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An Audit of the General Land Office Asset Management Division

January 29, 2001

Members of the Legislative Audit Committee:

We have completed our audit of the General Land Office (Land Office) Asset Management Division and identified no issues that indicate the need for management attention. The Land Office has implemented previous State Auditor's Office audit recommendations regarding asset management. The Asset Management Division (Division) has well-defined policies and procedures for identifying unused or underused agency land, and for recommending highest and best use and implementing approved dispositions of such land.

The Appraisals and Asset Management divisions have taken positive action in regard to three previous findings:

- In fiscal year 1999, all 27 agencies reporting to the Land Office submitted timely, certified inventories.
- Appraisals of agency land report separate values for buildings, improvements, and land, allowing more accurate assessments of highest and best use of unused or underused tracts.
- The Division consults with all affected agencies as it is preparing the annual evaluation reports that recommend disposition of unused or underused land.

Although the Land Office develops recommendations for alternative uses of underused agency land, it does not currently solicit proposals for the use of such land in any public forum. Management is discussing establishing a comprehensive web-based database to advertise available land to state agencies and the public. This approach would more fully meet the requirement in the Natural Resources Code, Section 31.156 (see attachment), that the Division solicit proposals for underused land that would be of significant benefit to the State.

Additionally, the Natural Resources Code, Section 31.157, requires that the General Services Commission (Commission) "further evaluate the use of the [underused] property by another state agency or department." The Commission notes, however, that it currently reviews recommendations and informs the Land Office of needs for only Commission-owned facilities and agencies that seek Commission help in locating facilities. The envisioned Land Office web-based land database would provide a public information resource for matching available land with all agency needs statewide.

Management at both the General Land Office and the General Services Commission generally agree with this report's conclusions. The attachment provides applicable legislation and additional information on the Division's management of agency land. We appreciate the cooperation and assistance of Helen Young, Director of Internal Audit, and management in the Asset Management, Appraisals, Administration, and Information Systems divisions.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: General Land Board:
The Honorable David Dewhurst, Texas Land Commissioner, Chair
Mr. Louis Renaud
Mr. William Warnick
Mr. Jim Muse, Director, General Services Commission

SAO Report No. 01-016

Section 1:

Legislation Requires the Exploration of Alternative Uses for Unused or Underused Agency Land

Although the Asset Management Division (Division) of the General Land Office (Land Office) develops recommendations for alternative uses of underused agency land, it does not currently solicit proposals for the use of such land in any public forum. The Natural Resources Code, Section 31.156, requires that the Division provide recommendations for alternative uses of underused land and solicit proposals that would benefit the State. In addition, although Section 31.157 requires that the General Services Commission (Commission) evaluate the use of property by another state agency, the Commission currently reviews recommendations and informs the Land Office of needs for only Commission-owned facilities and agencies that seek Commission help in locating facilities. (See summaries of the relevant sections below.)

The Natural Resources Code, Section 31.156, states that Asset Management Division recommendations for the disposition of unused or underused land shall include an analysis of highest and best use and “recommendations for alternative uses of the property . . . that the Division shall deem to be in the best interest of the state. The Division shall solicit proposals and shall accept any unsolicited proposals about real estate transactions involving the property that would be of significant benefit to the state.”

The Natural Resources Code, Section 31.157, requires that the General Services Commission “further evaluate the potential use of [unused or underused] property by another state agency or department . . . and forward comments to the [General Land] Commissioner.”

Section 2:

A Summary of the Process of Developing and Implementing Recommendations to the Governor for the Disposition of Unused or Underused Land

History

Since the establishment of the Asset Management Division in 1985, the Division has annually budgeted the sale of an average \$4.7 million worth of unused or underused agency land. From 1985 through fiscal year 1998, it sold an annual average of \$9.9 million of agency land identified as unused or underused, for a total of \$69 million. Sales are still pending from fiscal years 1999 and 2000.

The Land Office bases its annual disposition recommendations to the Governor and the School Land Board on market interest or marketability. In its September 2000 *Recommended Transactions Report* to the Governor, the Land Office recommended

the sale of 37.2 acres (.13 percent) of the 28,000 acres identified as unused or underused. According to a Land Office summary on October 18, 2000, which was adjusted for acreage removed from the unused category, the total market value of 23,690 acres of agency land identified as unused or underused was \$143 million.

Since the Asset Management Division began recommending transactions to the Governor in 1995 (Senate Bill 1262, 73rd Legislature), the Governor has approved the sale of 75 percent of the recommended sites, or 52 percent of the recommended acreage. The Division is still marketing some acreage approved in fiscal years 1999 and 2000, but from 1995 to 1998, it sold 68 percent of the acreage the Governor approved for sale. This total is 14 percent of all recommended acreage, or 2.4 percent of all agency acreage identified as unused or underused in fiscal year 1999. (We use the fiscal year 1999 figure because in 1999, after the Division consulted with the Department of Criminal Justice, it removed more than one hundred acres of agricultural land from the underused category, reducing the statewide total unused or underused acreage to 27,556.96 acres).

Procedure for Bringing Underused Land to Market

Six linked processes lead to the disposition of a small portion of the State's unused or underused agency land each year:

- Inventory
- Appraisal
- Evaluation, identification of unused or underused land, and disposition recommendation
- Annual reports to the Legislature and the Governor
- Authorization of recommended disposition, either by legislative action or by gubernatorial non-veto of recommendations
- Development and marketing of approved tracts of unused or underused land

Inventory - Twenty-seven state agencies are required by law to maintain land inventories with specified information and to report and certify those inventories to the Land Office each year. In fiscal year 1999, all 27 agencies reported and certified their inventories on time. A summary of the most recent real property evaluation reports for all 27 agencies shows a total of 877,000 acres with a total market value of \$3.5 billion. The Land Office notes that occasionally an agency will fail to include a newly acquired tract in its annual inventory report, creating the possibility that the Land Office will not appraise that land during the agency's next appraisal cycle.

Land exempted from the reporting requirement includes land held by institutions of higher education, the Teacher Retirement System, the Employees Retirement System, and rights-of-way held by the Department of Transportation.

Appraisal - By law, the Land Office must appraise each reporting agency's land every four years and during the calendar year before the Sunset Commission's review for that agency. Currently, all Land Office appraisers are certified professional appraisers. For each tract, standard form appraisal reports provide separate market values for buildings, improvements, and land. Each report identifies highest and best use of that tract given market conditions, and identifies portions or entire tracts as unused or underused. Appraisal Division management reviews all appraisal reports and reconciles any inconsistencies or other problems, which occur in approximately 10 percent of the reports according to the director of the Appraisals Division.

Evaluation - At the conclusion of an appraisal cycle for an agency, evaluation staff members in the Asset Management Division request a written description from the agency of current and projected use of any acreage identified as unused or underused. Additionally, staff members consult with the agency while conducting an analysis of highest and best use of the agency's land, taking into account the agency's mission and organizational structure. The Division's *Real Property Evaluation Report* for that agency reflects agency consultation and participation in the analysis.

Report and Recommendations - An agency's evaluation report and the recommended transactions report to the Governor are sent in draft form to the General Services Commission (Commission), which evaluates the potential use of unused land by another state agency, and to the Department of Housing and Community Affairs, which reviews the possible purchase of unused land to use for public housing. The Commission currently reviews recommendations and informs the Land Office of needs for only Commission-owned facilities and agencies that seek Commission help in locating facilities. Through a memorandum of understanding, the Historical Commission also reviews all draft reports to identify tracts of unused land with historical or cultural value. The Sunset Commission's February 2000 report on the Parks and Wildlife Department (Department) recommends that the Department also review unused tracts for possible conservation and recreation value.

After taking into consideration all comments, the Land Office submits its evaluation reports to the Legislature and the Governor. These reports contain information about the tracts, how they are currently used, highest and best use, agency-projected use, the Land Office's evaluation analysis, and a recommendation for either (1) retention for current or projected use or (2) sale.

Authorization - The Legislature authorizes disposition of unused tracts recommended for sale. The Governor can veto recommendations within 90 days of submission. During that period, agencies may submit a projected use plan to the Governor.

Implementation - Once the land is authorized for sale, the Division's marketing staff begins certification and development of the approved tracts in order to bring them to market. Bringing a tract to market can take several years. According to Division staff, the Division is currently selling all underused land the market will bear, and additional resources will not result in the sale of more land. The State Auditor's

Office did not review or evaluate the Land Office's development and marketing processes to compare them with best practices.

Objective, Scope, and Methodology

Objective

Our audit objective was to gain an understanding of management controls over the management and disposition of agency land by the Asset Management Division and assess risk in those processes.

Scope

The scope of this audit included the processes used by the Asset Management Division at the Land Office to identify underused agency land, recommend the disposition of such land, and implement authorized recommendations.

Methodology

Our methodology consisted of gaining an understanding of the Agency's enabling legislation (Natural Resources Code, Chapter 31) and the legislative mandates for the Asset Management Division. We gathered relevant documentary information and testimony and performed analysis to determine if Division procedures had been implemented as prescribed by law. We conducted a detailed risk assessment based on any potential for noncompliance or fiscal inefficiencies. Our risk assessment identified no areas of high risk, resulting in the decision to limit our objectives to the objective listed above.

This audit was conducted in accordance with generally accepted government auditing standards. There were no significant instances of noncompliance with these standards.

The following members of the State Auditor's Office performed the audit work:

- Virginia Carmichael, Ph.D., MPAffairs, Project Manager
- Sharon Brantley, Assistant Project Manager
- Tracy Waite, Team Member
- Nick Villalpando, CPA, MPA, Quality Control Reviewer
- Julie Ivie, CIA, Audit Manager
- Craig Kinton, CPA, Director