

September 22, 2005

Internal Audit Report 2005-11
Municipal Leases
Heritage Land Bank

Introduction. The Heritage Land Bank was established in 1983 to manage uncommitted Municipal lands acquired from the State of Alaska through the Municipal Entitlement Act for the benefit of present and future residents of Anchorage. The Municipal land includes residential, commercial, industrial, recreational and open space areas. The Heritage Land Bank's Real Estate Services Division manages general government leases. In addition, other Municipal agencies oversee leases, permits, or other mechanisms to help manage land and Municipal resources. Our review identified 145 leases administered by nine different general government departments. Most of these leases were administered by the Heritage Land Bank.

Objective and Scope. The objective of this audit was to review general government leases. Specifically, we contacted Municipal departments to develop a list of general government leases. We also reviewed all leases where the Municipality was the lessor to test for timely and correct payments. Finally, we judgementally selected 41 leases to determine compliance with rent adjustment clauses.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through June 2005. The audit was requested by the Administration.

Overall Evaluation. Our review revealed that the responsibility for lease administration was unclear and leases were not always administered properly. The administration of general government leases was decentralized to nine different Municipal departments, although Anchorage Municipal Code (AMC) 25.10.030, *Powers and Duties of Department of Property and Facility Management*, assigns the administration of leases to Property and Facility Management. However, AMC 25.10.030 is outdated as, under current Municipal organization, this department has been replaced by Facility and Fleet Maintenance with the Real Estate Services function being transferred to the Heritage Land Bank.

FINDINGS AND RECOMMENDATIONS

1. Responsibility for Lease Administration Unclear.

- a. Finding.** The management responsibilities for the administration of leases were unclear. Our audit revealed that the administration of general government leases had been decentralized to as many as nine different departments, even though the Real Estate Services Division had the primary role of administering all leases. As a result, no one could identify how many leases existed in the Municipality. We also found that the AMC was not current regarding responsibility over lease administration. According to AMC 25.10.030, Property and Facility Management is responsible for “Preparing and securing the execution of all contracts, leases, conveyances and other documents” Under the current Municipal organization, Property and Facility Management no longer exists, but was replaced by Facility and Fleet Maintenance, with Real Estate Services being transferred from Property and Facility Management to the Heritage Land Bank. Thus, the Real Estate Services Division manages most of the Municipality’s leases.

- b. Recommendation.** The Executive Director of Economic and Community Development should revise AMC 25.10.030 to identify who should be responsible for the acquisition, administration and disposal of leased real property.
- c. Management Comments.** Management concurred with the finding and recommendation. See Attachment A for Management's comments.
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Leases Not Always Administered Properly.

- a. Finding.** Leases were not always administered properly. We found that some leases had expired but the lessees were still utilizing the properties. In addition, leases were not always monitored to ensure that required payments were received as required by the leases. Finally, lease files were not always properly maintained and did not contain current or complete documentation.
- b. Recommendation.** The Executive Director of the Heritage Land Bank should ensure that all leases are properly administered.
- c. Management Comments.** Management concurred with the finding and recommendation. See Attachment A for Management's comments.
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Discussion With Responsible Officials The results of this audit were discussed with appropriate Municipal officials on August 9, 2005.

Audit Staff:
Birgit S. Arroyo
Michael B. Chadwick



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INTERNAL AUDITOR

MUNICIPALITY OF ANCHORAGE

MEMORANDUM

HERITAGE LAND BANK
AND
REAL ESTATE SERVICES

DATE: 9/15/05

TO: Peter Raiskums, Internal Audit Director

FROM: Robin E. Ward, HLB Executive Director *REW*

SUBJECT: Municipal Leases Audit Report

Heritage Land Bank and Real Estate Services appreciate receiving the report on August 9, 2005 from the Internal Audit Department regarding management of municipal leases. The report was requested this year by our office subsequent to department reorganization, and in an effort to locate all leases currently being administered by the Municipality of Anchorage. The goal, largely dependent upon the findings of the report, has been to co-locate all appropriate non-HLB leases within a fewer number of municipal departments in an effort to provide better management of active leases, and to incorporate recommendations from the report that will provide better oversight.

As director of both the Heritage Land Bank and Real Estate Services, I concur with the results of the Internal Audit's report, and appreciate its staff's research effort and recommendations. The report correctly notes that past administration of such leases has been unclear, which has led in some cases to inconsistent management.

Further, it highlights the fact that the Anchorage Municipal Code has been in need of revision since the interdepartmental reorganization, and we agree with the report's finding that the administration needs to update the code, specifically recommending that the Executive Director of the Office of Economic and Community Development revise AMC 25.10.030 to identify those departments responsible for leases management. To that end, on August 31, 2005, the Heritage Land Bank office began an agency review process of the proposed language change. Results of the review will be compiled on Monday, September 19, 2005, and this office will draft an Assembly Ordinance and Memorandum that will revise and update the code.

ATTACHMENT A

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