

Office of the City Auditor City of San Diego

Performance Audit of the Real Estate Assets Department (READ)

Presentation to the Audit Committee

January 7, 2013



Independent • Objective • Accurate

Audit Objectives and Scope

- Audit objectives:
 1. Determine the extent to which READ is achieving its mission and effectively and efficiently managing the City's real estate needs.
 2. Assess the extent to which READ is adequately measuring its performance.
- We reviewed READ activities for 2007-2012

Background

City leases for downtown office buildings are expiring soon. The City has to decide soon whether to renew them or secure alternate facilities.

Building	Original Lease Date	Lease Expiration Date	Annual Expense ¹	Number of Employees
Civic Center Plaza	October 1991	July 2014	\$4,671,730	817
Executive Complex	January 1999	March 2014	\$2,901,600	403
600 B Street	October 1991	May 2013	\$4,185,007	413

Background

The City owns many properties that it leases to private groups. It provides subsidized and cost-free leases to many nonprofit organizations.

Number of Leases	Total Acreage	Percent Paying Rent	Total Rent
126	2,656	44 %	\$ 993,298

Audit Findings

1. The City Should Strengthen and Clarify the Real Estate Assets Department's Role in Addressing the City's Space Needs
 - ♦ *READ's Portfolio Management Plan should be updated to meet the City's changing needs*
 - ♦ *The City can save on rent by reducing its space requirements and moving some employees out of downtown when leases for office space expire*

Audit Findings

2. The City Incurs Administrative and Other Costs in Providing Free Leases to Nonprofit Groups
 - ◆ Lost revenue
 - ◆ Time required to draft and process leases
 - ◆ Facilities operating and maintenance costs
 - ◆ Additionally, there are concerns about the fairness of the process for determining which nonprofits are granted free leases

Recommendation #1

- The Real Estate Assets Department should update its Portfolio Management Plan to insure that it meets the City's changing needs.

➤ Department Agrees

Recommendation #2

- The Real Estate Assets Department should prepare a market and financial analysis for the City Administration and City Council to reduce leased office space and move a portion of the City's workforce out of downtown to less expensive office space.

➤ **Department Partially Agrees**

Recommendation #3

- The Real Estate Assets Department (READ) should improve its performance goals by establishing measures, targets, outcomes and outputs for each goal.
- READ should also annually report its performance and achievements to the City Administration and City Council.
 - **Department Disagrees**

Recommendation #4

- The Real Estate Assets Department should work with the City Administration and the City Council to draft a policy on rent subsidies to nonprofit organizations that
 - ♦ establishes eligibility criteria for recipients,
 - ♦ recovers the City's facilities maintenance and upkeep costs for the subsidized space, and
 - ♦ fee to recover the costs of preparing, processing, and monitoring leases.

➤ **Department Partially Agrees**

Questions

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