corrective Action.** The Real Estate Department made daily deposits in accordance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. Specifically, deposits were brought to either Development Services or Treasury at City Hall for processing on a daily basis.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

10. Prior Finding: Real Estate Department Lacks Procedures.

- a. **Corrective Action.** The Real Estate Department developed policies and procedures for both the Real Estate Services Division and HLB Division. In addition, staff training was also provided through The International Right of Way Association regarding property and land management topics specific to Alaska.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not required.
- d. **Management Comments.** Not required.
- e. **Evaluation of Management Comments.** Not required.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on August 7, 2017.

Audit Staff:
Dawn Brown