



Real Estate and Land Transactions

Internal Audit

November 2013

Bernalillo County Internal Audit Real Estate and Land Transactions

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over selected areas within the Right of Way Department. Our internal audit focused on testing internal controls over land transactions such as acquisitions, easements, temporary construction permits, leases, and sales and disposals.

The procedures performed include:

- Obtaining an understanding of the Right of Way land transaction procedures through reading relevant Administrative Instructions and other regulations, and through interviewing various Right of Way and Public Works personnel;
- Testing a sample of property acquisitions to determine if appropriate levels of approvals were obtained, and the acquisitions were made in accordance with Administrative Instructions and Board of County Commissioners Administrative Resolutions;
- Testing a sample of easements and temporary construction permits related to recent projects to determine if the transactions were performed in accordance with regulations, with appropriate levels of approvals;
- Testing sales of property to determine if proper approvals were obtained and regulations were followed, and the sale price was not less than the appraised value of the property;
- Testing a sample of leases issued to determine if appropriate levels of approvals were obtained, and the rent collected was not less than fair market value according to the appraisal; and,
- Ensuring that the most recent monthly status report was submitted to the Deputy County Manager for Public Works and contained accurate information.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

In most areas tested during the course of the audit, controls were functioning properly and established procedures were followed. All sales, acquisitions, easements, and temporary construction permits tested were processed in accordance with the applicable Administrative Instructions, Resolutions, and State Administrative Codes.

There were no significant high/moderate risk observations identified during this audit.

* * * * *

Further detail of our purpose, objectives, scope, procedures, observations, and recommendations are included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
December 9, 2013

Bernalillo County Internal Audit Real Estate and Land Transactions

Table of Contents

	<u>Page</u>
INTRODUCTION	1
PURPOSE AND OBJECTIVES	1
SCOPE AND PROCEDURES PERFORMED	1
OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	3

Bernalillo County Internal Audit Real Estate and Land Transactions

Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes within the Right of Way Department (ROW). Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on October 31, 2013, at which time most items needed for the audit were requested. Fieldwork began the week of November 4, 2013. An exit conference was held on December 5, 2013, and final management responses were received on December 9, 2013.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating the real property sale/disposal, leasing, and acquisition processes, including easements and temporary construction permits, to determine if these processes were in compliance with policies and procedures (P/Ps), applicable laws and regulations, and sound internal controls. We evaluated the adequacy and reasonableness of the internal controls surrounding these processes.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and internal controls surrounding Real Estate and Land Transactions, we interviewed the following personnel:

- Deanna Miglio, Right of Way Manager
- Steve Miller, Infrastructure, Planning & Geographical Resources Director

In order to understand Real Estate and Land Transactions policies and procedures we read relevant portions of:

- Administrative Instruction NO. IP 01: Real Property Acquisition and Disposition;
- Bernalillo County Board of County Commissioners Administrative Resolution No. 2012-17;
- NMAC 1.5.23 Real Property Acquisitions, Sales, Trades, or Leases;
- Bernalillo County Board of County Commissioners Administrative Resolution No. 13-84;

We performed the following testwork:

Property Acquisitions: We obtained a listing of all property acquisitions that were completed in the calendar years 2012 and 2013. We judgmentally selected a sample of 5 acquisitions (50% of the population) and tested to determine if each acquisition included:

- Proper approval from the County Manager or County Commissioners;
- A feasibility work/study;
- An approved appraisal;
- Documentation of any negotiation and formal offers of purchase; and
- Documentation proving that the property was granted tax exempt status through the Assessor's Office.

Easements and Temporary Construction Permits for Construction Projects: We obtained a listing of construction projects that were in progress in the calendar year 2013. We judgmentally selected a sample of 2 projects (50% of the population) and tested to determine if each easement and temporary construction permit in these projects included, when applicable:

- Proper approval from the County Manager or County Commissioners;
- A feasibility work/study;
- An approved appraisal;
- Documentation of any negotiation and formal offers of purchase; and
- Documentation proving that the property was granted tax exempt status through the Assessor's Office.

Property Sales: We obtained a listing of all property sales that were completed in the calendar years 2012 and 2013. We judgmentally selected two sales (100% of the population) and tested to determine if each sale was:

- Properly approved by either the State Board of Finance or the Department of Finance and Administration;
- The property was first offered to adjoining landowner(s) according to the policy;
- The property sold did not result in a parcel of land becoming landlocked;
- All necessary documentation was provided to the State Board of Finance, when applicable; and
- The sale price was not lower than the appraised value.

Leases of County Property: We obtained the listing of all property leases as of October 25, 2013. We judgmentally selected a sample of 17 leases (35% coverage) and tested to determine if the file contained:

- Approval from the State Board of Finance when required;
- Current appraisal with evidence of review by the Taxation and Revenue Department;
- Copy of the signed lease;
- Resolution from the Real Estate Committee approving the lease, with a provision making the lease subject to State Board of Finance approval, if required; and
- Description of the selection process used to determine the lessee.

We also tested to determine that the rent or other consideration from a private entity was not less than fair market value according to the appraisal.

Reporting: We obtained the most recent monthly status report submitted to the Deputy County Manager for Public Works and verified the accuracy of the status reported for a sample of four projects (44% coverage).

Other: Because ROW did not maintain a centralized listing to track acquisitions, sales, and/or leases, we verified the populations provided to us by comparing the population to the Finance department records.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Real Estate and Land Transactions processes:

1) Leases

During our testing of 17 leases, we identified one lease that was not presented to or approved by the State Board of Finance, even though it met the requirements of NMAC 1.5.23.10, which states that Board approval is required if the term of the lease or sublease is for a period of more than five years, or the consideration over the lease term is more than \$25,000.

Risk: Low-The County could enter into significant, long-term leases that are not in the best interest of the County or the State.

Recommendation

Consider adding an additional review process by the manger to ensure that all leases that meet the criteria of greater than five years or greater than \$25,000 over the term of the lease are presented to the State Board of Finance for approval.

Management's Response

The identified lease was done in 2009 and the same term was followed from the previous lease. Since that time, ROW has developed a more centralized system for processing leases that has significantly decreased errors in the County's leases. Currently all leases are reviewed by the ROW Manager before they are sent for final approval.

2) *General Records*

During our planning and sample selection, we determined that ROW does not utilize a database or system to track land transactions, nor do they keep a formal list of such transactions.

Risk: Low-Project deadlines could be missed, or sales or acquisitions could not be performed timely.

Recommendation

Create and maintain a master list, or a combination of master lists, of all acquisitions, sales and disposals, leases, and projects including key information like date of transaction, amount, state approval if applicable, lease period, etc.

Management's Response

Management agrees with the recommendation of creating separate master lists for acquisition and disposition of lands as well as separate spreadsheets for each Technical Service project. ROW already has a master list for its leases and has a notification list of departments to send final leases for their information and records. ROW will add the Accounting Director to its list so that the Finance Department's records will accurately reflect what ROW has.

* * * * *

This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioner of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
December 9, 2013