



## **Real Estate Services Should Act to Save Money, Improve Results and Prevent Fraud**

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**July 26, 2016**

### **Executive Summary**

Real Estate Services (RES) is working to improve service delivery and the oversight of real estate transactions. However, RES does not have an appropriate set of activities to protect county resources from illegal and inappropriate acts. RES also must do more to institutionalize performance management and improve the quality of information about the county's real estate portfolio.



## King County Auditor's Office

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## Real Estate Services Should Act to Save Money, Improve Results and Prevent Fraud

## Report Highlights

July 26, 2016

### Why This Audit Is Important

Real Estate Services (RES), a section within the Facility Management Division (FMD), is the central unit responsible for buying, selling, and leasing properties on behalf of the county. King County owns over \$4 billion in real estate assets, and the RES section is one of the first lines of defense in protecting these holdings from illegal and inappropriate activities. It has a key role in assuring that transactions—like buying, selling, and leasing property—are done in a complete and timely way, as unnecessary delays can result in increased costs and liabilities. In addition, the RES section has a responsibility to provide real estate information that is meaningful to decision-makers and other departments.

### What We Found

We found that the RES section does not have adequate procedures in place to protect the county's real estate portfolio from illegal or inappropriate acts. The RES section has only a limited number of fraud detection and prevention procedures. The RES section's staff and new management are working to address some issues by establishing policies and procedures. However, without the basic building blocks of a performance management system—like objectives for its operational units and performance metrics—these efforts may be premature and create unnecessary work. The RES section has a real estate inventory, but the utility of this information is limited because it is not complete or reliable. As a result, decision-makers lack crucial information to make informed decisions about county properties.

### What We Recommend

To resolve these problems, we recommend that FMD and RES develop prevention and detection techniques based on a formal risk assessment and improve employee knowledge of their reporting responsibilities. We further recommend that the RES section work to improve timeliness of real estate transactions, and use fundamental elements of program and performance management to manage its real estate activities. We also recommend ways for the RES section to improve the accuracy and usefulness of county real estate information to decision-makers.

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# I. Fraud Prevention and Detection

## Section Summary

**King County's Real Estate Services (RES) section must do more to protect the county's real estate assets from illegal and inappropriate behavior, such as fraud.** Activities related to King County's \$4 billion real estate portfolio, such as buying, selling, and leasing property, are largely managed through the RES section, a unit within the Facilities and Maintenance Division of the Department of Executive Services.<sup>1</sup> Illegal and inappropriate acts are not uncommon in real estate management, and although such incidents have taken place in the RES section in the past, the section's new management team has not yet taken sufficient steps to prevent them from occurring again. In the absence of adequate prevention and detection activities, the county could suffer additional financial and reputational harm.

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### Illegal and unethical behavior can be costly

**When government employees engage in illegal or inappropriate behavior, it can lead to millions of dollars in losses and diminish public trust.** In a review of national media, we found several instances of government employees misusing their positions in real estate for personal gain. Recent examples from across the U.S. include: employees unlawfully approving sales of property, illegally awarding contracts for affordable housing, issuing fraudulent permits, and creating inaccurate property valuations. Illegal and unethical real estate activities not only undermine public trust, but can also incur financial costs. For example, by illegally devaluing properties for personal gain, one public official cost the Los Angeles County government over \$9 million in lost revenue.

### Previous RES section employees have engaged in illegal or inappropriate behavior

**Some perpetrators of inappropriate activities in the RES section have been caught, and others may have avoided detection.** In the course of our work, we heard of several instances of former RES section employees engaged in illegal or inappropriate behavior. For example, one former employee had a conflict of interest in a real estate deal and was eventually terminated. In another case, a supervisor was fired for using county resources to conduct personal real estate business. Those who commit illegal acts generally conceal them, so it is possible that other activities have taken place in the section that have not been uncovered.

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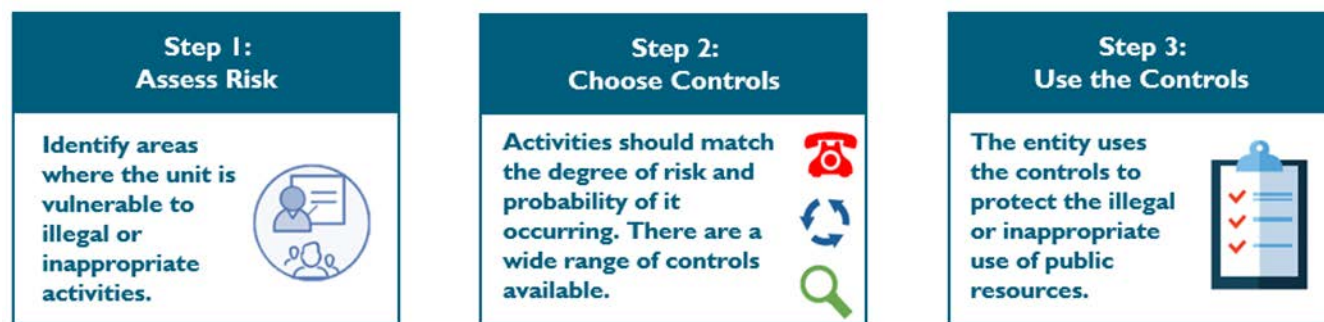
<sup>1</sup> For a list of the five types of real estate services provided by the RES section see Appendix 1.

## I. Fraud Prevention and Detection

**The RES section is missing the first line of defense in protecting public assets**

RES section management increases the chance of illegal or inappropriate acts by not following the basic steps to prevent and detect them. Despite the real risks of illegal or inappropriate activities in real estate work, the RES section has not followed the three principal steps of prevention and detection: 1) assess risk of such activities, 2) design controls to detect and prevent them, and 3) use them (see Exhibit A, below). Using standards published by the Government Accountability Office, we assessed the degree to which the RES section has controls in place to protect county assets (see Appendix 1). We also reviewed the Association of Certified Fraud Examiners' Fraud Risk Assessment Tool which contains modules that are relevant to the types of activities conducted by the RES section.

**Exhibit A: Three basic steps to develop a prevention and detection program.**



Source: King County Auditor's Office based on US Government Accountability Office *Greenbook*, 2014.

The FMD and the RES management team have taken some steps to improve the oversight of the RES section's work. However, we found several deficiencies in what RES has in place to prevent and detect illegal or inappropriate activity. The RES section lacks a documented risk assessment, and relies on a limited set of detection and prevention activities.<sup>2</sup> This means that the opportunity for illegal or inappropriate activity in the RES section remains high and the likelihood of detecting such activity in the RES section is low.

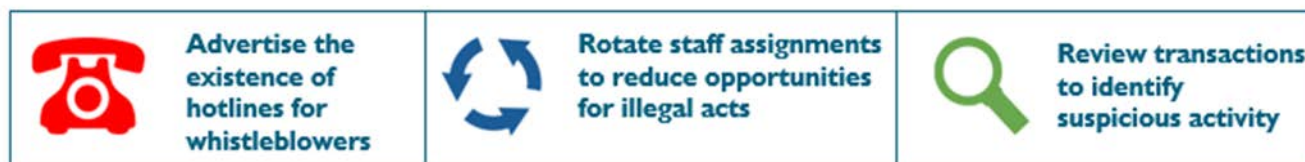
When we asked about detecting illegal or inappropriate activities, the Facilities Management Division (FMD) management told us that they have thought about some risks and ways to mitigate them, but have not written the assessment down. FMD management said that certain transactions and fund disbursements require at least three levels of review. However, FMD management also noted that they do not have documented policies and procedures in place to ensure these requirements are met or sustained over time. They also cited efforts to improve oversight of employee work and

<sup>2</sup> Prevention techniques, like background checks and training, can stop fraud from occurring. Detection techniques, like hotlines and audits, are activities that promptly recognize whether fraud has occurred or is occurring. For examples and definitions, see Appendix 3.

## I. Fraud Prevention and Detection

employee engagement as detection activities. Examples of more common types of fraud detection activities that are not used at RES are illustrated in Exhibit B, below.

**Exhibit B: Three controls for detecting illegal or inappropriate activities.**



Source: King County Auditor's Office

For preventing illegal or inappropriate activities, FMD and RES management cited five activities:

- ethics training for new hires
- verification of professional certifications
- annual financial disclosure statements<sup>3</sup>
- a signature routing form that standardizes information reviewed by managers making decisions
- a procedure for selecting real estate brokers that was established in 2016 but has not been codified in a formal policy or procedure document.<sup>4</sup>

While efforts to improve the control environment are a positive step, in the absence of a risk assessment and a comprehensive set of activities that are documented in policies and procedures, FMD and RES cannot demonstrate that these prevention and detection activities are sufficient to protect county property.

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### Recommendation I

The Facilities Management Division should conduct a comprehensive risk assessment using relevant modules of the Association of Certified Fraud Examiners Fraud Risk Assessment Tool to document risks and mitigation strategies for illegal or inappropriate behavior.

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### The RES section has a disconnect between level of risk and activities

**The RES section management team does not have a shared understanding of risk and mitigation strategies.** In our work, we observed a general lack of understanding of risks and how illegal or inappropriate activity can be prevented or detected. For example, in a series of interviews

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<sup>3</sup>Employees who participate in real estate activities are among many types of county employees that are required to file annual financial disclosure statements.

<sup>4</sup> RES management told us a new broker selection procedure was developed in 2016 and provided one example of it being used. However, RES was unable to provide the underlying policy document dictating that this procedure is required, and when and how to follow the process in the future.

## I. Fraud Prevention and Detection

with the RES management team, we heard the following:

- one member of the management team said that there are prevention or detection activities in place to stop illegal activities, but could not articulate what they were
- another member of the management team said that the only control on illegal or inappropriate activities in one unit—where such behavior has taken place in the past—is trust that employees will not conduct such acts.

According to the U.S. Government Accountability Office, effective fraud prevention programs depend on managers developing, documenting, and communicating their approach to others. Management is further responsible for establishing and maintaining an environment that sets a positive and supportive attitude towards such efforts. When the importance of internal control is communicated to employees, particularly through management's own actions and beliefs, the process is more likely to function effectively.

The RES section is completing a business planning effort and working to develop a set of policies and procedures for several of its activity areas. This work presents an opportunity to educate the section management and staff, and is an appropriate place for the RES section to document the policies and procedures related to prevention and detection of illegal or inappropriate activity. For the RES section, increasing knowledge and documenting steps will help staff and management understand when illegal or inappropriate activity may occur; what is being done to prevent and detect it; what needs to be done when such activity occurs; and who is responsible for reporting it.

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### Recommendation 2

The Facilities Management Division (FMD) should take immediate action to educate and inform the FMD and Real Estate Services section management and staff of resources, roles, and responsibilities related to illegal or inappropriate activities.

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### Recommendation 3

The Real Estate Services section should include steps to address risks of illegal and inappropriate activities in its policies and procedures. These steps should be included at key points where such actions may occur during real estate activities, and clearly describe 1) what needs to be done, and 2) who is responsible for doing it.

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## 2. Real Estate Program Management

### Section Summary

The RES section is missing fundamental elements of program management: objectives, policies and procedures, timelines, and performance measures. As a result, the section cannot ensure that it is conducting its work effectively or efficiently. We heard numerous examples of lengthy delays, inaccurate work, and additional costs. Furthermore, fundamental components of performance management—such as a strategic plan, policies and procedures, and performance measures—are not present. Although the RES section has taken some proactive steps to address some deficiencies, without a clearer articulation of what they are trying to achieve and how progress will be measured, it is unlikely that performance will improve. Consequences include unnecessary costs, unmitigated risks, and negative perceptions of its work.

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### The RES section is taking steps to address challenges

**There is low morale in the RES section, but management is working to address this issue.** The county employee engagement survey showed that only half of the RES section employees positively evaluated the unit's overall culture. The RES section's low morale may be impacted by staff confusion about its mission and goals.<sup>5</sup> In addition, the RES section has had significant turnover during the past few years, with over half of its 18 employees new to the RES section since 2013.

The RES section has a new management team that is changing how the section manages its work, primarily through a business planning effort intended to look at the section's products—the services it provides—to plan for the next biennium. Over the last two years, RES section management and staff have taken steps to improve its performance, including:

- improving project management systems, databases, and use of work tracking tools
- gathering process information for development of documented policies and procedures
- using employee engagement survey results to develop activities that are intended to raise section morale
- participating in the Project Review Board, attended by FMD's director's office and management team, and Real Estate and Major Projects Oversight Committee, which is attended by senior county leadership

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<sup>5</sup> Responses regarding office culture in the 2015 employee engagement survey were lower in the RES section than comparable county department ratings, many by double digits. RES staff had lower responses to key questions regarding leaders' communication of the organization's mission and goals (50 percent did not agree that "Senior [Division] leaders communicate the organization's mission and goals") and open and honest communication from county leadership (74 percent did not agree that "Senior [County] leaders communicate openly and honestly.")

## 2. Real Estate Program Management

- restructuring staff meetings to provide more opportunity to discuss ongoing projects and performance barriers.

These activities are noteworthy because they indicate management's understanding of the need to change the RES section's performance and culture, as well as a readiness to improve.

**When services are not performed well, it costs the county money**

**When real estate transactions are not done well or on time, it costs the county money and increases the risk of litigation.** We spoke with knowledgeable staff at several county departments who provided examples of recent real estate transactions that may have unnecessarily cost the county money or increased the potential for costly lawsuits. Examples include:

- \$1.3 million in avoidable costs paid for a roof repair because the sale was not processed in a timely way
- payment of \$30,000 for appraisals on the same piece of property proposed for surplus sale in 2012
- use of property necessary for transit services without permission because RES failed to correct the leasing permit, creating potential liability issues for the county
- delaying the issuance of special use permits for years
- expanding the county's portfolio of low value tax title properties, some of which incur thousands of dollars in maintenance or mitigation costs.

**The RES section lacks fundamental components of performance management**

**The RES section is missing the basic elements of performance management necessary to deliver high-quality real estate services.**

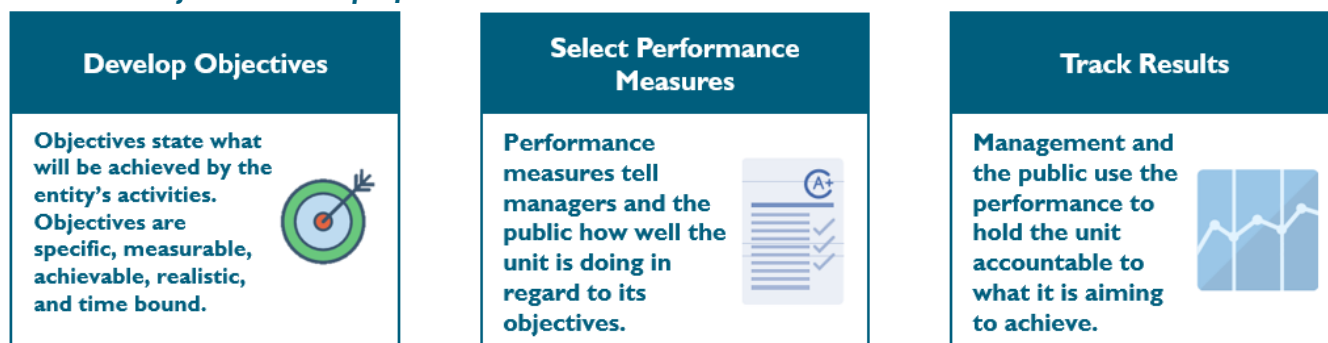
Specifically, the section lacks documented objectives for each of its operating units. Objectives are important because they allow an organization to determine what should be achieved and to measure performance against expectations. Based on stated objectives, the section can create policies and procedures that formalize how the work is conducted; that is, the strategies and activities that get the work done. In addition, objectives determine what performance measures should be used to track and report on actions accomplished (outputs), and whether they resulted in the intended changes (outcomes). Without objectives, the RES section cannot set meaningful targets or develop performance metrics that track outputs and outcomes.<sup>6</sup> See Exhibit C, below.

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<sup>6</sup>See Goal Planning: Key Elements of a Performance Management Framework, King County Auditor's Office, June 2016

## 2. Real Estate Program Management

*Exhibit C: Objectives drive performance measures and results.*



Source: King County Auditor's Office

### **RES actions to improve performance may be insufficient**

Without clear objectives, current efforts to develop policies and procedures could lead to significant revision and unnecessary work. The RES section is developing a manual of policies and procedures as an outcome of its line of business planning work, to be completed by the end of 2016. However, without objectives for each of its units, the development of these procedures will lead to inefficiencies. For instance, a policy documenting existing processes, but not the reasons for performing them, may include steps that are unnecessary for getting the work done.

Members of the RES section management team told us that the timeliness of its work is impacted by factors outside of its control, such as the executive and council review processes, and the procedural steps required by King County Code. These factors can present barriers to timeliness and efficiency. For example, all surplus properties, including tax title sales, must be evaluated for alternative county uses and affordable housing potential, requiring significant staff effort.<sup>7</sup> Staff reported that review delays can require additional negotiations with interested landlords and purchasers. RES is taking steps to quantify the time it takes for real estate transactions to be processed, and identifying actions that may speed up decisions on some transactions.<sup>8</sup>

RES told us that as of July 1, 2016, Line of Business (LOB) facilitators have been working with RES team members to develop a performance management framework, and that LOB facilitators are also in the process of helping each RES unit implement their own visual management system. These are positive steps towards improving performance.

<sup>7</sup> Tax title properties are properties that the county owns due to non-payment of taxes. Because these properties were unable to be auctioned by the county treasurer with a minimum bid of the unpaid tax balance, they have been determined by the market to be worth less than that balance.

<sup>8</sup> FMD has had a legislative tracking system visual management board in place for at least a year.

## 2. Real Estate Program Management

Without the fundamental elements of program management identified above, the RES section cannot effectively monitor and improve its own performance in this system. While recognizing the positive work done towards establishing a performance management framework, more work needs to be done to ensure that these efforts result in organizational change. Until RES has objectives, strategies, measures and targets for its service areas, it means that others cannot fully understand the challenges of operationalizing King County Code requirements.

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**Recommendation 4**

Based on King County and Facilities Management Division strategic goals and the Real Estate Services (RES) mission statement, the RES section should establish objectives, strategies, measures, and targets for each of its service areas. The performance measurement system should address concerns about the timeliness of the RES section's services.

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**Recommendation 5**

As Real Estate Services develops policies and procedures, it should also identify areas where changes to King County Code may create efficiencies and improve service delivery outcomes, and share those suggestions as part of its annual report (see Recommendation 8).

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### 3. Real Estate Information

#### Section Summary

The RES section does not maintain complete, accurate, and reliable information on county real estate holdings, compromising decision-makers' ability to manage the county's \$4 billion in real estate assets wisely. The RES section does not have a complete inventory of county properties, and does not follow best practices in reporting annually to decision-makers. Without this information, individual property decisions cannot be made in the context of the county's overall real estate needs. In addition, the RES section is not following best practices in providing information to county departments and management.

#### Unreliable real property information cannot inform decision-making

Without accurate and complete information on county real estate, decision-makers cannot wisely manage the county's \$4 billion in real property. King County Code requires that the RES section maintain an inventory of real estate assets, but the inventory is incomplete, inaccurate, and cannot provide the level of detail needed to inform decisions about the county's assets.<sup>9</sup> Based on a data reliability assessment that included comparisons to other county databases, we found a number of data errors and a lack of controls. As a result, it is not possible to use the RES section's inventory to make precise statements about county properties. For example, the inventory cannot be used to generate accurate numbers of properties, their assessed values, or acreage.<sup>10</sup> This unreliable real estate information feeds into other key county products, such as the Comprehensive Annual Financial Report and GIS (Geographic Information System) maps made for county agencies. The consequences of poor information about county properties reach beyond the RES section, in that county leaders are unable to use a single, reliable information source for real estate-related decision-making, and other departments create systems that duplicate efforts.

In addition, past attempts to address deficiencies have failed (see textbox), the RES inventory does not reflect the needs of decision-makers,

#### Failure of the Real Estate Property Management System (REPMS)

Between 2005 and 2013, the RES section worked with King County GIS to develop a system for managing and reporting on county real estate holdings called the Real Estate Property Management System (REPMS). Despite years of work and tens of thousands of dollars in expenditures, the system was never adopted by RES or other departments for several reasons. One reason was that data entry was voluntary, which meant that there was no assurance that the inventory was complete. Other reasons for failure included: the system was difficult to use, it required dual data entry, and did not produce useful reports.

<sup>9</sup> King County Code 4.56.070.

<sup>10</sup> The incompleteness and accuracy of the inventory means that only broad statements can be made with any level of confidence. A summary of what can be said about King County real estate, based on the RES inventory, is provided in Appendix 4.

### 3. Real Estate Information

and there is little communication between the RES section and leaders who might need the inventory. Real estate best practices suggest governments should maintain a property inventory that is complete, accurate, and relevant to decision-makers’ overall informational needs. Without reliable information on the county’s properties, it is difficult for decision-makers to act in the county’s strategic interests. For example, one policy staffer discussed how a list of vacant county properties would benefit his work on affordable housing. Other county staff explained that, without more comprehensive portfolio information, there is no way to know if a particular lease makes sense in the context of the county’s overall space needs.

|                         |   |
|-------------------------|---|
| <b>Recommendation 6</b> | Real Estate Services should work with the King County Council and departmental customers to identify specific informational needs related to real estate management, and develop, document, and implement a plan to meet those needs. |
| <b>Recommendation 7</b> | Based on outreach with King County Council and departmental customers, Real Estate Services should develop a more complete and reliable inventory of the county’s real estate portfolio.  |

|  |   |
|--|---|
| <b>County Council does not have timely summary information on the county’s real estate portfolio</b> | <p><b>The County Council does not receive an annual report on the county’s real estate assets.</b> Best practices require a summary report on property asset management be provided to decision-makers at least annually.<sup>11</sup> Although there are no mandatory guidelines on the report structure or its specific content, best practices provide that, at a minimum, the report should meet the needs of those for whom it was created. Examples of possible information of interest include:</p> <ul style="list-style-type: none"><li>• Property number</li><li>• Location</li><li>• Assessed value</li><li>• Year of assessment</li><li>• Year acquired</li><li>• Size</li><li>• Current use</li><li>• Custodial agency</li></ul> <p>In addition, a summary portfolio-level review provides information about the local government’s functional uses of its properties, including business interests.</p> <p>As of 2016, some real estate information is shared with the County Council once every four years as part of the county’s Real Asset Management Plan.</p> |
|--|---|

<sup>11</sup> Urban Institute *Guidebook on Real Property Asset Management for Local Governments*, 2012.

### 3. Real Estate Information

However, a four-year frequency is insufficient because it does not address the changing circumstances and needs of the county relative to current programs, and economic and market conditions.

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**Recommendation 8**

Real Estate Services should provide an annual report to the County Council summarizing how many properties the county owns, their size, and location, along with other comprehensive information that informs strategic decision-making.

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# Appendix I

*The RES section provides five core real estate services to county residents and agencies.*

| Acquisitions   | Information  | Leases  | Permits   | Sales  |
|--|--|---|---|--|
|  <p>Acquiring real property rights, both permanent and temporary, for county purposes.*</p> |  <p>Collect, analyze and report information necessary to manage county real estate.</p> |  <p>Manages the rental of county property to other entities, and the rental of property for county purposes.</p> |  <p>Control the use of county land for private purposes.</p> |  <p>Selling properties that are no longer needed for essential county services.</p> |

\*Under King County Code, certain other agencies can also acquire properties for county uses.

Source: King County Auditor's Office based on review of Real Estate Services core business activities.



## Appendix 2

### Summary Results of the RES Section's compliance with Internal Control Standards<sup>12</sup>

| GAO Greenbook Standard   | RES Section & FMD Management                              | Sales Unit | Leasing Unit   | Acquisitions & Permits Unit |
|--|---|------------|----------------|-----------------------------|
| <b>Establish Structure and Responsibilities</b>  |   |            |                |                             |
| 3.02 Are the responsibilities of each unit derived from RES and RES unit objectives?   | No  | No         | No             | No                          |
| 3.03 Does RES have an accurate and updated organizational chart?   | No, but aware of all staff vacancies and filled positions | N/A        | N/A            | N/A                         |
| 3.09 Does RES have documentation of its internal control system?   | No  | No         | No             | No                          |
| <b>Enforce Accountability</b>  |   |            |                |                             |
| 5.02 Does management enforce accountability of individuals performing internal control responsibilities?                             | No  | No         | No             | No                          |
| 5.06 Does management take corrective action on internal controls when such deficiencies are noted by an oversight body?              | Partial   | N/A        | N/A            | N/A                         |
| <b>Risk Assessment and Tolerance</b>   |   |            |                |                             |
| 6.02 Does management defines objectives in specific and measurable terms to enable the design of internal control for related risks? | No  | No         | No             | No                          |
| <b>Identify, Analyze and Respond to Risk</b>   |   |            |                |                             |
| 7.01 Has management identified, analyzed, and responded to the risks that may impact the achievement of its objectives?              | Not documented  | No         | Not documented | Not documented              |

<sup>12</sup> United States Government Accountability Office, "Standards for Internal Control in the Federal Government," September 2014.

## Appendix 2 (continued)

| GAO Greenbook Standard   | RES Section & FMD Management | Sales Unit       | Leasing Unit     | Acquisitions & Permits Unit |
|--|------------------------------|------------------|------------------|-----------------------------|
| <b>Assess Fraud Risk</b>   |                              |                  |                  |                             |
| 8.02 Has management considered the type of fraud that can occur within the entity, and used that information to help identify fraud risk?  | Not documented               | N/A              | N/A              | N/A                         |
| 8.03 In addition to fraud, has management considered other forms of misconduct that can occur, such as waste and abuse?  | Not documented               | N/A              | N/A              | N/A                         |
| 8.04 Has Management considered fraud risk factors (incentives, opportunity, and rationalization) and identified fraud risks?   | Not documented               | No               | No               | No                          |
| <b>Design &amp; Implementation of Control Activities</b>   |                              |                  |                  |                             |
| 10.01 Has management designed control activities to achieve objectives and respond to risks?   | No                           | No               | No               | No                          |
| 12.02 Does management document responsibilities through Policies?  | Planned for 2016             | Partial          | Partial          | No                          |
| 12.05 Does Management periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks? | Planned for 2016             | Planned for 2016 | Planned for 2016 | Planned for 2016            |
| <b>Monitoring and Evaluation</b>   |                              |                  |                  |                             |
| 16.01 Does Management establish & operate monitoring activities to monitor the internal an internal control system and evaluate the results?   | No                           | No               | No               | No                          |
| 17.01 Does management remediate identified internal control deficiencies on a timely basis?  | No                           | No               | No               | No                          |

## Appendix 3

### Fraud Risk Prevention and Detection







|                   | Definition   | Examples   |
|-------------------|--|--|
| <b>Prevention</b> | Policies, procedures, training, and communication that stop fraud from occurring | Background checks, anti-fraud training, segregation of duties, ongoing ethics training, checklists, policies and procedures                        |
| <b>Detection</b>  | Activities that promptly recognize whether fraud has occurred or is occurring    | Ethics hotline, fraud hotline, checks on transactions, random reviews of transactions, surveys of vendors or customers, periodic rotation of staff |

Source: KCAO, based on The Institute of Internal Auditors, et al, "Managing the Business Risk of Fraud: A Practical Guide

## Appendix 4

### King County Real Estate Information

*Information regarding King County's real estate holdings*

| King County Properties   |  |   |
|--|--|---|
|  <b>The county owns over 4,000 properties.</b>  |  <b>More than half of the properties are smaller than 1 acre.</b> |  <b>More than half are valued at \$100,000 or less.*</b>   |
|  <b>Most are in unincorporated King County.</b> |  <b>More than one third were acquired between 2000-2015.</b>      |  <b>About one third are not being used by the county.**</b> |

\* RCW 84.40.045 and 84.40.175 eliminated the valuation of government owned parcels in 2013, so the last assessed value for county owned properties included in the inventory does not reflect current market values.

\*\*A vast majority of properties not being used by the county--surplus properties—were acquired through tax titles. Only about 10 percent of current surplus properties were actually purchased by the county.

Source: KCAO analysis of data from the Real Estate Services' real estate inventory and Assessor's database

*King County's inventory was acquired through purchases, tax forfeitures and donations*

| How King County Acquired Properties   |  |  |
|---|--|--|
|  <b>About half of the properties were purchased.</b> |  <b>About one quarter are tax title properties.</b> |  <b>About one quarter were donated.</b> |

Source: KCAO analysis of data from the Real Estate Services' real estate inventory Assessor's database

# Executive Response



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**KING COUNTY AUDITOR**

July 20, 2016

RECEIVED

July 20, 2016

Kymber Waltnunson

King County Auditor

Room 1033

COURTHOUSE

Dear Ms. Waltnunson:

Thank you for the opportunity to review and comment on the proposed final report "*Real Estate Services Should Act to Save Money, Improve Results and Prevent Fraud*."

We concur or partially concur with the audit recommendations, and appreciate the acknowledgement in your report that "Real Estate Services (RES) is working to improve service delivery and the oversight of real estate transactions." In general, the recommendations set forth in the audit report align and validate the significant effort within the Real Estate Services Section and Facilities Management Division leadership to stabilize and rebuild the organization, after considerable staff downsizing and staff and leadership turnover. A common maturity model for organizational change and development posits three stages: stabilization, standardization, and optimization. The past two years have focused on stabilization efforts, and the Real Estate Services Audit provides clear steps on how to strengthen our current focus in preparation for the standardization phase. Given the efforts already underway in the RES section and the Facilities Management Division (FMD) as a whole, combined with the support of the Department of Executive Services (DES) Director's Office and the Office of Performance, Strategy, and Budget, we are in a strong position to implement the recommendations.

In the past two years, RES has made notable improvements in the implementation of standard and consistent processes and procedures. We concur with the Audit's Recommendations No. 1 and partially concur with No. 2 and the imperative to do even more to ensure our processes, practices, and staff culture regarding the risk of fraud and abuse is robust and comprehensive. We will build on our existing base of fraud and abuse prevention activities noted in the report and rapidly implement a comprehensive risk assessment using relevant modules of the Association of Certified Fraud Examiners Fraud Risk Assessment Tool in partnership with



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and complies with the Americans with Disabilities Act*

## Executive Response (continued)

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the Office of Risk Management. The effort is already underway. As noted in the audit report, many of these processes and procedures need to progress from shared practice to being formally documented as standard operating procedures. We concur that documentation of the changed practices is valuable to provide clarity and accountability and note that until recently the focus of the RES section has been on improving and standardizing the actual practices of staff in doing their daily work over the creation of a formalized manual. In May 2016, the RES Section launched the RES Manual project to consolidate existing policies and procedures and document and standardize practices where standard operating procedures do not exist.

With the full support of the FMD Director's Office, RES has worked diligently with the Performance, Strategy, and Budget Office in the Line of Business (LoB) planning work. The LoB planning methodology supports the standard performance management framework recommended by the audit. Because of the LoB work, RES is better able to define and enhance the catalog of services it can offer to internal King County customers, provide clarity of objectives for each business area, and establish benchmarks and metrics consistent with the audit recommendations.

Several audit recommendations address the need for improved real estate information systems. Though not mentioned in the report, FMD has a considerable effort underway to acquire and implement a Comprehensive Facilities Asset Management System project with a priority focus on addressing the RES information management needs and work flows. The audit recommendation to actively solicit input from the Council and departmental customers' real estate information needs will be addressed within the context of this project.

The audit report's recommendation to annually consider amendments to County Code to improve the efficiency and effectiveness of RES service delivery is an important acknowledgement that the work of Real Estate Services occurs within a larger system that impacts the manner, timeliness, and cost of real estate services.

In service to the County's effort to be a best run government, FMD has three priorities guiding their daily work and long-term organizational maturity: improve delivery, morale, and reputation. The RES section is working diligently to improve staff morale, RES' reputation, and RES service delivery; the audit recommendations are helpful in advancing and focusing this effort. As we move forward to implementation, we always face the inherent tension in balancing staff and management efforts to improve internal practice with actual service delivery to customers. This challenge is particularly relevant in today's fiscal environment. This audit will help support the need for dedicated staff to develop and consistently implement official RES policies and procedures.

## Executive Response (continued)

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Thank you again for your important work on behalf of King County. If you have any questions regarding our audit response, please contact Anthony Wright, Director of Facilities Management Division, at 206-477-9352.

Sincerely,

A handwritten signature in black ink, appearing to read "Dow Constantine". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dow Constantine  
King County Executive

Enclosure

cc: Fred Jarrett, Deputy County Executive, King County Executive Office (KCEO)  
Rhonda Berry, Deputy Executive for Operations, KCEO  
Caroline Whalen, County Administrative Officer, Department of Executive Services (DES)  
Anthony Wright, Division Director, Facilities Management, FMD



## Executive Response (continued)

### Recommendation No. 1

The Facilities Management Division should conduct a comprehensive risk assessment using relevant modules of the Association of Certified Fraud Examiners Fraud Risk Assessment Tool to document risks and mitigation strategies for illegal or inappropriate behavior.

|  |                            |                    |
|--|----------------------------|--------------------|
| Select concurrence below   | Implementation date or N/A | Responsible agency |
| <b>Concur (explanation optional)</b>   | <b>March 31, 2017</b>      |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 1.  |                            |                    |
| <b>We concur the Audit's Recommendations No. 1 and the imperative to do even more to improve our processes, practices, and staff culture regarding the risk of fraud and abuse. We will build on our existing base of fraud and abuse prevention activities noted in the report and rapidly implement a comprehensive risk assessment using relevant modules of the Association of Certified Fraud Examiners Fraud Risk Assessment Tool in partnership with the Office of Risk Management. The effort is already underway. FMD and RES leadership initiated an effort with Office of Risk Management (ORM) on June 24, 2016 to plan how to implement this recommendation. ORM sent a draft outline of "Draft Enterprise Risk Management Fraud Assessment for Real Estate Services" on June 27, 2016, and is developing a proposed a schedule for completing the comprehensive risk assessment. A forecasted completion date for the comprehensive risk assessment is being developed by ORM with input from RES.</b> |                            |                    |



## Executive Response (continued)

### Recommendation No. 2

The Facilities Management Division (FMD) should take immediate action to educate and inform the FMD and Real Estate Services section management and staff of resources, roles, and responsibilities related to illegal or inappropriate activities.

|  |                            |                    |
|--|----------------------------|--------------------|
| Select concurrence below   | Implementation date or N/A | Responsible agency |
| <b>Partially concur (explanation required)</b>   | <b>June 30, 2017</b>       |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 2.  |                            |                    |
| <p><b>We agree that additional work is needed to formalize documentation and provide on-going staff education but note that the report minimizes the management actions that have been taken. The report cites the five activities that FMD and RES are currently doing to prevent illegal or inappropriate activities:</b></p> <ul style="list-style-type: none"> <li>• <b>ethics training for new hires;</b></li> <li>• <b>verification of professional certifications;</b></li> <li>• <b>annual financial disclosure statements;</b></li> <li>• <b>a signature routing form that standardizes information reviewed by managers making decisions;</b></li> <li>• <b>a new procedure for selecting real estate brokers that was established in 2016.</b></li> </ul> <p><b>The first three activities noted above are long-standing standards. The last two improvements noted above are significant improvements that were implemented in 2016 in advance of the audit entrance conference. FMD maintains a real estate broker work roster that is established through an open and competitive process. The new procedure for broker selection from the roster for specific bodies of work involves panel review of proposals by brokers in alignment with specific criteria. The complexity of the review process is scaled to the size and value of the project. The use of a panel approach, as opposed to selection of a broker by a single staff member, reduces the risk of directing work to a particular firm and potential improprieties.</b></p> <p><b>The signature routing form and broker selection procedures have been implemented, but they have not yet been codified in a formal policy or procedure document. The formal documentation will occur during the development of the RES Manual, a project already underway in the section to formally document standard operating procedures for the section. This effort is further discussed in the response to Recommendation No. 3.</b></p> <p><b>The audit report does not include reference of the increased supervision ratios that have been put into place in the unit with the addition of both leasing and sales supervisors, in addition to a permits, franchises and acquisition supervisor. The increased level of staff supervision in terms of operational oversight occurred in response to the events noted in the report and in advance of the audit.</b></p> <p><b>In addition, FMD's Human Resources Section is developing an FMD wide training plan that will include topics such as using County resources for personal gain, review of ethics policy and its specific relevance in FMD business areas. Particular attention will be paid to the potential ethics, fraud, and abuse risks specific to real estate services.</b></p> |                            |                    |

## Executive Response (continued)

### Recommendation No. 3

The Real Estate Services section should include steps to address risks of illegal and inappropriate activities in its policies and procedures. These steps should be included at key points where such actions may occur during real estate activities, and clearly describe 1) what needs to be done, and 2) who is responsible for doing it.

|  |                            |                    |
|--|----------------------------|--------------------|
| Select concurrence below   | Implementation date or N/A | Responsible agency |
| <b>Concur (explanation optional)</b>   | <b>June 30, 2017</b>       |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 3.  |                            |                    |
| <p><b>Work to develop a comprehensive set of policies and procedures for RES Section is already underway and is referred to as the RES Manual project. FMD and RES Section management identified the need for creating a set of standard operating procedures and policies that is broadly disseminated, trained to, and updated prior to the audit recommendation. The need for the RES Manual was also identified as an important activity in both the Line of Business (LoB) Planning work currently underway in the section as well as by RES employees in the development of the Employee Engagement Survey action plan for their section. RES team members kicked off the RES Manual project in May of 2016. This effort is employee driven, with management and director's office oversight. The procedures and policies manual will be subject to a multi-layer review process including cross unit review within RES, FMD Director's Office and the Office of Risk Management as an outside reviewer. Implementation of the "what and where" noted in the recommendation will be included in review criteria.</b></p> |                            |                    |

### Recommendation No. 4

Based on King County and Facilities Management Division strategic goals and the Real Estate Services (RES) mission statement, the RES section should establish objectives, strategies, measures, and targets for each of its service areas. The performance measurement system should address concerns about the timeliness of the RES section's services.

|  |                            |                    |
|--|----------------------------|--------------------|
| Select concurrence below   | Implementation date or N/A | Responsible agency |
| <b>Concur (explanation optional)</b>   | <b>December 31, 2017</b>   |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 4.  |                            |                    |
| <p><b>FMD has been working to establish a performance management framework for the division and sections over the last several years. To specifically advance that work in RES, FMD volunteered the RES section to participate in line of business planning effort with the Office of Performance, Strategy, and Budget starting in the fall of 2015 and culminating in July 2016 with an LoB Plan. Implementation actions from the LoB effort will include development of visual management systems and program and process evaluation metrics.</b></p> |                            |                    |

## Executive Response (continued)

### Recommendation No. 5

As Real Estate Services develops policies and procedures, it should also identify areas where changes to King County Code may create efficiencies and improve service delivery outcomes, and share those suggestions as part of its annual report (see Recommendation 8).

|   |                            |                    |
|---|----------------------------|--------------------|
| Select concurrence below  | Implementation date or N/A | Responsible agency |
| <b>Concur (explanation optional)</b>  | <b>December 31, 2017</b>   |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 5.   |                            |                    |
| <b>RES staff, supervisory team, and manager have been focusing on RES processes and have noted processes dictated by King County Code that could be made more efficient with code changes. RES is targeting June 2017 as a midpoint to have a preliminary list of possible changes to the King County Code to create efficiencies and improve service delivery outcomes. The annual report will be presented in December 2017 .</b> |                            |                    |

### Recommendation No. 6

Real Estate Services should work with the King County Council and departmental customers to identify specific informational needs related to real estate management, and develop, document, and implement a plan to meet those needs.

|  |                            |                    |
|--|----------------------------|--------------------|
| Select concurrence below   | Implementation date or N/A | Responsible agency |
| <b>Concur (explanation optional)</b>   | <b>June 30, 2017</b>       |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 6.  |                            |                    |
| <b>This work is underway. In the near term, efforts to improve the quality, reliability, and effectiveness of real estate data and the underlying systems have focused on stabilizing current systems and migrating existing data sets to more stable and sustainable platforms. RES will ensure the King County Council and other interdepartmental users have the opportunity to give feedback and comments. RES is currently working with KCIT on this stand alone project, which should be available around June 2017. FMD and RES leadership has consistently identified the poor quality of current real estate data and information systems as a critical operational issue for RES and oversight of the county's real estate portfolio of both county owned and leased facilities. Though not referenced in the Audit Report, pursuit of an enterprise business solution for facility management and real estate data in particular has been a strategic FMD priority since 2015. With approved funding for preliminary planning (Omnibus Supplemental Budget Ordinance 2016-011.2), FMD has worked with KCIT to develop the business case and all associated project planning documentation for a phased acquisition of a comprehensive facility asset management (C-FAM) system software and business processes solution with the first phase focusing on of real estate management and space planning modules. In responding to recommendation no. 6, FMD will work with the C-FAM planning team to understand the council and other departmental information needs as part of the project requirements. The component of Recommendation No. 6 to develop a plan to meet informational needs related to real estate management is entirely consistent and complimentary with the Division's ongoing work to move forward with the C-FAM in December 2019.</b> |                            |                    |

## Executive Response (continued)

### Recommendation No. 7

Based on outreach with King County Council and departmental customers, Real Estate Services should develop a more complete and reliable inventory of the county's real estate portfolio.

| Select concurrence below  | Implementation date or N/A | Responsible agency |
|---|----------------------------|--------------------|
| <b>Concur (explanation optional)</b>  | <b>June 30, 2017</b>       |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 7.   |                            |                    |
| <b>As discussed above, consistent with the recommendation No. 7, RES is currently working to stabilize and improve current real estate portfolio data sets as a critical step to improve the data reliability in the near term. The Comprehensive Facility Asset Management Systems Project provides the mechanism for implementation of Recommendation No. 7 over the long term. The comments in recommendation No. 6 also apply to this section..</b> |                            |                    |

### Recommendation No. 8

Real Estate Services should provide an annual report to the County Council summarizing how many properties the county owns, their size, and location, along with other comprehensive information that informs strategic decision-making.

| Select concurrence below   | Implementation date or N/A           | Responsible agency |
|--|--------------------------------------|--------------------|
| <b>Concur (explanation optional)</b>   | <b>First report in December 2017</b> |                    |
| Agency concurrence comment or reason for partial or non-concurrence for recommendation 8.  |                                      |                    |
| <b>In the near term, once the property inventory data base is stabilized, FMD will be able to provide more accurate and timely reporting on basic property inventory data. With the first phase of the Comprehensive Facilities Management System implemented, RES will have the ability to provide additional and more comprehensive information as part of annual reporting.</b> |                                      |                    |

# Statement of Compliance, Scope, Objective & Methodology

## Statement of Compliance with Government 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.

## Audit Scope and Objectives

This audit examined the management of real estate transactions conducted by the RES section, and the accuracy, completeness, timeliness, and accessibility of the county's property information. We also reviewed the RES section's internal controls to prevent fraud, waste, and/or abuse by county employees responsible for real estate transactions.

## Methodology

To understand the management of real estate transactions conducted by RES, we reviewed Washington and King County Code, interviewed FMD and RES staff, attended RES line of business planning meetings ("Gemba Walks"), and reviewed documentary evidence provided by the RES section. We conducted interviews and reviewed evidence provided by other King County entities involved in real estate transactions including: King County Council, the King County Treasurer's Office, Prosecuting Attorney's Office, Metro Transit Division, Wastewater Treatment Divisions, and the Water and Land Resources Division.

To assess the county's property information, the audit team assessed real estate-related data from RES and the King County Assessor's Office for accuracy, completeness, and reliability. We interviewed leadership, management, and staff from FMD and RES, council staff, and other departmental staff regarding the quality and use of the county's real estate information. We compared the reliability and functionality of real estate information available to and used by county managers against identified best practices.

## Scope of Work on Internal Controls

Utilizing the Government Accountability Office's *Standards for Internal Control in the Federal Government* we developed an internal control assessment framework, conducted semi-structured interviews with FMD management and the RES management team, collected documentary evidence, and analyzed the results. We interviewed county entities that have property acquisition authority (the Water and Land Resources and Waste Treatment Divisions of the Department of Natural Resources and Parks, and the Metro Transit Division) and reviewed relevant policies and procedures. We found the RES section's current controls to be insufficient to prevent fraud, waste, and abuse and made recommendations in our report to correct these deficiencies. Through our work, an alleged incident of fraud involving a former RES employee was also discovered and reported to the Washington State Auditor's Office.

## List of Recommendations & Implementation Schedule

**Recommendation 1:** The Facilities Management Division should conduct a comprehensive risk assessment using relevant modules of the Association of Certified Fraud Examiners Fraud Risk Assessment Tool to document risks and mitigation strategies for illegal or inappropriate behavior.

**Implementation Date:** March 31, 2017

**Estimate of Impact:** By conducting a fraud risk assessment, management will have the information it needs to identify and implement activities that can detect and prevent fraud. Such activities can protect the county from reputational and financial damages.

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**Recommendation 2:** The Facilities Management Division (FMD) should take immediate action to educate and inform the FMD and Real Estate Services section management and staff of resources, roles, and responsibilities related to illegal or inappropriate activities.

**Implementation Date:** June 30, 2017

**Estimate of Impact:** The risk of fraud is heightened when an organization's management and staff lacks understanding of fraud risks and responsibilities. If this is addressed, it decreases the opportunity for fraud to occur.

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**Recommendation 3:** The Real Estate Services section should include steps to address risks of illegal and inappropriate activities in its policies and procedures. These steps should be included at key points where such actions may occur during real estate activities, and clearly describe 1) what needs to be done, and 2) who is responsible for doing it.

**Implementation Date:** June 30, 2017

**Estimate of Impact:** Policies and procedures are necessary to ensure that fraud prevention and detection efforts are being followed, and that management and employees are being held accountable. Having policies and procedures in place decreases the opportunity for fraud to occur.

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## List of Recommendations & Implementation Schedule (continued)

**Recommendation 4:** Based on King County and Facilities Management Division strategic goals and the Real Estate Services (RES) mission statement, the RES section should establish objectives, strategies, measures, and targets for each of its service areas. The performance measurement system should address concerns about the timeliness of the RES section's services.

**Implementation Date:** December 31, 2017

**Estimate of Impact:** Instituting the basic elements of performance management will help ensure that the RES section is operating efficiently, that employees are held accountable, and that the unit's efforts are making contributions to wider county goals. It will also allow the RES section to communicate workload, accomplishments, and challenges to key stakeholders.

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**Recommendation 5:** As Real Estate Services develops policies and procedures, it should also identify areas where changes to King County Code may create efficiencies and improve service delivery outcomes, and share those suggestions as part of its annual report (see Recommendation 8).

**Implementation Date:** December 31, 2017

**Estimate of Impact:** By identifying issues in King County Code, the RES section can help to improve the efficiency of county real estate transactions.

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**Recommendation 6:** Real Estate Services should work with the King County Council and departmental customers to identify specific informational needs related to real estate management, and develop, document, and implement a plan to meet those needs.

**Implementation Date:** June 30, 2017

**Estimate of Impact:** By proactively engaging County Council and other departments, the RES section will help ensure that relevant information is available when decisions are made about what properties to buy, sell, and lease for county services.

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## List of Recommendations & Implementation Schedule (continued)

**Recommendation 7:** Based on outreach with King County Council and departmental customers, Real Estate Services should develop a more complete and reliable inventory of the county's real estate portfolio.

**Implementation Date:** June 30, 2017

**Estimate of Impact:** By improving the validity and reliability of county real estate information, the RES section, King County Council, and other county departments will have the information they need to make decisions about buying, selling, and leasing properties for county services.

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**Recommendation 8:** Real Estate Services should provide an annual report to the County Council summarizing how many properties the county owns, their size, and location, along with other comprehensive information that informs strategic decision-making.

**Implementation Date:** First report in December 2017

**Estimate of Impact:** By reporting on an annual basis, the RES section will contribute its expertise to decision makers, and provide insight on current topics involving the use of county resources.