

LEGISLATIVE AUDIT COMMISSION



Management Audit
Department of Central Management Services'
Administration of the State's Space Utilization Program

February 2004

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Springfield, Illinois 62706
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Management Audit

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RECOMMENDATIONS - 9

ACCEPTED - 9

Background

The Civil Administrative Code (20 ILCS 405/405 et seq.) assigns the responsibility for certain State properties, acquisitions and services to CMS. Additionally, CMS is responsible for requiring proper utilization of State property and may lease unused or unproductive lands. The space utilization program is designed to effect maximum efficient utilization of State-owned and controlled space. The space utilization program is administered within the Bureau of Property Management at CMS. Three divisions in the Bureau that deal with real property are the Real Estate Leasing Division, Real Property Division, and the Facilities Management Division.

On December 11, 2002, the Audit Commission adopted Resolution #126 directing the Office of the Auditor General to conduct a management audit of CMS' administration of the State's space utilization program and determine the following:

- Whether procedures are in place to adequately identify excess and surplus real property;
- Whether such procedures ensure that excess and surplus real property is reasonably considered in fulfilling State agencies' space needs; and
- Whether the process for disposing of surplus real property is adequate and timely.

Report Conclusions

The State lacks an overall system to effectively manage real property. Additionally, the master record of State-owned property maintained by CMS and reported to the General Assembly is neither complete nor accurate. Two hundred and one properties owned by agencies were not included in the CMS master record or were assigned to the incorrect agency. One hundred additional properties needed some form of correction on the CMS master record. The 102 county assessors identified 27,783 parcels of land owned by the State. When auditors reviewed 150 parcels from assessor records, they found 42 of the parcels were not specifically exempted by law and should have been included in the CMS master record but were not. There were inconsistencies in the way agency information was presented in the master record.

Management Audit Administration of the State's Space Utilization Program

Improvements are needed in the State agencies' reporting of real property to CMS including any leases with external entities to use State-owned space. During the past two years, CMS attempted to automate the master record of State-owned property, but the information in the system is neither complete nor reliable. Testing found that 57% of the changes sampled were not reflected in the automated system. Only 25% of the records contained a tax identification number and only 10% contained information on acreage of the property. The system was taken offline in August 2003.

CMS' Bureau of Property Management has not been successful in implementing goals and objectives from the 2002 CMS Strategic Plan. Of the eight goals and objectives applicable to the space utilization program, three were partially completed and five were not completed.

CMS and other large land holding agencies have reported that they do not perform long-term planning for space use. The Department also lacks a policy or procedure to identify open space in State-owned or leased buildings the Department controls, or to ensure that surplus real property is considered when filling State agencies' space requests. CMS relies on State agencies to report excess space.

Based on the auditors' testing at DHS, 80 of the 574 buildings at DHS facilities were unoccupied, a total of more than 1.6 million square feet. DHS had 25 leases at its facilities. However, the annual lease revenue per square foot averaged only \$0.15 because many lease agreements charged minimal or no rent. State agencies, including DHS, lease office space in some of the same cities, at substantially higher rates. While there may be valid programmatic or logistic reasons why using DHS facilities to house certain State agency operations would not be feasible, an effective space utilization program should consider these options to ensure efficient use of State funds and property.

Since 1998, CMS has sold or conveyed seven State properties that were declared surplus by the controlling State agency. CMS met some of the guidelines established in statute and administrative code for the disposal of surplus real property, but improvements are needed in the following areas:

- CMS was not timely in notifying State agencies within the required 60 days of the availability of surplus property;
- The disposal of surplus property was not timely; and
- The Property Control Act requires that the sale price of auctioned property be no less than fair market value.

The Alton Mental Health Center had 119,536 square feet of reported useable excess space while the State paid \$292,000 to lease 29,750 square feet of office space in Alton. In Peoria, 252,623 square feet of space at the Zeller Mental Health Center is leased to Illinois Central College for \$1 a year. By lease agreement, two State agencies occupy space at the facility free of charge, and currently, five other agencies or organizations occupy space in the facility free of charge. A DHS official stated that the advantage in leasing the facility was the high cost to keep the facility operating. With the lease, the

**Management Audit
Administration of the State's Space
Utilization Program**

State is no longer responsible for those costs. However, 11 State agencies have a total of 16 leases for 176,498 square feet of office space around Peoria at an annual cost of \$2.4 million.

On September 16, 2003, CMS issued a request for proposals (RFP) to obtain professional asset management services. CMS announced the vendor selected for the award of the project on December 29, 2003. CMS generally agreed to implement the nine recommendations in the audit report. However, the Department's response to every recommendation placed the responsibility for implementation in the hands of the asset management program. As of March 10, 2004, the contract has not been finalized. A copy of a letter containing Director's Rumman's general comments on the audit and CMS' new asset management program can be found at the end of this review.

Recommendations

1. **Take steps to require agencies to submit the required information on State-owned real property on the Annual Real Property Utilization Reports. Additionally, consider revising the Form A to include additional information to assist in identifying excess and surplus real property, and require the following from agencies or agency directors:**
 - **submit a Form A for each building or property owned for individual determinations of excess, surplus or utilized for agency function;**
 - **list the occupancy level percentage (if applicable) for each building owned;**
 - **list any leases of real property to other entities;**
 - **certify future use for any portion of property that is unused and how that use would be cost effective for the State; and**
 - **make a distinction as to whether the property contains any buildings.****Determine the appropriate reporting date for submitting the Annual Real Property Utilization Report and make the necessary change to either State law or the Administrative Code.**

Findings: The State lacks an overall system to effectively manage real property. A real property management system should treat land and buildings as strategic assets to be managed proactively. The master record of State-owned property maintained by CMS and reported to the General Assembly either did not include or properly assign 201 properties currently owned by agencies. One hundred additional properties needed some form of correction on the master record.

The CMS master record lists 3,091 State-owned properties whereas the 102 county assessors identified 27,783 parcels of land. There are valid reasons for some of the differences between the assessor and CMS records, such as CMS records the Elgin Mental Health Center as one property and the assessor divides it into several individual parcels. However, when the auditors reviewed 150 parcels from assessor records, 42

**Management Audit
Administration of the State's Space
Utilization Program**

Accepted - continued

parcels were not specifically exempted by law and should have been included in the CMS master record but were not. Inconsistencies in the information presented in the master record significantly limit its usefulness to the State.

Some agencies do not report in the format prescribed by CMS. During the past two years, CMS attempted to automate the master record of State-owned real property. However the auditors' testing found that 57% of the changes sampled were not reflected in the automated system. Other data such as tax identification numbers and property acreage was extremely incomplete. For data accuracy reasons, the system was taken offline in August 2003. CMS and other large land-holding agencies have reported that they do not perform long-term planning for space use.

CMS relies on State agencies to report information on the real property owned by the agencies on the Annual Real Property Utilization Report (Form A). The Form does not require agencies to identify portions of a property that could be considered excess or surplus. For instance, DHS reported that Choate Mental Health and Developmental Center has no excess space, but it does have 43.7 acres that they would consider surplus. The Form does not require agencies to report occupancy levels or to note a location that is partially occupied or partially unused.

Response: Accepted. To address the issues raised in this recommendation, we have put in place an Asset Management Program that will:

- analyze and organize the State of Illinois Real Estate portfolio;
- assign a unique identification number to each owned and leased building or property;
- conduct detailed property assessments;
- expand information currently required on "Form A" in new property survey and/or assessment documents and address deficiencies noted in audit and provide additional information needed for appropriate asset management functions and long term planning;
- develop the appropriate reporting frequency for updating all real property data for each agency as part of the ongoing asset management function;
- create assessment and asset management databases that will provide CMS the capability to reliably report on the State's real estate assets;
- develop space utilization standards per agency to assist in asset utilization decisions; and
- develop an infrastructure to communicate information between CMS divisions to increase effectiveness of State's asset management functions.

- 2. Conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State. To accomplish this task, consider sending the agencies all the information contained in the master**

**Management Audit
Administration of the State's Space
Utilization Program**

record for properties owned by the agencies so that applicable additions and deletions can be reported. Additionally, clarify whether wetland and flood mitigation land holdings should be reported per the provisions of the Property Control Act and if so, provide sufficient guidance to applicable agencies holding those types of property.

Findings: The master record of State-owned property, maintained by CMS and reported to the General Assembly, is neither complete nor accurate. It does not list all the property owned by the State, and sometimes lists property that the State no longer owns. Inconsistencies in the information presented in the master record significantly limit its usefulness to the State.

State agencies reported owning 201 properties not on CMS records or were on the record but not assigned to the correct agency. Additionally, agencies reported 100 properties that contained errors on the CMS record.

When the auditors combined the responses of all 102 county assessors, they were able to determine that the State owned at least 27,783 parcels of land. CMS' master record listed 3,091 entries. There are several reasons for this discrepancy. An agency may report property by location or site, but if the site is comprised of multiple parcels of real property, the assessors list every single parcel of land. Additionally, State law exempts rights-of-way for highways and waterways from being reported to CMS as real property. However, some assessors track these parcels in their systems. DOT is required to maintain a list of excess lands, but a recent compliance audit found that DOT had no comprehensive inventory of excess land.

The auditors selected 150 parcels to determine whether all State property was included in State agency records. The auditors found 42 parcels were not specifically exempted by law and should have been included in the CMS master record but were not. Another 65 parcels were exempt from reporting, so 107 of the 150 sample cases were reported by assessors as owned by the State, but were not reported on the CMS master record.

Response: Accepted. To address the issues raised in this recommendation, we have put in place an Asset Management Program that will:

- analyze and organize the State of Illinois Real Estate portfolio;
- conduct detailed property assessments;
- use the newly-created real property database to compare the State's master property record, agency reports and assessor information to identify and reconcile any differences in the data sets. The end result of this effort will be a complete, consolidated and accurate living real property database for the State;
- establish processes and systems for updating and maintaining the property database on an ongoing basis that ensures data accuracy and integrity;
- establish a new reporting procedure for wetlands and flood mitigation properties as part of the asset management function; and

**Management Audit
Administration of the State's Space
Utilization Program**

Accepted - continued

- collect agency staffing information and develop space utilization reports that will be compared to industry benchmarks and established space utilization standards.

3. Consider a return to automating the master record of State-owned property with a system that is capable of producing management reports to allow the State to effectively manage land and building assets.

Findings: During the past two years, CMS attempted to automate the master record of State-owned real property. Information contained in the system was neither complete nor reliable. The system was taken offline in August 2003.

Response: Accepted. The Department has put in place an Asset Management Program that will include:

- service delivery programs to equip the State with appropriate tools for real property database use and maintenance, facility assessment, capital planning, asset management and lease management and the related processes and procedures.
- assessment and asset management databases to provide CMS the capability to reliably report on the State's real estate assets as a typical database report;
- new property survey and/or assessment documents that will expand information currently required on "Form A" to address deficiencies noted in the audit and to provide additional information needed to provide for appropriate asset management functions and long-term planning.

4. Take steps to complete the objectives set forth to accomplish the space utilization program. Additionally, develop a comprehensive space utilization strategic plan.

Findings: CMS' Bureau of Property Management has not been successful in implementing goals and objectives from the 2002 CMS Strategic Plan. Of the eight goals and objectives identified as being applicable to the space utilization program, three were partially completed and five were not completed.

State agencies and CMS have not been proactive on planning for the utilization of space. When interviewed by the auditors, State agencies that have large interests in real property did not have clearly defined medium or long range plans for space utilization.

Response: Accepted. CMS believes that the 2002 Strategic Plan is not the appropriate strategy for creating the comprehensive space utilization and asset management plan that the State needs. While some of the points in the 2002 Strategic Plan may be appropriate to include in such a comprehensive plan, that plan is not sufficient, by itself, to create a

Management Audit Administration of the State's Space Utilization Program

comprehensive asset management plan. To address the issues raised in the audit, CMS will, as part of that comprehensive asset management plan:

- recommend and implement process improvements and best practices for space disposition and acquisition;
- create assessment and asset management databases to provide CMS with the capability to reliably report on State real estate assets in a typical database report;
- provide staff training for CMS, OMB, CDB and other agencies as required;
- require facility assessors to digitally photograph each building assessed and link to building assessment records;
- use the CDB facility database as one of the several input points in addition to actual visits to each building by assessment teams of facility management teams performing assessments;
- recommend procedures to streamline approval processes for tenant improvements;
- review holdover leases, recommend improvements to approval processes and implement a plan to virtually eliminate holdover leases in the first twelve months;
- create a lease management database that will provide CMS with a comprehensive real property database and tracking system.
- survey the existing space usage within the State's property;
- develop appropriate space use standards for future planning across the entire State portfolio; and
- develop a comprehensive strategic master plan and process for space utilization and space management across the State.

- 5. Maintain documentation to show the Department verified whether State-owned space existed prior to leasing space from third parties. Additionally, follow the documented process and perform the verification check at the beginning of the leasing process and be more timely when the space request is received from the agency. Finish verification prior to expending leasing division resources.**

Findings: CMS lacks a formal policy or procedure to identify open space in State-owned buildings that it controls. CMS relies on the agencies to report excess space and does not verify agency assertions. Additionally, CMS has no formal policies and procedures for ensuring that excess and surplus real property is reasonably considered when filling State agencies' space requests. Failure to monitor and identify any excess space results in the State leasing space unnecessarily.

A review of 33 of 48 lease files showed that CMS' Real Estate Leasing Division checked with CMS' Real Property Division for the existence of excess space after a lease had already been signed. However, 17 agencies listed 413,000 square feet of excess space in 270 leased locations. On average, CMS took 301 days to respond to a State agency requesting space. Of 46 requests tested, seven cases took less than two months; 25 cases took between two months and one year; 11 took between one and two years; and three cases took more than two years.

**Management Audit
Administration of the State's Space
Utilization Program**

Accepted - continued

Nine State agencies reported having excess space in 18 properties. Based on testing at DHS, the auditors found 90 of the 574 buildings at DHS facilities were unoccupied and 10 buildings were partially occupied for a total of 1.6 million square feet not being used. During FY03, State agencies expended over \$162.5 million to lease real property.

Response: Accepted. Department has put in place an Asset Management Program that will:

- re-engineer the existing State real estate management function to include a defined process for new space requests and fulfillment. This process will include the appropriate verification of existing space resources and documentation of the same prior to expending resources investigating third party alternatives;
- align space use with agreed upon standards;
- identify all excess space and utilize all space efficiently, under a master plan for all State space;
- develop and implement the appropriate asset management organizational structure, systems and processes for the effective, proactive and strategic management of the State's real estate portfolio; and
- develop an infrastructure to communicate information between CMS divisions to increase effectiveness of State's asset management functions.

6. Department of Central Management Services should:

- **develop formal policies and procedures for systematically reviewing space in buildings owned or controlled by the Department which would include reporting excess space to divisions responsible for leasing space for State agencies;**
- **take steps to follow-up with agencies to declare unused space as excess or surplus so that it can be utilized by State agencies that currently lease space, thus saving State resources; and**
- **develop formal policies and procedures to ensure that excess and surplus real property is considered when filling State agencies' space requests.**

Findings: CMS does not proactively monitor space in both State-owned and State-leased properties. Officials at CMS stated that CMS facility managers are in charge of property owned and controlled by the Department. However, building managers do not prepare a formal analysis of space needs or open space available in buildings they manage. Of the five building managers contacted by the auditors, the only formal analysis of the existence of space in a State-owned building was at the Thompson Center wherein some available space was reported on the third, fourth, fifth, sixth, eighth, tenth 14th and 15th floors. However, the summary was not provided to the Real Property Division at CMS.

Response: Accepted. The Department has put in place an Asset Management program that will:

Management Audit Administration of the State's Space Utilization Program

- reorganize the State's asset management functions to include formal policies, procedures and process for systematically reviewing utilization across the State's portfolio and maximizing consolidation opportunities;
- re-engineer the existing State real estate management function to include a defined process for new space requests and fulfillment;
- develop an infrastructure to communicate information between CMS divisions to increase effectiveness of State's asset management functions;
- align space use with established standard;
- identify all excess space and utilize all space efficiently, under a master plan for all State space;
- develop a comprehensive strategic master plan and process for space utilization and space management across the State; and
- develop and implement the appropriate asset management organizational structure, systems and processes for effective, proactive and strategic management of the State's real estate portfolio.

7. Conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. For property identified as excess, ensure it is efficiently utilized or take the steps necessary to declare the space as surplus and follow laws and regulations established regarding the disposal of surplus property.

Additionally,

- **study the unoccupied space at all State-owned facilities, including Department of Human Services (DHS) facilities, and determine whether it is cost beneficial to move State agencies that lease office space in the same areas into this unoccupied space; and**
- **ensure that the State receives adequate revenue for the space rented at these DHS facilities.**

Findings: CMS relies on State agencies to report excess and surplus property annually. Information on excess space is solicited by letter annually. CMS does not inspect the properties, unless a property is declared surplus, because State agencies own and have jurisdiction over the properties. In response to a survey sent by the auditors in August 2003, most agencies reported no excess space at State-owned property; however, nine agencies did report excess space.

The auditors conducted a detailed review of property at DHS and showed that 90 of 574 buildings at DHS facilities were unoccupied with an additional 10 buildings partially occupied, for a total of 1.6 million square feet of space not used. While some of the space may be unusable, it appears that the potential for selling pieces of facility property exists at five facilities. None of the available space was reported as excess or surplus in CMS' annual report to the General Assembly.

**Management Audit
Administration of the State's Space
Utilization Program**

Accepted - continued

DHS leases unoccupied space at some facilities to outside parties generating approximately \$75,000 annually. However, the revenue per square foot averaged only \$0.15.

CMS rules dictate that leased space shall be acquired only when satisfactory State-owned or controlled space is not available. From information obtained from DHS during the audit, there were 13 unoccupied buildings at the Alton Mental Health Center. Five State agencies have office space leases in the City of Alton. Three of the five report excess lease space in these offices. The total square footage leased by the five agencies for \$292,000 is less than the square footage available in one of the unoccupied buildings at the Alton Mental Health Center. Similar situations exist in Elgin, Tinley Park and Peoria.

While CMS executed the current lease with Illinois Central College and assists in setting up subleases for space in the Zeller facility for the college, CMS did not declare the property surplus or excess. Additionally, no analysis was conducted to determine whether State agencies that lease office space in Peoria could be placed in the Zeller facility to save money.

Response: Accepted. The Department has put in place an Asset Management Program that will:

- develop an excess property list for the State portfolio and analyze the best use for the surplus property reallocation or disposition;
- survey the existing space usage within the State's property;
- align space use with established standards;
- identify all excess space and utilize all space efficiently, under a master plan for all State space;
- develop a comprehensive strategic master plan and process for space utilization and space management across the State;
- develop and implement the appropriate asset management organizational structure, systems and processes for the effective, proactive and strategic management of the State's real estate portfolio; and
- develop an infrastructure to communicate information between CMS divisions to increase effectiveness of State's facilities.

8. Take proactive steps in monitoring leased space and seek to identify any efficiencies (i.e., combining leases to eliminate some costs) that would result in savings to the State.

Findings: Although staff from the Real Estate Leasing Division report that a site visit is conducted for every lease to evaluate the site for ADA compliance, space needs and necessary improvements, the Division does not monitor the leased space to ascertain whether excess space is present. The auditors showed that combining agencies' leases

**Management Audit
Administration of the State's Space
Utilization Program**

into leases where excess space currently exists could result in savings of \$756,000. Additionally, CMS failed to perform any analysis of the impact on leased space from early retirement. Five agencies lost over 100 full-time employees and four agencies lost 20% or more of their full-time staff. While overall agency headcount dropped 13%, some agencies reported that no additional space became available, according to the auditors' survey.

Response: Accepted. The Department has put in place an Asset Management Program that will:

- audit all existing lease commitments and compare to stated needs and develop approaches to achieve savings;
- survey the existing space usage within the State's property;
- develop a comprehensive strategic master plan and process for space utilization and space management across the State;
- develop and implement the appropriate asset management organizational structure, systems and processes for the effective, proactive and strategic management of the State's real estate portfolio;
- develop an infrastructure to communicate information between CMS divisions to increase effectiveness of State's facilities; and
- develop and implement a lease-tracking database and management procedure to audit leased space (financially and physically) for efficiencies, consolidation opportunities and for excess space.

9. The Department of Central Management Services should:

- **take steps to ensure that it is more timely in completing the process of disposing of surplus real property;**
- **follow the procedures set out in State statute when attempting to dispose of the real property;**
- **review what properties are currently listed as surplus, perform cost benefit analyses to ascertain whether leasing the properties is the most economical alternative for the State, and take action to transfer any properties to other government entities where sale may be inhibited or the property may not truly be surplus; and**
- **maintain documentation to show that leases for currently classified surplus real property are at fair market value.**

Findings: Surplus real property means (1) the property has not been used by the State for at least the past three years and there is no foreseeable use in the next three years, or (2) the property has not been used by the State for at least the past six years, or (3) the property is reported or transferred to CMS as unused property with no foreseeable use by the reporting agency. Since 1998, CMS has sold or conveyed seven State properties that were declared surplus. Four of the seven were sold to cities or private buyers for \$3.2 million, and the other three were conveyed or transferred to a community college, a not-

**Management Audit
Administration of the State's Space
Utilization Program**

Accepted – concluded

for-profit organization, and the Illinois State Supreme Court. CMS granted easements for three other properties for \$143,000.

The auditors found that CMS met some of the guidelines established for the disposal of surplus real property, however, CMS was not timely in notifying State agencies within 60 days of available surplus property; the disposal of property was not timely; and two properties were sold for less than fair market value. As of August 2003, CMS had six State properties listed as surplus.

Response: Accepted. The Department has put in place an Asset Management Program that will:

- create a strategic real estate team to review all current surplus property and establish appropriate disposition or reallocation actions;
- insure that all real estate decisions will be made by analyzing the various alternatives associated with the decision (financial and otherwise) and develop a business case for the most favorable action for the State;
- redesign the organization of the asset management function to establish appropriate operating procedures and quality assurance measures for maximizing the value at property disposal and ensuring an efficient and timely process;
- develop the processes and procedures for disposing of State property incorporating the requirements of the State statute regarding this process; and
- develop and maintain reliable real estate asset databases that enable tracking of space use, capital cost needs, deferred maintenance, space inventory, operations and maintenance.