



Office of the City Auditor

**Report to the City Council
City of San José**

**AN AUDIT OF THE PROPERTY
APPRAISAL PROCESS OF THE
DEPARTMENT OF PUBLIC WORKS -
REAL ESTATE DIVISION**

**The Real Estate Division Can Improve Upon
Its Administration Of The Property
Appraisal Process**

**Report 01-01
March 2001**



CITY OF SAN JOSÉ, CALIFORNIA

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City Auditor

March 9, 2001

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
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Transmitted herewith is a report on *An Audit Of The Property Appraisal Process of the Department of Public Works—Real Estate Division*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before the Appendices.

I will present this report to the Finance and Infrastructure Committee at its March 28, 2001, meeting. If you need additional information in the interim, please let me know. The City Auditor's staff members who participated in the preparation of this report are Nestor Baula, Robin Klenke, and Gregory Elliott.

Respectfully submitted,

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Executive Summary

In accordance with the City Auditor's 2000-01 Audit Workplan, we reviewed the property appraisal operations of the Department of Public Works – Real Estate Division. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

Finding I The Real Estate Division Can Improve Upon Its Administration Of The Property Appraisal Process

When the City of San Jose purchases property, it provides the owner a Statement of Just Compensation, based on a “market value appraisal.” The Real Estate Division (Division) of the Department of Public Works (DPW) is responsible for administering the City's appraisal activities and ensuring that the appraisals conducted on behalf of the City are performed efficiently, competitively, and in accordance with accepted appraisal standards. We found that the Division has streamlined its process for contracting out appraisal services. However, we found that the Division can still improve its property appraisal process. Specifically:

- The Division can make the appraisal review process more efficient;
- The Division does not competitively select contract appraisers;
- The Division can improve its documentation of the appraisal process;
- The Division does not sufficiently cross-train staff for title report services;
- The Division's filing system caused operational inefficiencies;
- The Division lacks written procedures and those written procedures it does have are not in the prescribed DPW format; and
- The Division can improve its project tracking system.

The Division can improve its administration of the real estate appraisal process by (1) ensuring that staff comply with the ten-business days requirement for appraisal reviews, (2) specifying the expected completion date for the entire appraisal review and approval process in the Work Request form, (3) developing a competitive process for contractor selection, (4) improving its documentation of appraisal reviews, (5) training backup staff to perform title report services, (6) continuing development of its File Locator Database Program, (7) developing written procedures, and (8) developing a project tracking system that will track targeted and actual dates on a project by project basis.

RECOMMENDATIONS

We recommend that the Real Estate Division:

- Recommendation #1** **Implement staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews. (Priority 3)**
- Recommendation #2** **Specify the expected completion date for the entire appraisal review and approval process in the Work Request form. (Priority 3)**
- Recommendation #3** **Establish a competitive process for selecting independent appraisers for future property appraisal Master Agreements. (Priority 3)**
- Recommendation #4** **Establish procedures that require staff to (a) take at least two quotes when letting out an appraisal project to an independent appraiser; (b) document individual quotes for appraisal projects; and (c) justify in writing the selection of an independent appraiser other than the low bidder. (Priority 3)**
- Recommendation #5** **Ascertain that the appraisal reviewers comply with the requirement to complete the appraisal review checklists for all appraisal reviews. (Priority 3)**
- Recommendation #6** **Require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review. (Priority 3)**

- Recommendation #7** **Require the staff to document in the appraisal files how the staff resolves the appraisal reviewer’s findings. (Priority 3)**
- Recommendation #8** **Complete the missing or incomplete entries in the Appraisal Inventory spreadsheet. (Priority 3)**
- Recommendation #9** **(a) Establish performance criteria and qualifications for staff assigned to perform title services; (b) write the title services procedures the Real Estate Division provides; and (c) assign and train backup staff to perform title services. (Priority 3)**
- Recommendation #10** **Periodically survey local title companies and attempt to expand the list of qualified title insurance companies the City can use. (Priority 3)**
- Recommendation #11** **Augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City’s overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and the statistical functions needed to support productivity tracking and management reports. (Priority 2)**
- Recommendation #12** **Write a user manual and conduct staff training on the use and maintenance of the File Locator Database Program if it decides to enhance and implement the Database. (Priority 3)**
- Recommendation #13** **Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format. (Priority 3)**
- Recommendation #14** **Develop a project tracking system that will track targeted and actual dates on a project by project basis. (Priority 3)**

Introduction

In accordance with the City Auditor's 2000-01 Audit Workplan, we reviewed the property appraisal operations of the Department of Public Works – Real Estate Division. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the Department of Public Works – Real Estate Division for their time, information, insight, and cooperation during the audit process.

Background

The Real Estate Division (Division) is under the Department of Public Works (DPW).

Mission

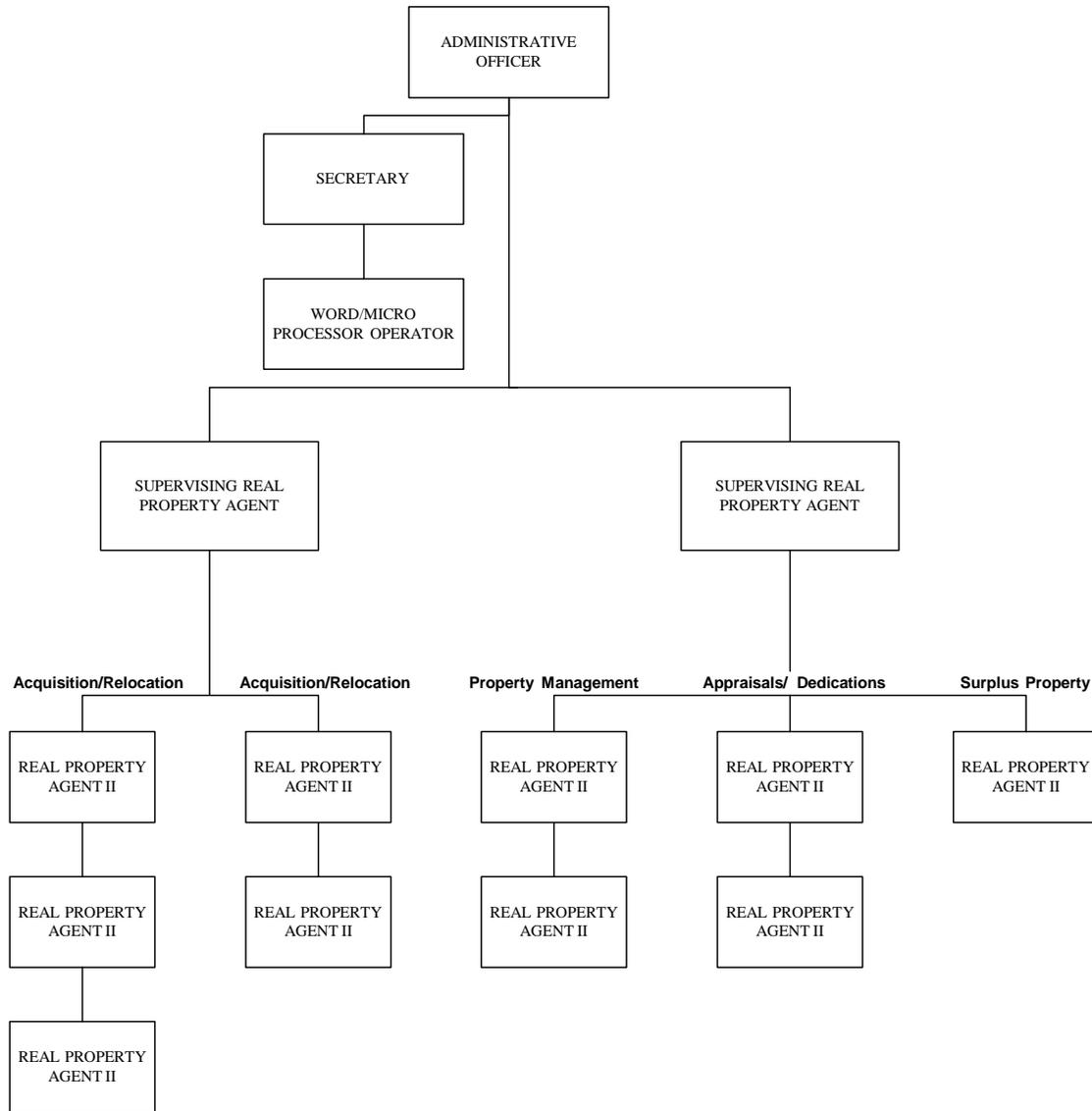
The mission of the Real Estate Division is to provide quality and cost effective real estate services in a timely manner to City Departments and the Redevelopment Agency in support of the Capital Improvement Program and for the benefit of the citizens of the City of San Jose. These services are performed while assuring the City's compliance with applicable local, state, and federal government laws and regulations.

Budget And Staffing

The Public Works Real Estate Division's 2000-2001 operating budget is \$1,360,687, which includes \$1,260,304 for personal services and \$100,383 for non-personal services. About \$407,000 of the Division's budget comes from the General Fund. The remainder comes from other funding sources, including the City's Capital Improvement Program. The Division's 2000-2001 staffing is 15 full-time positions.

Exhibit 1 shows the Division's organization chart.

Exhibit 1 Department Of Public Works Real Estate Division Organization Chart



Division Services

Real Estate Division services include appraisal, acquisition, relocation, property management, surplus real property sales, site feasibility analysis, and City Council or City Manager-directed special projects.

Appraisal Services

The Real Estate Division contracts out for, administers, and reviews the work of independent fee appraisers. The contract appraisers' reports allow the City to determine the "Fair Market

Value” for acquiring or disposing of properties. Our audit covered the period from July 1996 through March 2000. During that period, the Division administered the appraisals of 266 parcels valued at over \$106 million that the City either acquired or disposed of or was in the process of doing so.

Acquisition Services

The Real Estate Division is the lead organizational unit that acquires interests in real property to support the City’s Capital Improvement Program. Division staff either performs or coordinates the activities necessary for a successful Right of Way acquisition. Right of Way projects include, but are not limited to, streets, bridges, sewers, parks, public buildings, and transactions with other agencies.

The acquisition process involves the following typical steps:

- Contract preparation;
- Formal offers of “Just Compensation” to property owners;
- Negotiation of business terms;
- Request for approval of purchase agreements; and
- Support of the condemnation process in the event that a negotiated agreement can not be reached.

Relocation Services

Some City projects cause business or residential owners and/or tenants to be displaced from their existing locations. The Real Estate Division contracts for, administers, and reviews relocation plans necessary for City and Redevelopment Agency projects. The Division administers and assures that the adopted relocation plan is implemented and that relocatees receive the benefits to which they are entitled.

Property Management

With the exception of Airport operating properties, the Division provides property management services for City operations. These services include leasing of office space, parking, and land for various City operations. Leasing involves determining the needs of the client, verifying funding, identifying available sites, negotiating agreements, acquiring necessary approvals,

coordinating tenant improvements, and on-going occupancy issues between the City and landlords.

The Division also leases out building and property for the purposes of income generation, providing space to City-supported non-profit and community based organizations, and occupied property acquired as a result of City projects.

The Division determines and verifies property ownership, coordinates the fencing and clean up of City-owned property, and works closely with citizens to resolve any issues concerning City-owned property.

Surplus Real Property Sales

The Division is also responsible for the processing of surplus real property sales and transfers for revenue generation.

The RDA Model

The Mayor's Budget Message dated March 14, 2000, directed the City Administration to look to the Redevelopment Agency (RDA) as an example in restructuring the Real Estate Division.

“There should be no additional staffing in the Real Estate Division until the audit of that division is completed. The Administration is directed to reevaluate the structure of the Public Works Department in this division as well. This review should focus on alternative methods of service delivery, including greater outsourcing of real estate functions, to better manage workload cycles. The Redevelopment Agency is currently restructuring its real estate organization in this manner, and the Administration should look to the Agency as an example.”

The City Administration's response to the Mayor's referral is shown in Appendix B.

We contacted the RDA to determine the Agency's practices with regard to property appraisals.

Exhibit 2 compares the City's Real Estate Division to the RDA in the administration of property appraisals.

Exhibit 2 Comparison Of The Real Estate Division's Appraisal Process To The RDA Model

Service Area	Redevelopment Agency	Real Estate Division
Complex Appraisals*	30 to 40 appraisals per year. All appraisals are contracted out.	20 to 30 appraisals per year. All complex appraisals are contracted out.
Noncomplex Appraisals* (under \$10,000 valuation)	10 to 20 appraisals per year. All appraisals are contracted out.	3 to 6 appraisals per year. The Division's policy is to contract out Noncomplex Appraisals.
Appraisal Reviews	Independent reviewer reviews approximately 36% of the appraisal reports. In-house staff reviews the remainder.	Independent reviewers review approximately 61% of the appraisal reports. In-house staff reviews the remainder.
Title Services	Title services are part of the RDA's contract with Cutler & Associates, Inc.	The Division provides in-house title services and works with two Title Insurance companies for title insurance. This service is also provided to other City departments for a variety of other non-property appraisal purposes, such as property boundaries, easements, and restrictions.
Appraisal Administration	Staff oversee the master contract which effectively shifts the appraisal oversight to Cutler & Associates, Inc.	The Division is responsible for contracting and monitoring appraisals, reviewing and following-up of appraisals, and filing of appraisal documents.
Compliance with Standards	The Real Estate Coordinator's position, which had Compliance and Standards responsibilities, is now being handled through the master contract with Cutler & Associates, Inc.	The Division ensures compliance with the Uniform Standards of Professional Appraisal Practice through a documented appraisal review.
Timeliness and Cost Targets	The RDA staff analysts, as well as Cutler & Associates, maintain and periodically review records and schedules for each project.	The Division maintains a Master Work Request File and keeps a record of independent appraiser contract costs and property appraisal completion dates.

* According to the California Department of Transportation (Caltrans), noncomplex appraisals are distinguished from complex appraisals in that noncomplex appraisals generally have the following characteristics: (a) there is no serious question as to highest and best use; (b) adequate market data is available; (c) substantial damages and benefits are not involved; and (d) there is no substantial decrease in market value due to the presence of hazardous materials or waste.

**Audit Scope,
Objectives, And
Methodology**

The objective of this audit was to determine the timeliness of the Real Estate Division's appraisal services and the adequacy of the management control system for measuring, reporting, and monitoring the Division's operations. Our focus was on the administration of appraisal services, including the preparation of title reports, the hiring of independent appraisers, documentation of appraisals, and the review of the appraisal products. For this report, we did not review Acquisition/Relocation, Property Management, and Surplus Property functions.

The scope of our review was the three and a half year period from July 1996 through March 2000. During this period, the Real Estate Division administered the appraisals of 266 parcels. However, we found appraisal reports for only 228 of the 266 parcels. The 228 parcels found were appraised in 79 appraisal reports.

Of those 79 appraisal reports, we excluded from our analysis for this report the following appraisals:

- 7 appraisal reports for which certain processing date information was not available. (We discuss the issue regarding missing or incomplete files on page 27 of this report.)
- 15 appraisal reports which were transferred to the Redevelopment Agency (RDA) when the RDA took over the administration of its own Real Estate operations.

As a result, our analysis is based on the remaining 57 appraisal reports.

To review the appraisals and the appraisal process, we performed the following:

- Interviewed Real Estate Division staff and reviewed appraisal files;
- Interviewed RDA and City Attorney staff;
- Interviewed other City departments who used the Real Estate Division services;
- Reviewed the work the Division staff performed to determine that the appraisal products complied with acceptable appraisal practices; and

- Analyzed the timeliness and completeness of the appraisal products and appraisal reviews.

We also contacted the California Department of Transportation (Caltrans) and surveyed other jurisdictions regarding their real estate appraisal practices.

Finally, we contacted the Division's independent appraisers. The independent appraisers made several comments and suggestions regarding the Division's appraisal process, which we shared with the Real Estate Division in a separate memorandum.

As part of our review, we tested the completeness of the Division's Appraisal Inventory spreadsheets we used during our audit. We did not review the general and specific controls for inputting and safeguarding of the data and ensuring the timeliness of the information contained in the spreadsheets.

Major Accomplishments Related To This Program

In a memorandum, the Real Estate Division manager informs us of major program accomplishments. The Real Estate Division considers as its major accomplishment the implementation of the key recommendations for process improvements the Division's reengineering effort identified two years ago. See Appendix C for a more detailed description of the Division's major accomplishments.

Finding I

The Real Estate Division Can Improve Upon Its Administration Of The Property Appraisal Process

When the City of San Jose purchases property, it provides the owner a Statement of Just Compensation, based on a “market value appraisal.” The Real Estate Division (Division) of the Department of Public Works (DPW) is responsible for administering the City’s appraisal activities and ensuring that the appraisals conducted on behalf of the City are performed efficiently, competitively, and in accordance with accepted appraisal standards. We found that the Division has streamlined its process for contracting out appraisal services. However, we found that the Division can still improve its property appraisal process. Specifically:

- The Division can make the appraisal review process more efficient;
- The Division does not competitively select contract appraisers;
- The Division can improve its documentation of the appraisal process;
- The Division does not sufficiently cross-train staff for title report services;
- The Division’s filing system caused operational inefficiencies;
- The Division lacks written procedures and those written procedures it does have are not in the prescribed DPW format; and
- The Division can improve its project tracking system.

The Division can improve its administration of the real estate appraisal process by (1) ensuring that staff comply with the ten-business days requirement for appraisal reviews, (2) specifying the expected completion date for the entire appraisal review and approval process in the Work Request form, (3) developing a competitive process for contractor selection, (4) improving its documentation of appraisal reviews, (5) training backup staff to perform title report services, (6) continuing development of its File Locator Database Program, (7) developing written procedures, and (8) developing a project tracking system that will track targeted and actual dates on a project by project basis.

The Statement Of Just Compensation

When the City of San Jose purchases a piece of property, it provides the owner a Statement of Just Compensation, based on a market value appraisal. The following excerpt from the City’s standard purchase offer document describes the City’s Statement of Just Compensation:

“This statement constitutes the City of San Jose’s written offer to purchase real property from you for an approved City Project. The amount of Just Compensation offered is ... presented in compliance with applicable State and Federal Laws... The market value of the property being purchased is based on a market value appraisal prepared in accordance with accepted appraisal procedures.”

Article I, Section 19 of the California Constitution states “Private property may be taken or damaged for public use only when just compensation, ascertained by a jury unless waived, has first been paid to, or into court for, the owner.”

According to the California Department of Transportation (Caltrans) Handbook, “An appraisal is necessary to ensure compliance with the Constitution in arriving at a conclusion of just compensation. The basic document in all appraisals is the Appraisal Report. It contains the appraiser’s estimate of fair-market value and all data and narrative necessary to support the appraiser’s conclusions.”

The Real Estate Division’s Appraisal Services Responsibilities

The Real Estate Division is responsible for administering the City’s appraisal activities and for ensuring that the appraisals conducted on behalf of the City are performed in accordance with accepted appraisal standards. The Division provides a range of appraisal services to support various City projects. The Division also contracts out for, administers, and reviews the work of independent fee appraisers. While the Division has the capability to provide estimates of value utilizing existing City staff, all written appraisals are obtained on a contractual basis.

Appendix D describes the process the Division follows in administering appraisals and reviewing the appraisal reports.

The Division Has Streamlined Its Contracting Process For Contract Appraisers

The Division implemented a Master Agreement method for contracting with independent appraisers in August 1998. Prior to August 1998, the Division prepared and processed separate contracts for each individual appraiser. The Master Agreement method allowed the City to enter into a single contract with a firm and then approve individual assignments without the need to create individual contracts. Based on a study the Division conducted, the adoption of this contracting method has speeded the preparation and processing of appraisal projects.

The Division's Justification For Using Contract Appraisers

According to Division Management, the Division currently does not have staff to perform appraisals. It is more economical for the City to hire contract appraisers for the following reasons:

- Since appraisal work is cyclical, the current staff may be hard pressed to complete appraisal assignments on time when peak workloads occur. The result would be either project delays or low quality work.
- Appraisals require the services of California Certified Appraisers. According to the Director of Public Works, "In order to provide the same level of professional capacity and experience with City staff, the City would have to recruit and retain individuals with comparable qualifications and experience as that now provided by consultants. In light of the strong real estate market and associated demand for appraisal services, it is questionable whether the compensation provided as a Real Property Agent would attract and retain California Certified Appraisers qualified as expert appraisal witnesses in City employment."
- Appraisals performed by contract appraisers are more likely to be perceived as unbiased. Because the perception of bias is reduced, the agent is more effective in representing the City in acquisition negotiations.

City Staff Can Perform Appraisal Reviews

Unlike the contracted appraisals described above, the appraisal review is a responsibility that City staff can perform. According to the Real Estate Division's appraisal procedures, "This is a review of either a Full-Narrative Appraisal or Restricted Letter Appraisal. An Appraisal Review is not an Appraisal; it is a critique of an Appraisal." The procedures also

state that “This work (appraisal review) may be performed by Division staff...”

The appraisal reviewer recommends either (1) approval of the appraisal, (2) approval of the appraisal subject to edits or clarification the appraiser needs to provide, or (3) disapproval of the appraisal. The reviewer supports his or her conclusions with commentary as to data, reasoning, and conclusions contained within the appraisal, as well as completion of the Division’s Appraisal Review and Report Format Checklists.

We reviewed 79 appraisal reports that the Division received from July 1996 through March 2000. Of the 79 appraisal reports, the Division contracted out appraisal report reviews for 48 at a cost of \$47,100 and performed 31 appraisal report reviews using in-house staff. Exhibit 3 shows the results of the 79 appraisal report reviews.

Exhibit 3 Results Of Appraisal Reviews From July 1996 Through March 2000

Reviewer Recommendation	Number Of Appraisal Reviews	Percent
Approval of the appraisal	44	56%
Approval of the appraisal subject to edits or clarification the appraiser needs to provide	18	23%
Disapproval of the appraisal	17	21%
TOTAL	79	100%

The Division Can Make The Appraisal Review Process More Efficient

We analyzed the appraisal review process performed by contractors and in-house staff (described in Appendix D) to determine its impact on the timeliness of the entire appraisal process. Based on our examination of 57 appraisal report reviews, we found that the number of days from the date the appraisal report was completed to the date the appraisal report was reviewed for acceptance or rejection ranged from 2 to 162 business days (2 to 231 calendar days), with an average of 43.9 business days (63.4 calendar days).

Our survey of the other City departments who were the Division’s customers revealed that some customers felt that the Division’s process for reviewing and approving appraisal

reports takes much longer than necessary. These customers indicated that the Division needs to improve the timeliness and coordination of the property appraisal process. Of the four customers we interviewed, three expressed dissatisfaction with the Division's responsiveness and ability to complete projects without delay. Of the three dissatisfied customers, one questioned the additional cost of contracting out appraisal reviews. Specifically, this customer commented that the Division already has a good list of certified appraisers and that "the additional review and cost is overkill when you've developed your list and know your appraisers."

According to Division Management, appraisal reviews are necessary to ascertain that the appraisal product is in compliance with appraisal standards. The appraisal review is a critique of the appraisal report that aids management in deciding whether to approve, amend, or reject the appraisal report. The appraisal review requires additional time, especially if the appraisal reviewer raises questions about the appraisal report, since the Division staff has to research the issues and resolve the questions with the appraiser and the appraisal reviewer. For this reason, the Division has an in-house standard that requires appraisal reviews to be completed within ten business days.

While appraisal reviews can be viewed as an essential part of the appraisal process, the Division can make the appraisal review process more efficient by:

1. Implementing staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews and
2. Setting target dates for the entire appraisal review process and making staff accountable for meeting the target dates. (See page 16 for a discussion of this issue.)

Timeliness Of The Appraisal Review And Approval Process

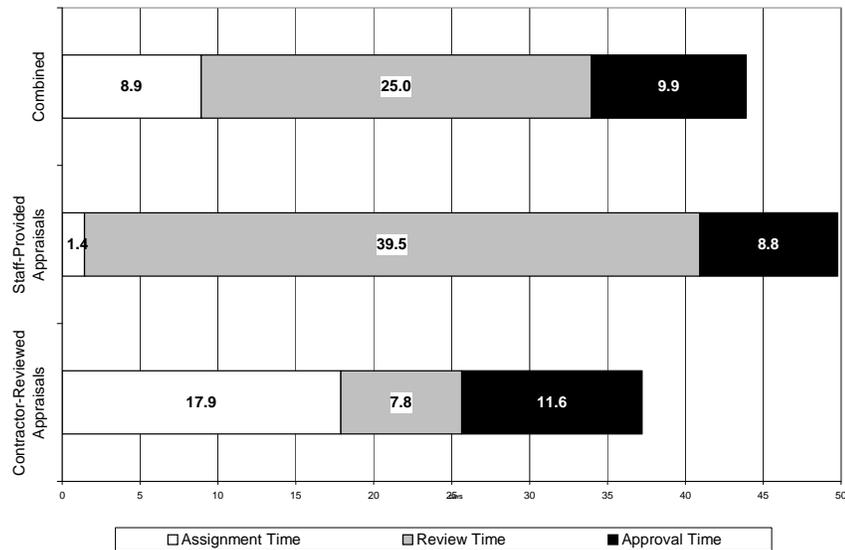
As mentioned above, the number of days from the date the appraisal report was completed to the date the appraisal report was accepted or rejected ranged from 2 to 162 business days (2 to 231 calendar days), with an average of 43.9 business days (63.4 calendar days).

We compared the timeliness of the appraisal review and approval process when a contractor performed the appraisal review to the timeliness of the process when in-house staff

performed the appraisal review. Our analysis showed that contract reviewers took from 2 to 13 business days (2 to 20 calendar days), with an average of 7.8 business days (12.2 calendar days), to do an appraisal review, while in-house staff took from 1 to 160 business days (1 to 229 calendar days), with an average of 39.5 business days (58.4 calendar days) to do appraisal reviews.

Exhibit 4 compares the total appraisal approval periods for in-house-reviewed and contractor-reviewed appraisals.

Exhibit 4 Comparison Of Average Appraisal Approval Periods In Business Days For Staff-Reviewed And Contractor-Reviewed Appraisals



Why Staff-Reviewed Appraisals Take So Long

We interviewed the Real Property Agent assigned to property appraisals to determine the reason why in-house staff took so long to review appraisals. According to the Real Property Agent, some appraisal reports may have sat on the staff’s desk unreviewed for several weeks because other assignments were given higher priority. At other times, staff may have put off completing the appraisal review because the staff member assigned to perform this task was out on sick leave or vacation. Thus, a lack of assignment priorities, staff availability, or supervisory monitoring caused in-house-reviewed appraisals to take too long.

The Division has maintained multiple means to monitor appraisal assignments, including the Division’s “Overview of

Work Requests” spreadsheet and the Supervising Real Property Agent’s White Board Log. Division Management counseled staff when they did not meet established guidelines. For the period we reviewed, these procedures appeared to be insufficient to ensure that staff met established guidelines. The total in-house average review period of 39.5 business days exceeds the Division’s appraisal standard, which allows in-house staff only “ten business days” to review property appraisals.

If staff were clearly assigned to perform appraisal report reviews and management monitored their performance to ensure adherence to their own ten-business days requirement, the Division could reduce its average time to review and approve appraisals from 49.8 business days to only 20.3 business days—a reduction of 59 percent.

We recommend that the Division:

Recommendation #1

Implement staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews. (Priority 3)

Potential Advantages Of In-House Appraisal Reviews

It should be noted that Division Management prefers to use independent contractors for appraisal reviews. According to Division Management, the outside contractors have demonstrated their ability to meet deadlines and produce cost-effective, comprehensive, and professional reviews.

However, based on our interviews with staff and surveys of other jurisdictions, in-house appraisal reviews also have the following potential advantages that can help the Division improve the timeliness of the appraisal review process:

- In-house staff is well qualified to perform appraisal reviews. It should be noted that the Division has maintained its status as a prequalified agency for Caltrans right-of-way work partly based on the qualifications and performance of in-house staff.
- The Division has implemented appraisal review tools, such as the appraisal review checklist, to help its staff perform appraisal reviews accurately and efficiently.

- The Division does not have to coordinate with the independent reviewer or administer a separate contract.
- In-house staff is already knowledgeable about the appraisal report and can communicate directly with the independent appraiser to resolve any appraisal review findings.
- Division Management has direct control over in-house staff and therefore can schedule the activities of in-house staff to ensure that staff completes the appraisal reviews on time.
- While conducting the appraisal review, the in-house staff can consult with Division Management to resolve questions and problems regarding the appraisal report, thus eliminating the need for a lengthy appraisal review report.

For the above reasons, it is our opinion that in-house appraisal reviews can also be effective and efficient.

It should also be noted that other jurisdictions rely on in-house staff to perform appraisal reviews. Specifically, of the 13 jurisdictions we surveyed, ten stated that they primarily perform their appraisal reviews in-house.

**Expected
Completion Date
For The Entire
Appraisal Review
Process**

The Division can help ensure efficient and timely appraisal reviews by establishing expected completion dates for the entire appraisal review process. The Division’s appraisal procedures require “ten business days” for the actual appraisal review that in-house staff performs and the Notice to Proceed specifies the expected completion dates for contracted appraisal reviews. Furthermore, the Master Appraisal Agreement states,

“CITY’s acceptance of Appraisal Report or demand for revisions shall occur no later than sixty calendar days after submission of the Appraisal Report. Failure of CITY to accept or demand revisions to an Appraisal Report within sixty calendar days shall be deemed an acceptance.”

However, in the Division’s Work Request form, Division Management does not complete the “Due Date” field. Thus, when staff receives an appraisal review assignment, the “Due Date” field is left blank and there is no documentation of the specific expected completion date on the Work Request form.

Conversely, the Division documents the expected completion date in the Notice to Proceed when the Division contracts out the appraisal review. To ensure that the independent reviewer completes the review on time, the Division has added a liquidated-damages provision in the contract, which states that the “Appraisal Reviewer shall be assessed liquidated damages of fifty dollars per day for each calendar day the appraisal review report is delinquent beyond the date specified...”

Thus, the Division documents and enforces target dates for independent reviewers, but not for in-house staff. The Division also does not document or enforce target dates for the periods before and after the appraisal review. In our opinion, the Division should indicate the expected completion date for the entire appraisal review and approval process in the Work Request form, whether the Division contracts out the appraisal review or assigns it to in-house staff.

Furthermore, even the guideline for the in-house appraisal review may be too generous for some appraisal reviews. According to the Real Property Agent assigned to property appraisals, straightforward appraisals may require no more than three hours to review, while more complicated appraisals may take up to two weeks. Thus, it is appropriate to specify the expected completion dates for individual work requests.

According to Division Management,

“To additionally identify that date within the Work Request form is not only redundant but may also be impossible to calculate because the Work Request Form is prepared at the initiation of an assignment prior to the preparation of a Notice To Proceed which, after discussion with the appraiser, includes a specific due date for the appraisal product and furthermore as noted within the Master Agreement for Appraisal Services the deadline for final acceptance is based upon the date of the Appraisal Report which may be prior to or after the due date.”

The benefit of identifying the expected completion date for the entire appraisal process is that staff becomes accountable for the entire process rather than for portions of it. Furthermore, by recording the date in the Work Request form, the Division documents the date the customer can expect the appraisal product. Should the Division find the need to change the

expected completion date later, the Division can do so by documenting the new date with a revised Work Request form.

We recommend that the Division:

Recommendation #2

Specify the expected completion date for the entire appraisal review and approval process in the Work Request form. (Priority 3)

The Division Does Not Competitively Select Independent Appraisers

As of April 30, 2000, the Division had Master Agreements with seven independent appraisers and one Master Agreement with an independent appraisal reviewer. As mentioned on page 11 of this report, the Master Agreement method that the Division implemented in 1998 has streamlined the preparation and processing of appraisal contracts. This contracting method can be further improved by using a formal competitive process in selecting independent appraisers.

The Division did not select the contractors based on a formal competitive process, such as a Request for Proposal (RFP) or a Request for Qualifications (RFQ). Rather, most of the independent appraisers who have Master Agreements for performing property appraisals for the City are contractors with whom the Division has had a long-time working relationship. The Division has also added some appraisers to the list within the past two years without the RFP or RFQ process.

City policy allows City departments to exclude from the RFP/RFQ process any contract under \$50,000. The City's Contract Administration and Management Guidelines provide the following requirement: "Conduct RFP/RFQ process for all contracts exceeding \$50,000, or as appropriate... For contracts between \$5,000 and \$50,000, conduct a competitive process..., if practicable."

The individual amounts of the Master Agreements for independent appraisers do not exceed \$50,000. Therefore, the Division is operating within City guidelines. However, the agreements, as a group, total more than \$300,000. In our opinion, the total amount of all the Master Agreements warrants a competitive selection process.

The main benefit of a competitive process is that it will allow the City to obtain suitable independent appraisal services at the

best possible prices. A competitive process will also provide additional opportunities for individuals to compete for government business.

Furthermore, sound government contracting practice emphasizes competition. According to the National Association of State Purchasing Officials, “In principle, competition is the centerpiece around which the public contracting process turns. The importance of competition demands that acquisitions be made under conditions which foster competition among a sufficient number of potential vendors representing a wide spectrum of products or services and marketplaces. This is a precept upon which purchasing statutes should be anchored.”

Our survey of other jurisdictions indicated that 12 of 13 jurisdictions surveyed follow a formal competitive process in selecting contract appraisers. For example, about three years ago, the Los Angeles Bureau of Engineering, which oversees the real estate function, issued an all-encompassing RFQ to firms who may wish to do business with the Bureau. Based on the responses to the RFQ, the Bureau established a list of qualified firms and set up an “umbrella contract” (Master Agreement). Approved firms then bid competitively on specific projects.

The City of San Jose has traditionally selected independent appraisers meeting the following four criteria:

- Hold Senior designation from a nationally recognized appraisal organization;
- Qualify as an Appraisal Expert Witness in Santa Clara County;
- Have provided the City of San Jose Department of Public Works Real Estate a sample of their work consistent with the standards required by the Division; and
- Have provided similar services for other government entities.

These qualifications for the City’s independent appraisers, along with the Division’s Master Agreement process, can be accommodated in a competitive contracting strategy using an RFP or RFQ process. Again, according to the National Association of State Purchasing Officials, “Procedural

requirements such as maintaining lists of qualified bidders categorized by classes of commodities and services and giving public notices of Requests for Bids and Requests for Proposals are helpful in obtaining competition. They need to be supplemented, however, with an understanding on the part of the purchasing staff that adequate competition means seeking responses from known qualified suppliers consistent with the size and nature of the intended purchase, while continuously seeking to add to the list of qualified suppliers by locating new sources.”

In our opinion, the Real Estate Division should establish a competitive strategy in selecting independent appraisers for future Master Agreements for property appraisals by using an RFP or RFQ process.

We recommend that the Division:

Recommendation #3

Establish a competitive process for selecting independent appraisers for future property appraisal Master Agreements. (Priority 3)

The Division Should Document That The Appraiser It Selected From The Master Agreement List Was The Lowest Bidder Or Provide An Explanation As To Why The Lowest Bidder Was Not Chosen

The Real Estate Division’s appraisal procedures provide the following guideline for selecting the actual appraiser who will perform a specific appraisal project:

“At the Agent’s discretion they may pick any of the Appraisers with whom the City has an existing Master Agreement.”

Based on the guideline stated above, the Division staff is not required to obtain competitive written quotes from the appraisers who have Master Agreements with the City, nor is staff required to choose the low bidder if it obtains such additional quotes. According to the Real Property Agent, he usually obtains informal quotes from more than one appraiser before making a selection. However, the Agent does not document the individual quotes from the appraisers or the justification for selecting a bidder other than the lowest bidder.

In our opinion, the Division should obtain at least two quotes when an appraisal project is let out to independent appraisers. The Division should also document these quotes, along with the justification for selecting an independent appraiser other than the low bidder.

According to Division Management, the Division has not received any complaints from the independent appraisers regarding the Division’s selection process. However, the absence of complaints in the past will not guarantee the same for the future. The benefit of obtaining and documenting more than one quote is that it provides evidence that the Division is vigilant in guarding against any favoritism in the selection of independent appraisers. According to the book, *State and Local Government Purchasing*,

“...(I)n its duty of representing the taxpayer’s interest, public purchasing must carry out its work under public scrutiny.”

We recommend that the Division:

Recommendation #4
Establish procedures that require staff to (a) take at least two quotes when letting out an appraisal project to an independent appraiser; (b) document individual quotes for appraisal projects; and (c) justify in writing the selection of an independent appraiser other than the low bidder. (Priority 3)

The Division Can Improve Its Documentation Of The Appraisal Process

Our audit disclosed four areas where the Division can improve its documentation of the appraisal process:

- The Appraisal Review checklist should be consistently applied;
- The Parcel Diary should be prepared for all appraisal projects;
- How the Division resolves the appraisal reviewer’s findings should be documented in the appraisal file; and
- The Division should complete the Appraisal Inventory spreadsheet.

The Division Did Not Consistently Apply The Appraisal Review Checklists

The Division requires appraisal reviewers to complete appraisal review checklists to ensure that appraisals are prepared in accordance with accepted appraisal standards and practices.

These checklists are useful tools for ensuring that the review covers all the critical items in the appraisal. The checklists also help make the appraisal review efficient and provide a ready reference when the reviewer meets with the independent

appraiser. Finally, the checklists document the actions performed during the review and the review findings the appraisal reviewer discovered.

Our review of appraisals the Division received from July 1996 through March 2000 disclosed that the appraisal review checklists were not on file in 28 of the 79 appraisal report files.

In our opinion, the Division should ascertain that the appraisal reviewers complete the appraisal review checklist for all appraisal reviews.

We recommend that the Division:

Recommendation #5

Ascertain that the appraisal reviewers comply with the requirement to complete the appraisal review checklists for all appraisal reviews. (Priority 3)

*The Parcel Diaries
Were Either Missing
Or Incomplete*

The Parcel Diary summarizes the activities of the staff in completing the assignment. The diary reflects the status of the agent's contacts and documents his or her conversations with all interested parties. We noted that the Parcel Diary was either missing or incomplete for 49 of the 79 appraisal report files.

The consistent use of a Parcel Diary should help in ensuring completeness of project files by serving as a chronological index of the documentation in the project file. Because the Parcel Diary includes the dates and description of the memoranda or forms that should be in the project file, a reviewer would know immediately if certain documents are missing from the file.

In our opinion, the Division should require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review.

We recommend that the Division:

Recommendation #6

Require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review. (Priority 3)

*How The Division
Resolves The
Appraisal
Reviewer's Findings
Should Be
Documented In The
Appraisal File*

We reviewed four appraisal files in which the appraisal reviewer did not recommend acceptance of the independent appraiser's report. In explaining his conclusion regarding the appraisal report, the appraisal reviewer listed a number of problems or deficiencies in the appraisal report. According to Division Management, the staff researched and resolved all of the problems and deficiencies the reviewer noted. However, we noted that the staff did not consistently document the resolution of the problems and deficiencies in the appraisal files.

In our opinion, the Division should require staff to document in the appraisal files how the staff resolves the appraisal reviewer's findings.

We recommend that the Division:

Recommendation #7

Require the staff to document in the appraisal files how the staff resolves the appraisal reviewer's findings. (Priority 3)

*The Division Should
Complete Its
Appraisal Inventory
Spreadsheet*

The Division maintains an Appraisal Inventory spreadsheet in a Microsoft Excel file to keep track of its appraisal reports. The spreadsheet contains information on the project name, address, owner name, assessor's parcel number, and appraisal report completion dates. Management and staff use this spreadsheet to locate completed appraisals in the Division's files and to summarize appraisal report production for management reports.

We tested the spreadsheet for completeness. Based on our test we found 107 incomplete entries, which constituted about 6% of all entries as of April 12, 2000.

In our opinion, the Division should complete the missing or incomplete entries in its Appraisal Inventory spreadsheet.

We recommend that the Division:

Recommendation #8

Complete the missing or incomplete entries in the Appraisal Inventory spreadsheet. (Priority 3)

Cross-training And Procedures For The Division's Title Report Services Were Insufficient

Before an appraisal is conducted, a preliminary title report has to be prepared to ascertain proper ownership of the property. A title report is basically a report on the condition of the ownership of a piece of property. In conducting research for a title report, a title company has to review all conveyances of the subject property, such as deeds or wills, and legal proceedings, including the names of the parties, the description of the land, and the documents to show the continuity of ownership. A title report is a critical prerequisite in the appraisal process because an appraisal will be of little value if an undisclosed defect exists in the title to the property.

According to Alfred A. Ring in his book, *The Valuation of Real Estate*, "For appraisal purposes, it must be assumed that the title to the subject property is free and clear, unless otherwise and expressly stated, and that no encumbrances restrict the full use of the property except those covered by zoning and deed restrictions as shown on public records."

To ensure that preliminary title reports are secured before the appraisal is conducted, the Division coordinates with the two title insurance companies that provide preliminary title reports to the City. According to the staff who is in charge of this function, he often has to research the title history of a piece of property the City wishes to acquire or dispose of to establish the property ownership and limits, so that the title company can confirm that the property exists and the title can be insured.

In addition, other City departments often request the Division to provide title services related to property boundaries, easements, and restrictions. Because determining ownership of a piece of property is a basic function of the Real Estate Division, this in-house title service is critical not only to the appraisal process, but also to the other Division projects.

The in-house title services the Division provides include:

- Chain of title research;
- Ownership information;
- Litigation support; and
- Coordination with the Survey Section of the Department of Public Works.

Our review of the Division’s files did not disclose any complaints regarding the Division’s title services. However, we found that the Division currently relies heavily on only one staff member to provide title services. In our opinion, should this staff member become unavailable, the Division cannot provide title services for itself or other City departments.

The staff member also has developed research techniques and established contacts with staff from other City Departments, the County of Santa Clara, and local title companies. However, this staff member has not documented his institutional knowledge. In addition, we learned that the Division has not developed performance criteria and qualifications for the title services function.

In our opinion, the Division should develop performance criteria and qualifications for City staff that are assigned to perform title services, document title services procedures, and assign and train backup staff to perform title services.

Accordingly, we recommend that the Division:

Recommendation #9

(a) Establish performance criteria and qualifications for staff assigned to perform title services; (b) write the title services procedures the Real Estate Division provides; and (c) assign and train backup staff to perform title services. (Priority 3)

The Division Is Finding It Difficult To Retain The Services Of Title Companies

The Real Estate Division works with only two title insurance companies because it has not been successful in retaining the services of other title companies. According to Division Management, this situation is a result of business conditions within the title community (an active real estate market and a reduction in qualified title examiners) which have caused title companies to focus their resources on work that is more profitable than City assignments.

The City uses the title companies for the following services:

- Preliminary Title Reports;
- Escrow Services; and
- Title Insurance.

In our opinion, because the City is limited to only two title companies, the City may not be able to obtain the most economical or efficient title services.

To verify whether the local title companies are indeed unwilling to compete in providing services to the City, we contacted eleven title companies. Of the eleven title companies we contacted, seven stated that they are not interested in performing title work for the City of San Jose. According to the title company representatives, the level of title search the City requires for public projects is too time-consuming to be profitable work for them. However, four title companies (including the two who already perform title work for the City) stated that they have access to a database of historical information and transactions of City properties and are therefore willing to perform City work.

While our survey confirmed that the majority of local title companies are unwilling to provide title services to the City, we did identify two additional companies that are willing to work with the City. Specifically, representatives at these title companies stated that they would be willing to work with the City if approached in the future. When we informed the Division of our findings, the Division provided us the following response:

“The Division had utilized the services of 1 of the 2 referenced title companies and found their work to be unreliable as to both quality and timeliness of response and that the 2nd referenced company had ‘split off’ from one of the two companies that the Division does utilize and in fact did not have the historical database as necessary for the title searches done on behalf of the City. The Real Property Agent II and Division Manager have together met with Title companies to ascertain their interest in providing services to the City and if not, why not. The Supervising Real Property Agent has separately met with Title companies not currently providing service to the City and concluded only 1 Title company not currently providing services to the City was both qualified to do so and willing to do so but only if the City would pay for them to hire 1 full-time Title Examiner.”

Based on the Division’s research, it is currently not feasible to add to the list of title companies with which the City deals.

However, since economic conditions may change in the future, the Division should periodically survey local title companies to attempt to expand its list of qualified title insurance companies that the City can use.

We recommend that the Division:

Recommendation #10

Periodically survey local title companies and attempt to expand the list of qualified title insurance companies the City can use. (Priority 3)

The Division's Filing System Caused Operational Inefficiencies

The Real Estate Division generates and maintains an enormous number of documents. A 1998 document inventory the Division conducted disclosed that, over the years, the Division had accumulated over 6,700 lineal file inches of documents stored in over 430 file drawers. These document files were located not only in the Division's Central Files, but also in the City's offsite storage and the Division staff's cubicles.

In addition to property appraisals, the Division's work includes property acquisition; property management (both "City as Tenant" and "City as Landlord"); property maintenance and disposition of City-owned properties no longer required for facility and/or operational needs; and relocation of business and residential tenants City projects displaced. These activities generate various types of documents, such as deed and title information, relocation plans, purchase or rental contracts, and property agent activity journals and summaries of negotiations. The documents from the Division's real estate transactions are of current importance not only to the Division, but also to other City departments that may need to know the ownership status, easement restrictions, or other information regarding specific properties or transactions. In addition, the Division's documents have historical value which may prove to be important sometime in the future. For example, the Division's files contain original documents dating back as far as the mid-1800's, describing the original downtown area.

Over a period of more than 20 years, the Division developed various filing systems. However, due to limited resources, none of these systems were successfully implemented and maintained. According to Division Management, "(N)one of these filing systems have adequately addressed the on-going and long term needs of the City to be able to provide adequate

security and an efficient retention and retrieval system.” Consequently, in 1997 the Division hired a consultant to conduct an analysis of its filing system to determine if there are problems associated with finding files.

The consultant identified operational inefficiencies resulting from an ineffective filing system. The consultant’s review included asking the Division’s Property Agents to find a sample of active files. The following are examples of the consultant’s findings:

- The agent went directly to *MetroScan* to look up the Assessor’s Parcel Number (APN). The APN was not in *MetroScan*, leading the agent to believe the APN had been changed. He looked up the APN in a database and spreadsheet. The agent found the number and project name in the spreadsheet. Once the agent found the project name, the agent determined that it was a Deed file on which he had worked, and which agent was in charge of the project. The agent in charge of the project file was not in the office. The agent looking for the file did not know where the file was located in the other agent’s cubicle and was reluctant to search through the cubicle. Therefore, the actual file was never located.
- The agent began by wandering through the cabinets in the Division’s Central Files, then looked in the Index of Files. Since the APNs are not recorded in the Index of Files, the agent began looking through his cubicle. After finding the file, the agent indicated that there would not be any record of the file in the Real Estate Division because it was a “miscellaneous project” that he had been told to handle personally.
- The agent went first to the Index of Files. The agent assumed that it was some sort of Water Pollution Control file. Again, since the APN is not logged in the Index of Files, the agent began looking through the Central Files, but was unable to locate the file in question.

In its final report the consultant noted that several of the Division’s Property Agents kept historical files in their cubicles for fear that they would get lost if stored in the Central Files. Therefore, such files were unavailable to other agents in the absence of the original agent.

In addition, the consultant found the following problematic factors contributing to the challenges associated with locating or retrieving Division files:

- Inconsistent project file identification;
- Inconsistent folder labeling and mis-labeling of folders;
- Inconsistent document order within file folders;
- Inconsistent implementation of filing procedures;
- Absence of a comprehensive divisional filing system;
- Inaccurate data entry; and
- Individual rather than divisional control of files.

From our discussions with Division staff, we learned that the current condition of the document files is about the same as in 1998. Our observations and experience in trying to locate the document files we needed for our review confirmed what staff told us. Initially, we could not find many of the real estate appraisal files or documents we requested for review. With the help of Division staff, we eventually found the files, however, certain processing information and documents (such as appraisal review checklists, Parcel Diaries, etc.) were still missing from 57 of 79 appraisal report files.

It should be noted that the Division has already made some improvements in its filing system. These improvements include:

- ***Upgraded filing supplies.*** The Division has expended \$3,300 to purchase new file folders and related filing supplies to upgrade and standardize its appraisal and property management filing systems.
- ***Written filing and labeling procedures.*** The Division has prepared and implemented written procedures that describe in detail the process and forms used in administering and filing property appraisals. As discussed on page 35 of this report, these procedures need to be formalized in the prescribed Department of Public Works format.

The Division has also purchased but not yet completely implemented a computerized File Locator Database that will help in locating files and linking different types of files. We discuss the File Locator Database in detail on page 31.

Records Retention System Budget Proposal For 2000-2001 and 1999-2000

For the 2000-2001 budget process, the Division submitted the following budget proposal for a records retention system:

- \$629,500 (one-time) to retain a consultant and fund associated supplies, software and equipment, and conversion of all of the Division's existing files to implement a comprehensive records retention and retrieval system.
- \$45,000 (on-going) for a Senior Records Clerk and supplies to implement and maintain a records retention and retrieval program.

The Division also submitted a similar budget request for \$645,000 during the 1999-2000 budget process. According to Division Management, the following are the objectives of the records retention system the Division needs:

- Help staff to efficiently organize and retrieve Real Estate files and the documents within the files.
- Allow management to track progress related to projects and prepare management reports for performance measurements.

In Appendix E, we compare the advantages and disadvantages of the proposed Comprehensive Records Retention and Retrieval System with the Division's current filing procedures and practices.

Follow-Up Of Organizations Who Considered The Proposed System

The consultant the Division hired to review its filing system also recommended the software that would be the basis for the Division's Records Retention and Retrieval System. In his report, the consultant listed five organizations (one private company and four California cities) as references for the recommended software.

We contacted the five organizations and learned that, although they considered the software the consultant recommended, none of them actually purchased the software and three of them have developed their own databases using MS Access. Another organization is also developing its own database, but using a different off-the-shelf software, Paradox. According to the organizations we contacted, the advantages of using off-the-shelf software are its low cost, flexibility, and ease of maintenance.

Finally, even the consultant himself admits that the software he recommended may now be outmoded. The consultant stated that, considering the pace of technological advances, the recommendation made over two years ago may no longer be the most appropriate for the Division. According to the consultant, the City will need to essentially start over in researching what is available now to fit the City's current requirements to manage and store computerized records.

**Computerized File
Locator Database
Program**

In January 2000, the Division contracted with a programmer-consultant, to create a computerized database program to help manage the Division's project files. The Division paid the consultant a flat fee of \$4,995.

The agreement required the consultant to perform the following services:

- Create a computerized database program utilizing custom MS Access 2000 templates regarding Real Estate Division files;
- Design a series of "screens" and "links" for different types of files (e.g.: Appraisal, Acquisition, City Owned Properties, Dedications, Deeds, Property Management, Relocation, and Title Services), and fields for each type that will allow users to view and search for files within each type;
- Design a series of "screens" and "links" utilizing up to six universal fields (e.g., Assessor Parcel Number) allowing users to view all files, regardless of type; and
- Design an "icon" which may be placed on the desktop of specified City employees so that by clicking on the icon, the user has direct access to the subject program.

The main feature that this program can contribute to the Division's filing system is the capability to cross-reference files from the Division's various functions. As designed, the File Locator Database program can also:

- Provide the ability to link the various Real Estate files, namely the Appraisal, Acquisition, City Owned Properties, Dedications, Deeds, Property Management, Relocation, and Title Services files;
- Automate the tracking of files from the different sections of the Division;

- Allow staff to search for files with the use of the database’s “word search” facility;
- Provide a basis for consistency and discipline through the use of database input templates in recording project information from the files; and
- Provide a database that the Division can use to summarize data for statistical and reporting purposes.

The consultant designed the File Locator Database as a relational database consisting of several component tables (one for each type of Real Estate file, such as Appraisal, Acquisition, City Owned Properties, Dedications, Deeds, Property Management, Relocation, and Title Services). The tables utilize up to six universal fields (such as Assessor Parcel Number). The universal fields serve as links to allow users to view all files, regardless of type, and summarize data for statistical and reporting purposes.

The Division Wants To Retain A Consultant And Hire Additional Staff To Determine Whether To Implement The File Locator Database Or An Alternate Program

The Division has not yet completely implemented the File Locator Database Program. To utilize the File Locator Database Program to the fullest, the Division needs to input the data for each type of Real Estate file. Using existing staff, Division Management estimates that it will take more than eight years to completely input its files.

We contacted the vendor and the City’s Information Technology (IT) staff and we learned that there may be ways to expedite the inputting of data into the File Locator Database Program templates. For example, the vendor or the City’s IT staff can assist the Division in importing the data that the Division has already entered in Excel spreadsheets into Access files that the File Locator Database Program currently uses. In fact, Division Management has already discussed this type of assistance with the IT staff. However, Division Management stated that significant clerical effort is still needed to “clean up” the imported data. Such clerical effort would include, for example, standardizing the nomenclature in street addresses, cleaning up any “bad” data that was originally in the Excel files, and inputting data missing from the Excel files.

Furthermore, Division Management is uncertain whether the File Locator Database Program is compatible with the City’s overall records management strategy and other City systems. The Division wants to retain a consultant for \$50,000 (one-time) and hire a Senior Records Clerk at \$47,721 (on-going) “to

assist in the analysis, design, vendor selection, system implementation, and ongoing maintenance of a record retention and retrieval system, which will be compatible with the City’s overall records management strategy and systems currently under development.” The Division expects to retain the same consultant that the City Administration is currently using to develop the Citywide automated records management system.

Finally, according to Division Management, the design of the File Locator Database Program currently does not provide the ability to identify specific documents for purging and lacks the statistical functions needed to support productivity tracking and management reports. However, because the File Locator Database Program is a Microsoft Access program, a knowledgeable programmer can upgrade the program to accommodate those functions.

In our opinion, the Division should augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City’s overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and statistical functions needed to support productivity tracking and management reports.

We recommend that the Division:

Recommendation #11

Augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City’s overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and the statistical functions needed to support productivity tracking and management reports. (Priority 2)

File Locator Database Program User Manual

We observed the Division staff test the File Locator Database Program using sample project files. We noted that the program appeared to be functioning as described in the contract. However, an important piece that is still lacking is a complete user manual. The Division can enhance the program’s usefulness and security by documenting the following in a user manual:

- Description of the system, including purpose, history, authorship, input sources, and reports generated;
- Inventory of equipment and software, including cost and warranty information;
- Description of database structure and field definitions, including documentation, testing procedures, and approval of database system changes;
- Statement of responsibilities and approval authorization, identifying the persons or positions responsible for specific activities and functions;
- Procedures and schedule for input, update, and maintenance;
- Audit procedures to ensure accuracy and completeness of entries;
- Backup and recovery plan, including schedule of periodic testing of the disaster recovery plan;
- Offsite storage of backup files;
- Description of system security, including a policy regarding the use and safeguarding of passwords; and
- Documented supervisory review to ascertain that specific activities and functions are performed as scheduled.

If the Division decides to enhance and implement the File Locator Database Program, it should write a user manual such as the one described above and conduct staff training on the use and maintenance of the database program.

We recommend that the Division:

Recommendation #12

**Write a user manual and conduct staff training on the use and maintenance of the File Locator Database Program if it decides to enhance and implement the Database.
(Priority 3)**

The Division Lacks Written Procedures And Those Written Procedures It Does Have Are Not In The Prescribed DPW Format

Written policies and procedures are an essential part of an organization's internal control structure. Policies are general statements that guide thinking and action in decision-making. Procedures detail the manner in which staff should perform their duties in implementing the policies. Procedures consist of a set of specific steps in chronological order and serve as a guide to action.

As we have discussed in this report, Real Estate Division procedures are lacking or inadequate in the following areas:

- Selection of independent appraisers (see page 18);
- Title services (see page 24); and
- Use and maintenance of the File Locator Database Program (see page 33).

In addition, we recommended improvements in the procedures for property appraisal review and administration (See page 12).

To be useful, these policies and procedures must be in writing, current, and complete. So that the Division will be consistent with Department of Public Works (DPW) practices, the Division should write the procedures in the format the Department uses. The DPW procedure format shows the following items:

- Purpose of the procedure;
- Background;
- Policy;
- Sequence of activities;
- Forms used;
- Definitions; and
- Department Head approval.

Policies and procedures (1) reduce the need for managerial direction of routine matters, (2) improve efficiency through standardization of actions, (3) facilitate the training of personnel, and (4) document institutional knowledge so that operations can continue in the absence of key employees. By writing the procedures and keeping them in manuals, the Division can make policies and procedures easily accessible to staff.

We recommend that the Division:

Recommendation #13

Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format. (Priority 3)

The Division Can Improve Its Project Tracking System

In his June 1999 budget memorandum, the Mayor directed the City Administration to implement Performance Based Budgeting. According to the Mayor, “We must do more for less. Performance Based Budgeting (PBB) systems stress results, measurement and management accountability for achieving specific service outcomes in terms of satisfaction, costs and quality of services.”

The Division has started to implement Performance Based Budgeting in its operations. The Division has held several training sessions on the City Administration’s Investing In Results program. However, in our opinion, the Division still lacks the means to collect the information required to make performance measurement meaningful and accountable. For example, the Division lacks a project tracking system to measure the timeliness of its services.

We noted that the Division maintains a Work Request File. This file shows the work request title, activity or function, work request number, requesting department, receipt date, file number, fund number, and status of request. However, we noted that the Division does not complete the Due Date field in the Work Request form.

As a result, the Division does not have the ability to effectively track how successful it is in completing work requests on time not only for property appraisals, but also other types of projects the Division undertakes.

In our opinion, the Division should develop a project tracking system to track target dates versus actual dates for appraisal projects, as well as other Division projects. Such a system will help the Division meet its target dates, be more responsive to its customers, and provide the Division with information for reporting and performance measurement purposes.

We recommend that the Division:

Recommendation #14**Develop a project tracking system that will track targeted and actual dates on a project by project basis. (Priority 3)****CONCLUSION**

Our audit of the Department of Public Works Real Estate Division disclosed that

- The Division can make the appraisal review process more efficient;
- The Division does not competitively select contract appraisers;
- The Division can improve its documentation of the appraisal process;
- The Division does not sufficiently cross-train staff to perform title report services;
- The Division's filing system caused operational inefficiencies;
- The Division lacks written procedures and those written procedures it does have are not in the prescribed DPW format; and
- The Division can improve its project tracking system.

The Real Estate Division can improve its administration of the real estate appraisal process by (1) ensuring that staff comply with the ten-business days requirement for appraisal reviews, (2) specifying the expected completion date for the entire appraisal review and approval process in the Work Request form, (3) developing a competitive process for contractor selection, (4) improving its documentation of appraisal reviews, (5) training backup staff to perform title report services, (6) continuing development of its File Locator Database Program, (7) developing written procedures, and (8) developing a project tracking system that will track targeted and actual dates on a project by project basis.

RECOMMENDATIONS

We recommend that the Real Estate Division:

- Recommendation #1** **Implement staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews. (Priority 3)**
- Recommendation #2** **Specify the expected completion date for the entire appraisal review and approval process in the Work Request form. (Priority 3)**
- Recommendation #3** **Establish a competitive process for selecting independent appraisers for future property appraisal Master Agreements. (Priority 3)**
- Recommendation #4** **Establish procedures that require staff to (a) take at least two quotes when letting out an appraisal project to an independent appraiser; (b) document individual quotes for appraisal projects; and (c) justify in writing the selection of an independent appraiser other than the low bidder. (Priority 3)**
- Recommendation #5** **Ascertain that the appraisal reviewers comply with the requirement to complete the appraisal review checklists for all appraisal reviews. (Priority 3)**
- Recommendation #6** **Require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review. (Priority 3)**
- Recommendation #7** **Require the staff to document in the appraisal files how the staff resolves the appraisal reviewer's findings. (Priority 3)**
- Recommendation #8** **Complete the missing or incomplete entries in the Appraisal Inventory spreadsheet. (Priority 3)**
- Recommendation #9** **(a) Establish performance criteria and qualifications for staff assigned to perform title services; (b) write the title services procedures the Real Estate Division provides; and (c) assign and train backup staff to perform title services. (Priority 3)**

- Recommendation #10** Periodically survey local title companies and attempt to expand the list of qualified title insurance companies the City can use. (Priority 3)
- Recommendation #11** Augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City's overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and the statistical functions needed to support productivity tracking and management reports. (Priority 2)
- Recommendation #12** Write a user manual and conduct staff training on the use and maintenance of the File Locator Database Program if it decides to enhance and implement the Database. (Priority 3)
- Recommendation #13** Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format. (Priority 3)
- Recommendation #14** Develop a project tracking system that will track targeted and actual dates on a project by project basis. (Priority 3)

Memorandum

TO: Gerald A. Silva
City Auditor

FROM: Rajeev Batra

SUBJECT: SEE BELOW

DATE: 03-06-01

APPROVED:

Kay Winer

DATE:

3/7/01

SUBJECT

THE ADMINISTRATION'S RESPONSE TO AN AUDIT OF THE PROPERTY APPRAISAL PROCESS OF THE DEPARTMENT OF PUBLIC WORKS – REAL ESTATE DIVISION

BACKGROUND

The Department of Public Works has reviewed the audit report. In general, the Department agrees with the findings of the audit. Specific responses to the recommendations are listed.

RECOMMENDATION #1 *Implement staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews.*

The Department concurs with this recommendation. As noted in the auditors report, appraisal products are reviewed by two methods: 1) Using contractual appraisal reviewers, and; 2) Using in-house staff. For those reviews that are assigned to in-house staff, the Department will work to ensure that reviews are completed within the ten-business day requirement. Staff will accomplish this by continuing to track individual assignments through use of the Division's "Master Overview of Work Requests" and supervisory staff meeting with the appraisal agent on a regular basis to review assignments and due dates for appraisal products.

RECOMMENDATION #2 *Specify the expected completion date for the entire appraisal review and approval process in the work request form.*

The Department concurs with this recommendation. For assignments that involve appraisal reviews, management will include an expected completion date on the work request form. This recommendation has already been implemented.

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CITY AUDITOR

RECOMMENDATION #3 *Establish a competitive process for selecting independent appraisers for future property appraisal Master Agreements.*

The Department concurs with this recommendation. Currently, the Department has active Master Appraisal Agreements with six California Certified appraisers and two review appraisers. The current agreements were entered into in FY 2000-2001 and vary in length from three to five years. Upon the expiration of those agreements and the identification and appropriation of funding for the next set of agreements for appraisal services, the Department will conduct a competitive process for selecting independent appraisers.

RECOMMENDATION #4 *Establish procedures that require staff to (a) take at least two quotes when letting out an appraisal project to an independent appraiser; (b) document individual quotes for appraisal projects; and (c) justify in writing the selection of an independent appraiser other than the low bidder.*

The Department concurs with this recommendation. The procedures used to administer the appraiser selection process will be modified to (a) ensure that a minimum of two quotes are taken for each appraisal assignment, (b) document quotes; and (c) staff will retain written notes as to the rationale of why an appraiser other than the low bidder is selected.

RECOMMENDATION #5 *Ascertain that the appraisal reviews comply with the requirement to complete the appraisal review checklist for all appraisal reviews.*

The Department concurs with this recommendation. Staff is required to assure that the appraisal review checklist is completed for each appraisal review. Supervisory staff will monitor appraisal files to ensure that the appraisal review checklist is included with appraisal reviews.

RECOMMENDATION #6 *Require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review.*

The Department concurs with this recommendation. Staff will be required to keep a parcel diary for each appraisal report and associated review. The Division's appraisal procedures will be revised to reflect this requirement. Supervisory staff will monitor appraisal files to ensure the appropriate parcel diaries are being kept.

RECOMMENDATION #7 *Require the staff to document in the appraisal files how the staff resolves the appraisal reviewer's findings.*

The Department concurs with this recommendation. Staff will be required to document how they resolve the appraisal reviewer's findings. Supervisory staff will monitor appraisal files to ensure the resolution of appraisal reviewer findings are documented.

RECOMMENDATION #8 *Complete the missing or incomplete entries in the Appraisal Inventory spreadsheet.*

The Department concurs with this recommendation. The Appraisal Inventory spreadsheet represents an active list of the various appraisal products that have been completed or are in progress. As part of the existing process for creating appraisal products and incorporating data regarding those products into the Appraisal Inventory spreadsheet, staff enters data into the spreadsheet at various points in the appraisal process. For a specific appraisal assignment, the time between the initial creation of a record in the spreadsheet and the last data entered for that record when the assignment is complete, could be (based on appraisal assignments the division has undertaken during the period covered by the audit) a duration of a few years. Consequently, at any given point in time prior to the completion of an active appraisal assignment, some of the data fields would be blank for those assignments which are in progress as the final data is not yet available. Staff will continue to monitor the Appraisal Inventory spreadsheet to ensure that missing or incomplete entries are completed subsequent to the availability of the necessary data.

RECOMMENDATION #9 *(a) Establish performance criteria and qualifications for staff assigned to perform title services; (b) write the title services procedures the Real Estate Division provides; and (c) assign and train backup staff to perform title services.*

The Department concurs with this recommendation. (a) Staff will develop performance criteria and qualifications for staff assigned to perform title services. (b) As part of the FY 2001-2002 Operating Budget process, the Department has requested the addition of an Analyst position to support the Real Estate Division. One of the functions that position will be responsible for performing is the analysis and development of written procedures and processes the Division is responsible for administering. (c) Expertise in title services is a specialized area of expertise that requires either prior professional experience or extensive in-house training to develop an adequate capability. The existing staff member who currently performs these services gained much of their experience in a professional capacity prior to employment with the City. The two ways to address this issue with in-house staff are to: (1) Hire someone with a level of existing experience either meeting or exceeding qualifications for this skill set, or; (2) Assigning and training an existing staff member to perform these services. Currently, all Real Property Agent positions allocated to the Real Estate Division are filled with existing staff. As part of the FY 2001-2002 Operating Budget process, the Department has requested the addition of a Real Property Agent position to support the Property Management services the Division provides. With existing staff fully allocated to their current responsibilities, the Department believes the most effective way to implement either of these approaches will be to use the vacancy that will be created from the addition of the requested position to either recruit for someone with title expertise, or to reallocate existing staff and train them in title services.

RECOMMENDATION #10 *Periodically survey local title companies and attempt to expand the list of qualified title insurance companies the City can use.*

The Department concurs with this recommendation. Staff will bi-annually conduct a survey of local title companies and attempt to expand the list of qualified title insurance companies utilized.

RECOMMENDATION #11 *Augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City's overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and the statistical functions needed to support productivity tracking and management reports.*

The Department concurs with this recommendation. As part of the FY 2001-2002 Operating Budget process, the Department has submitted an IT Business case which requests the addition of a Senior Records Clerk position and \$50,000 in one-time contractual services resources. As noted in that Business case, the purpose is to:

Provide the staffing and contractual service resources to analyze and develop a records retention and retrieval system for the Public Works Real Estate Division. This proposal is the first phase (Analysis & Design) of a two-phase implementation. The second phase of the proposal, anticipated for the following fiscal year, will request the resources necessary to implement the system.

The Key Functionality of the requested resources will:

Provide the necessary staffing to assist in the analysis, design, vendor selection, system implementation and on-going maintenance of a record retention and retrieval system, which will be compatible with the City's over-all records management strategy and systems currently under development. Additionally, consultants will do a complete analysis of how information is stored and accessed by staff and customers. The objective of the project is to improve the overall storage and access to information for increased productivity and streamlining of work effort. Products include: Recommendations on a system, Administrative implications of the recommendations, Staffing requirements, and RFP development. The second phase (implementation) would be subject to funding approval in subsequent budget cycles.

Should the requested resources be allocated as part of the budget process, staff will include within the scope of the services with the consultant, the assessment as recommended by the Auditor.

RECOMMENDATION #12 *Write a user manual and conduct staff training on the use and maintenance of the File Locator Database Program if it decides to enhance and implement the Database.*

The Department concurs with this recommendation. As noted in the Departments response to Recommendation #11, budget resources for FY 2001-2002 have been requested which, if approved, will result in an analysis of the File Locator Database Program and it's applicability to address the City's and Real Estate Division's records retention and retrieval needs. Should that analysis result in the enhancement and implementation of the File Locator Database Program, staff will take the necessary steps to write a user manual and train staff on the use and maintenance of the program.

Gerald A. Silva

03-06-01

Subject: Response to an Audit of the Property Appraisal Process of the Department of Public Works – Real Estate Division

Page 5

RECOMMENDATION #13 *Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format.*

The Department concurs with this recommendation. As noted in the Departments response to Recommendation #9, staffing resources in the form of an Analyst position have been requested to support the Real Estate Division. One of the anticipated roles the Analyst will perform is the analysis and development of policies and procedures for the Real Estate Division written in the prescribed Department of Public Works format. Should those resources be allocated, staff will be able to implement this recommendation.

RECOMMENDATION #14 *Develop a project tracking system that will track targeted and actual dates on a project by project basis.*

The Department concurs with this recommendation. Currently, the Division maintains a variety of spreadsheets it uses to track various projects and aspects of its work and assignments. However, these spreadsheets are not designed to track targeted and actual dates. As noted in the Departments response to Recommendation #9, staffing resources in the form of an Analyst position have been requested to support the Real Estate Division. One of the anticipated roles the Analyst will perform is the analysis and development of project tracking system that will also track targeted and actual dates for the Division's various work assignments. Should those resources be allocated, staff will be able to implement this recommendation.

The administration appreciates the work performed by the auditor.


Rajeev Batra
Acting Director
Public Works Department

022801

c: Del D. Borgsdorf
Kay Winer
Rick Doyle
Vic Pappalardo

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class¹	Description	Implementation Category	Implementation Action³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)

APPENDIX B
MANAGER'S BUDGET ADDENDUM:



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ralph A. Qualls, Jr.

SUBJECT: NO REAL ESTATE ADDITIONS

DATE: 05-01-00

Approved

Date

The purpose of this memorandum is to respond to the referral noted in the Mayor's 2000-01 Budget Message titled: No Real Estate Additions until Audit Completed.

REFERRAL DESCRIPTION

No additions in the Real Estate Division until the audit of that division is completed. Reevaluate the structure of the Public Works Department (focus on alternative service delivery methods).

BACKGROUND

On February 2, 1994, in response to a similar Council referral to evaluate the structure of the Real Estate Division, staff reported to the Council with the attached response and analysis (Exhibit A).

In May of 1999, the Division completed a two and one half-year reengineering effort with the goal of "improve the quality of acquisition and right-of-way maps and reduce the time to acquire right-of-way by 25 to 50 percent."

ACCOMPLISHMENTS

Since the Council referral response noted in Exhibit A, as reported in the adopted budgets and our records, the division has performed the following volume of transactions:

<u>Activity</u>	<u>FY</u>	<u>94-95</u>	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>
Appraisals		43	36	32	63	104
Acquisitions		40	29	32	36	47
Relocations		17	26	25	19	28
Title Searches		43	131	77	105	46
Deeds Recorded		45	70	57	77	81

A number of the recommendations for process improvements identified by the reengineering effort have been implemented and additional specific improvement efforts are on-going. Examples of process improvements which have been implemented include:

- ◆ **Periodic meetings with major clients:** Meetings with Agency, PRNS and Development Services staff have been occurring to monitor various real property transactions.
- ◆ **Title report services:** Requests for title services are now routinely tracked via a work request system. Staff has developed and actively maintains a positive working relationship with title companies who provide quality service to the City.
- ◆ **Contracting out for services:** The division has contracted out for appraisal services and used consultants for the preparation of relocation plans.
- ◆ **Appropriate use of technology:** All staff now have personal computers which are connected to the City network. This enables staff to communicate electronically, schedule meetings, and share documents and common data sources efficiently.
- ◆ **Staff Training:** On average, staff receives a minimum of 40 hours of training per year.
- ◆ **Appraisal contracting process:** The division has negotiated and executed on behalf of the City a variety of Master Appraisal Agreements with appraisers. These agreements have expedited the payment for appraisal services and reduced the staff time for contract administration and actual appraisal costs.
- ◆ **Use of standard form agreements:** In consultation with the Office of the City Attorney, a variety of standard form agreements have been developed.
- ◆ **Attorney services:** The division now has one attorney assigned to support most of the transactions performed by the division.

Since the February 2, 1994 report, the division staffing levels have been adjusted to match workloads. For the current fiscal year, seven overstrength positions have been approved for the Civic Plaza and one overstrength position for the Traffic Capital CIP implementation. A comparison of staffing levels is as follows:

<u>Position</u>	<u>As of 2/2/94</u>	<u>Current Base Positions</u>	<u>Temporary/ Overstrength</u>	<u>Program</u>
Administrative Officer	1	1		
Supervising Real Property Agent	2	2	1	Civic Plaza
Real Property Agent I/II	12	9	5	Civic Plaza & Traffic CIP
Staff Analyst	1		1	Civic Plaza
Secretary	1	1	1	Civic Plaza
Office Specialist	2	1		
Total	19	14	8	

The allocation of Real Property Agents by function has also been adjusted to reflect workloads as noted below:

<u>Functional Area</u>	<u>As of 2/2/94</u>	<u>Current Base Positions</u>	<u>Temporary Overstrength</u>
Appraisal	3	1	
Acquisition/Relocation	3	2	1
Property Management	2	2	
Surplus Property Sales	2	1	
Title/Dedications		1	
Civic Plaza			4
Assigned to Housing	1		
Reassigned Position	1		
Total	12	9	5

The funding for Real Property Agents by function has also been adjusted to reflect workloads as noted below:

<u>Allocation by FTE</u>	<u>As of 2/2/94</u>	<u>Current Positions</u>	<u>FY 93-94 BUDGET</u>	<u>FY 99-00 BUDGET</u>
Surplus Property Sales (GF)	1.0	1.0	\$ 68,148	\$ 84,008
Property Management (GF)	.40	2.0	27,234	168,017
Dedications/miscellaneous (GF)	.85	.65	50,487	54,945
Acquisition/Relocation (Capital)	9.75	5.35		
Traffic CIP (Temporary)		1.0		
Civic Plaza (Overstrength-RDA)		4.0		
Total	12.0	14.0		

Summary of additional accomplishments since the February 2, 1994 report:

- ♦ As noted in Exhibit B, the division has processed the sale or transfer of 49 parcels, which have resulted in revenue of approximately \$18,000,000.
- ♦ Completed a preliminary inventory of all City-owned property.
- ♦ The City has not been the subject of any inverse condemnation actions.
- ♦ Two alleyways were successfully closed.
- ♦ The division has maintained its status as a prequalified agency for CalTrans right-of-way work.
- ♦ Property transactions enabling Route 87, were completed on schedule.
- ♦ As noted in Exhibit C, the division has been responsible for more than doubling General Fund revenue (FY 98-99 vs. 99-00, \$190,501 to \$573,769) from the lease of City-owned property.
- ♦ Developed relocation plans that were unanimously: recommend by committees and adopted by the Council for the 4th Street Garage, Civic Plaza and Symphony Hall sites.

ANALYSIS

As reported to Council in the February 2, 1994 report, staff has continued to monitor the workload, resources and structure associated with the Real Estate Division and make recommendations regarding those issues to ensure the delivery of real property services for City activities. As noted in the accomplishments above, the division has reduced its base staffing levels from 19 to 14 permanent positions. To staff projects with a limited duration, the Department has routinely used a mix of temporary and overstrength positions. As noted above, 8 temporary or overstrength positions are allocated to the Real Estate Division and recommended for extension.

During that same period of time, the division has effectively carried out its Council approved mission of:

The mission of the Real Estate Division is to provide quality and cost effective real estate services in a timely manner to City Department and the Redevelopment Agency. These services are used to implement the Capital Improvement Program and for the benefit of the citizens of the City of San Jose. Services are performed while assuring the City's compliance with applicable local, state, and federal governmental laws and regulations. Services include appraisal, acquisition, surplus real property sales, property management, relocation, site feasibility analysis, and special projects. (Source: Adopted 1999-2000 Operating Budget)

Staff has reviewed the workload, resources, service delivery structure and quality of the Real Estate Division services. In particular, staff has considered contracting out for all real property services. Contracting out for all real property services is used by many agencies. Typically, those agencies are smaller than the City of San Jose in terms of their real property workload. Or, their work is of a temporary or project specific nature. In comparison, the City of San Jose has an on-going need for real property services of a volume sufficient to warrant permanent staff as an appropriate service delivery method. The benefits the City receives by using staff rather than consultant resources as summarized as follows:

- ♦ **Responsiveness**: City staff is able to respond to issues and requests for information immediately. Consultants must be contractually retained in order to provide services.
- ♦ **Knowledge & Experience**: City staff have the benefit of familiarity with City processes, policies, projects and property history which enable them to efficiently expedite transactions.
- ♦ **Cost Effective**: City staff does not have a profit motive to provide services. Rather, staff orientation is to represent the interests of the City and its citizens.

Based on that review, staff continues to find:

- ◆ The Real Estate Program provides a range of unique, necessary and important services that benefit the City's interests utilizing the extensive technical expertise and experience of its professional staff.
- ◆ The requirement to manage the City's real property interests will exist as long as the City does.
- ◆ The Real Estate Division should remain a distinct functional unit within the City organization with its employees located in close proximity to each other.

Consequently, staff has prepared and submitted budget change proposals for consideration as part of the FY 2000-2001 budget process to address workload and service delivery issues. Those key change proposals include the following:

- ◆ **Property Management**: Add 1.0 FTE Real Property Agent position, funded in the General Fund on an on-going basis to respond to the increased demand for and proactive marketing of revenue leasing of City-owned property
- ◆ **Traffic Capital Program**: Convert 1.0 FTE Real Property Agent position from temporary to permanent to support the increased workload associated with the Traffic Capital Program.
- ◆ **Civic Plaza Site Assemblage**: Continue for the second year of a two year project the 7 overstrength positions which are fully funded by the Agency to acquire property and relocate tenants associated with the Civic Plaza site.
- ◆ **Surplus Property Appraisals**: Allocate \$250,000 in General Fund resources to appraise 35 properties, enabling processing for sale.
- ◆ **Master Appraisal Agreements**: Allocate \$300,000 in capital funds resources to replenish Master Agreements established in FY 98-99.
- ◆ **Records Retention and Retrieval System**: Allocate resources to develop and implement a comprehensive system to maintain, protect, efficiently store and retrieve the City's real property records.
- ◆ **Process Improvements**: Add 1.0 FTE Analyst position to identify and implement service and process improvement measures for the division.

CONCLUSION

Staff agrees that the budget change proposals submitted as part of the FY 2000-2001 budget process should be fully considered upon the conclusion of the Audit of the Real Estate Division currently underway. We believe the results of the Audit will support the conclusions and staff recommendations made as part of the annual budget process. The budget change proposals submitted reflect staff analysis and recommendations concerning workload, resources and the most appropriate delivery method for City real property services.

HONORABLE MAYOR AND CITY COUNCIL

05-01-00

Subject: No Real Estate Additions

Page 6

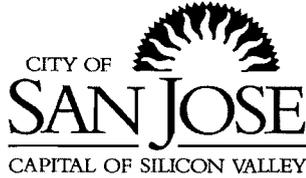
Please do not hesitate to contact me should you have any questions or require additional information.

RALPH A. QUALLS, JR.
Director, Public Works Department

042500

Attachments

APPENDIX C



Memorandum

TO: Nestor Baula

FROM: Steven Willis

**SUBJECT: REAL ESTATE DIVISION
ACCOMPLISHMENTS**

DATE: 05-16-00

APPROVED:

DATE:

The purpose of this memorandum is to respond to your request to provide a description of the Department of Public Works Real Estate Division accomplishments.

ACCOMPLISHMENTS

The volume of transactions the Division has processed over the last five fiscal years, as reported in the adopted budgets and our records, is as follows:

<u>Activity</u>	<u>FY</u>	<u>94-95</u>	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>
Appraisals		43	36	32	63	104
Acquisitions		40	29	32	36	47
Relocations		17	26	25	19	28
Title Searches		43	131	77	105	46
Deeds Recorded		45	70	57	77	81

A number of the recommendations for process improvements identified by an reengineering effort the division engaged in over the course of a two and a half year period have been implemented and additional specific improvement efforts are on-going. Examples of process improvements, which have been implemented, include:

- ♦ **Periodic meetings with major clients:** Meetings with Agency, PRNS and Development Services staff have been occurring to monitor various real property transactions.
- ♦ **Title report services:** Requests for title services are now routinely tracked via a work request system. Staff has developed and actively maintains a positive working relationship with title companies who provide quality service to the City.
- ♦ **Contracting out for services:** The division has contracted out for appraisal services and used consultants for the preparation of relocation plans.
- ♦ **Appropriate use of technology:** All staff now have personal computers which are connected to the City network. This enables staff to communicate electronically, schedule meetings, and share documents and common data sources efficiently.

REAL ESTATE DIVISION ACCOMPLISHMENTS

- ◆ **Staff Training:** On average, staff receives a minimum of 40 hours of training per year.
- ◆ **Appraisal contracting process:** The division has negotiated and executed on behalf of the City a variety of Master Appraisal Agreements with appraisers. These agreements were executed on August 25, 1998. The costs paid by the City on average per appraisal report are in excess of 45% less subsequent to the use of the Master Agreements than before (FY 97-98: average costs per report of \$6,262 versus FY 99-00 average cost per report of \$3,409). Average time of payment to appraisers has been reduced from 7 ½ months to not more than 60-days following City's receipt of appraisal report.
- ◆ **Use of standard form agreements:** In consultation with the Office of the City Attorney, a variety of standard form agreements have been developed.
- ◆ **Attorney services:** The division now has one attorney assigned to support most of the transactions performed by the division.

Since FY 94-95, the division staffing levels have been adjusted to match workloads. For the current fiscal year, seven overstrength positions have been approved for the Civic Plaza and one overstrength position for the Traffic Capital CIP implementation. A comparison of staffing levels is as follows:

<u>Position</u>	<u>FY 94-95</u>	<u>Current Base Positions</u>	<u>Temporary/Overstrength</u>	<u>Program</u>
Administrative Officer	1	1		
Supervising Real Property Agent	2	2	1	Civic Plaza
Real Property Agent I/II	12	9	5	Civic Plaza & Traffic CIP
Staff Analyst	1		1	Civic Plaza
Secretary	1	1	1	Civic Plaza
Office Specialist	2	1		
Total	19	14	8	

The allocation of Real Property Agents by function has also been adjusted to reflect workloads as noted below:

<u>Functional Area</u>	<u>FY 94-95</u>	<u>Current Base Positions</u>	<u>Temporary/Overstrength</u>
Appraisal	3	1	
Acquisition/Relocation	3	2	1
Property Management	2	2	
Surplus Property Sales	2	1	
Title/Dedications		1	
Civic Plaza			4
Assigned to Housing	1		
Reassigned Position	1		
Total	12	9	5

The funding for Real Property Agents by function has also been adjusted to reflect workloads as noted below:

<u>Allocation by FTE</u>	<u>FY 93-94</u>	<u>Current Positions</u>	<u>FY 93-94 BUDGET</u>	<u>FY 99-00 BUDGET</u>
Surplus Property Sales (GF)	1.0	1.0	\$ 68,148	\$ 84,008
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Traffic CIP (Temporary)		1.0		
Civic Plaza (Overstrength-RDA)		4.0		
Total	12.0	14.0		

Staff continues to monitor the workload, resources and structure associated with the Real Estate Division and make recommendations regarding those issues to ensure the delivery of real property services for City activities. As noted in the accomplishments above, the division has reduced its base staffing levels from 19 to 14 permanent positions. To staff projects with a limited duration, the Department has routinely used a mix of temporary and overstrength positions.

During that same period of time, the division has effectively carried out its Council approved mission of:

The mission of the Real Estate Division is to provide quality and cost effective real estate services in a timely manner to City Department and the Redevelopment Agency. These services are used to implement the Capital Improvement Program and for the benefit of the citizens of the City of San Jose. Services are performed while assuring the City's compliance with applicable local, state, and federal governmental laws and regulations. Services include appraisal, acquisition, surplus real property sales, property management, relocation, site feasibility analysis, and special projects. (Source: Adopted 1999-2000 Operating Budget)

Summary of additional accomplishments since FY 93-94 include:

- ◆ The division has processed the sale or transfer of 49 parcels, which have resulted in revenue of approximately \$18,000,000.
- ◆ Completed a preliminary inventory of all City-owned property.
- ◆ The City has not been the subject of any inverse condemnation actions.
- ◆ Two alleyways were successfully closed.
- ◆ The division has maintained its status as a prequalified agency for CalTrans right-of-way work.
- ◆ Property transactions enabling Route 87, were completed on schedule.
- ◆ The division has been responsible for more than doubling General Fund revenue (FY 98-99 vs. 99-00, \$190,501 to \$573,769) from the lease of City-owned property.

REAL ESTATE DIVISION ACCOMPLISHMENTS

- ◆ Developed relocation plans that were unanimously recommend by committees and adopted by the Council for the 4th Street Garage, Civic Plaza and Symphony Hall sites.
- ◆ Provided consistent cost effective real estate services to the City and Redevelopment Agency.
- ◆ Developed and implemented a successful workplan for the Civic Plaza site assemblage.
- ◆ Retained a consultant to provide an analysis and recommendations concerning the division record retention and retrieval requirements.
- ◆ Retained a consultant to develop and design an electronic file retrieval data base application.
- ◆ Retained a consultant to develop an inventory of all City-owned property.
- ◆ Developed and implemented an appraisal filing system and inventory.
- ◆ Developed and implemented a procedure for processing deeds received for dedications.
- ◆ Developed and maintained a work request system to track the division's assignments and workload.
- ◆ Established and maintained regular and on-going meetings with staff to monitor and manage the division's assignments.



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Administrative Officer

C: Kay Winer
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APPENDIX D

The Appraisal and The Appraisal Review

(Based on the Department of Public Works – Real Estate Division Procedures Manual)

The Real Estate Division administers the City's appraisal activities and ensures that the appraisals conducted on behalf of the City are performed in accordance with accepted appraisal standards. An appraisal or analysis of property value begins when Real Estate Division staff or an authorized representative from another City Department submits a request that the Real Estate Division establish the value of a piece of property that the City may acquire, sell, or lease.

The Division Manager or the Supervising Real Property Agent assigns the project to a Real Property Agent. The Real Property Agent first determines if the project requires a preliminary title report. If it does, the Division orders the preliminary title report.

The Appraisal Process

The Real Property Agent selects the appraiser. The Agent may pick any of the appraisers with whom the City has a "Master Agreement." The Agent telephones the appraiser, discusses the assignment, and requests a quote for the amount the appraiser will charge and a specific date for completion and submittal of the appraisal. After selecting the appraiser, the Agent prepares a Notice To Proceed and submits it along with the Appraisal Request and attachments to the Supervising Real Property Agent for his signature. The Agent then sends the Notice To Proceed to the Appraiser, gives a copy to the requester and files another copy in the Appraisal file folder.

The Agent ascertains that the appraisal is completed on time. Only the Supervising Real Property Agent may extend the due date. According to the contract, the "Appraiser shall be assessed liquidated damages of fifty dollars per day for each calendar day the Appraisal Report is delinquent beyond the date specified in the Notice To Proceed or a date extended for completion of appraisal services..."

When the appraiser completes the appraisal, he or she submits three copies of the appraisal report to the Division.

The Appraisal Review Process

The Appraisal Review is not an Appraisal; it is a critique of an Appraisal. The appraisal reviewer recommends (1) approval of the appraisal, (2) approval of the appraisal subject to edits or clarification the appraiser needs to provide, or (3) disapproval of the appraisal. The reviewer supports his or her conclusions with commentary as to data, reasoning, and conclusions contained within the appraisal, as well as completion of the Division's Appraisal Review and Report Format checklists. If the reviewer finds the appraisal report lacking in content, support, reasoning, or conclusion, the reviewer may elect to assume the capacity of review appraiser and supplement the areas considered lacking, including modifying the appraisal value. If so, the reviewer prepares a memorandum

clearly delineating the areas in question and providing full support and documentation for the reviewer's conclusions.

The Agent recommends to the Supervising Real Property Agent whether the Agent himself or herself should conduct the review or whether the Division should contract with an independent reviewer. The Supervising Real Property Agent decides whom to assign the review, based upon the Agent's existing workload, the complexity of the appraisal, or other relevant factors.

If the Agent conducts the review, he or she should complete it not more than ten business days from the receipt of the appraisal. The Agent discusses any issues for clarification or revision with the appraiser prior to submitting the review memorandum to the Supervising Real Property Agent.

If an independent reviewer is to conduct the review, the Agent is instructed not to read the appraisal so as not to have preconceived ideas as to its merits before receiving the independent reviewer's analysis. The Agent selects the independent reviewer in the same manner as when selecting the appraiser. The Agent contacts the independent reviewer and determines the cost of the appraisal review and the due date. The Agent prepares a Notice To Proceed and submits it to the Supervising Real Property Agent for signature.

When the independent reviewer completes the appraisal review, he submits three copies of the appraisal review report to the Division. Upon receiving the appraisal review, the Agent should read both the appraisal and the appraisal review. Within five business days, the Agent should prepare a memorandum to the Supervising Real Property Agent recommending approval or disapproval of the appraisal and the appraisal review.

Within five business days after receiving the Agent's appraisal review memorandum, the Supervising Real Property Agent should (1) approve the appraisal, (2) disapprove the appraisal, or (3) request the Agent to do additional research. If the Supervising Real Property Agent approves the appraisal, the Agent forwards the approval memorandum to the requester, identifying the appraised value and the date of value. If the Supervising Real Property Agent disapproves the appraisal, the Agent by memorandum so informs the requester.

Upon completion of the assignment, the Agent reviews the appraisal file to ascertain that it contains all the forms, reports, memoranda, and notices relevant to the appraisal. The Agent also reviews the computerized Appraisal Inventory Spreadsheet to verify that all fields have been accurately entered for the project.

APPENDIX E

Comparison Of The Current Filing Procedures And Practices With The Proposed Records Retention And Retrieval System

	Current Filing Procedures And Practices	Proposed Records Retention And Retrieval System
Description	The Division keeps separate Acquisition, Administrative, Appraisal, Deed, Property Management, Relocation, Surplus Property, and Title files. The most recent major development was the compiling and implementation of written filing procedures for appraisal reports and property management (City as Landlord, City as Tenant and Telecommunication leases) files. The Division has developed but not yet implemented a File Locator Database Program.	The main objective of the proposed records retention and retrieval system is to allow the Division to identify and cross-reference all active and archived files, as well as individual documents within the files. The comprehensive system includes a network server and computers; barcode collectors and readers; file cabinets, labels, and other supplies; and related database software and instruction and maintenance manuals. This system would require reorganization of Division files (such as creation of Project files which combine Appraisals, Deeds, Title Reports, Acquisitions, and other documents, rather than put them in separate files).
Written Procedures	The Division has developed written filing procedures for appraisal and property management (City as Landlord, City as Tenant and Telecommunication lease) files. The Division has also developed Excel spreadsheets for Acquisition, Appraisal, and Property Management files. It still needs to develop filing procedures and Excel spreadsheets for the Acquisition, Administrative, Relocation, and Title sections.	The current procedures and spreadsheets will be scrapped and replaced in the proposed system. The vendor will provide new written procedures for document bar-coding and database program maintenance, as well as file labeling, organization, and security.
Staffing	The Division uses existing staff and student interns on a “when available” basis to maintain the filing system. Division Management estimates that it will need a full-time Senior Records Clerk to implement and maintain files and input data into the File Locator Database.	The vendor will provide the staff to reorganize and input information from existing files into the database. Upon completion of the file reorganization, the Division will need one Senior Records Clerk to implement and maintain the records retention and retrieval program.
Implementation Timeline	At the current rate of progress in upgrading and maintaining the filing system, Division Management estimates that it will take more than eight years to complete the written procedures, reorganize the files, and input data into the File Locator Database and spreadsheets.	Division Management estimates that the proposed system will be in place and ready for use six months after the request for bids and selection of a vendor.
Additional Budget Appropriation Required	Division Management states that it will need additional funding for resources to import existing data in a timely manner in the File Locator Database and to update and maintain the database on an on-going basis.	A one-time cost of \$629,500 to complete the system and \$45,000 (on-going) for a Senior Records Clerk and supplies.