

**City and County of San Francisco**  
**OFFICE OF THE CONTROLLER**

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**REAL ESTATE DIVISION:**

The Division Should Conduct Comprehensive Space Planning, Collect Late Fees, and Improve Its Internal Controls

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CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

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December 11, 2001

Audit Number 00008

Ryan Brooks, Director  
Department of Administrative Services  
City Hall, Room 362  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Brooks:

The Controller's Audits Division presents its report concerning the performance audit of the Real Estate Division (division) of the Department of Administrative Services (department) of the City and County of San Francisco (City). This audit also addressed citywide space planning, which is not currently among the division's functions.

This report concludes that the City does not conduct comprehensive, long-term space planning for city government needs, resulting in a short-term approach to city real estate decisions. To ensure that the locations for its departments are the most cost-effective and logical for serving the citizens of San Francisco, the report recommends that the Board of Supervisors (board) give the division the authority, responsibility, and funding with which to conduct comprehensive space planning. The report suggests that the division form a new unit responsible for conducting comprehensive space planning and that the Capital Improvement Advisory Committee review and approve the division's space-planning proposals. In addition, the division has not developed a strategic planning process that would strengthen the goals and programs of the division. The report concludes that the division has not charged late fees and interest to delinquent and non-paying tenants in city-owned real property, costing the City thousands of dollars. The audit also reports that the division's property records are not entirely accurate or comprehensive, and the division does not adequately track building service requests.

The division's response is attached to this report. The Controller's Audits Division will work with the division to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Edward Harrington  
Controller



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## ***EXECUTIVE SUMMARY***

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### ***Results in Brief***

The City and County of San Francisco (City) does not conduct comprehensive space planning for the city government's long-term needs, so the City cannot ensure that the locations for its departments are the most cost-effective and logical for serving the citizens of San Francisco. If the City formed a space forecasting and management unit within the Real Estate Division (division), the City could save money and improve customer service.

Before it accepts any new responsibilities, however, the division needs to improve some of its operations so that it makes sound decisions about the use of existing city property. The division should collect late fees and interest from private tenants in city-owned real property, and it should document its reasons for waiving any fees.

Although lease agreements allow the division to collect such penalties, the division does not charge or collect late fees or interest. These omissions cost the City an estimated \$15,100 per year and promote repeated late payments. In addition, the division needs to ensure that its records of city property are fully accurate and that it identifies all surplus and underused property. The division should also document the reasoning behind its decisions to lease building space as a tenant or as a landlord. Lastly, it should track its building maintenance requests and repairs so that it can assess how well it maintains buildings.

To structure its current work and to absorb responsibility for comprehensive space planning, the division also needs to develop a strategic plan with a results-oriented mission statement and with goals and objectives for all of the division's key functions, including space forecasting. Moreover, the division could improve its customer survey to learn how best to serve city departments. Finally, the division should create written policies and procedures that directly apply to its major functions.

### ***Background***

Part of the City's Department of Administrative Services, the division is responsible for the acquisition of all real property required for city purposes, the sale of surplus real property owned by the City, and the leasing of property required by various city departments. The division also provides property management services for miscellaneous

city departments and manages city-owned buildings such as 25 Van Ness Avenue and 1660 Mission Street. Additionally, the division completes market value appraisals of real property considered for sale or acquisition, and contracts for the demolition of obsolete city-owned buildings.

For fiscal year 2001-02, the division's budget is \$52,424,091, of which \$37,830,000 (73 percent) will go to the purchase of 30 Van Ness Avenue. The division gets most of its revenue from other city departments for which it provides services. Only \$355,554 of the division's budgeted revenues for this fiscal year come directly from the general fund. As of July 2001, the division has a budget for 26 full-time equivalent positions.

***The City Does Not Conduct Comprehensive Space Forecasting and Management***

The City's Board of Supervisors and mayor have not charged the division with the responsibility for comprehensive space planning. Indeed, no city agency has this responsibility even though other U.S. cities find space planning beneficial. Many other U.S. cities we contacted use comprehensive space planning to set policy, conduct forecasts, locate city departments, and manage city-owned property. Our audit concluded that if the division had the proper authority and funding, it would be capable of conducting comprehensive space planning for the City. Given its current members and authority, the Capital Improvement Advisory Committee is well suited to review the division's space-planning efforts.

***The Division Should Improve Some of Its Operations and Documentation***

The division does not adequately document certain decisions and processes. It does not charge or collect late fees and interest from tenants in city-owned real property even though lease agreements allow it, costing the City an estimated \$15,100 per year and promoting repeated late payments. The division does not document its reasons for waiving any fees.

The division's records of city-owned, city-as-landlord, and city-as-tenant real property are not completely accurate or comprehensive. The division does not make its own determinations of surplus or underused property in the City, which hinders the division's ability to manage the City's property and make recommendations regarding relocating or colocating city departments.



Although departments the division serves are generally satisfied with the division's building management services, the division does not track the building service requests it receives or how it responds to such requests. As a result, the division cannot ensure that it will continue to provide the highest quality building maintenance.

The division does not document its reasons for choosing which buildings the City should rent, nor does it document its rationale for choosing the rental rate it charges tenants in city-owned buildings.

***The Division Should  
Improve Its Management  
Controls***

The division lacks a comprehensive, strategic planning process that includes a strategic plan, a results-oriented mission statement, goals and objectives. Consequently, the division cannot realize the benefits of these management tools. In addition, although the division does report mostly accurate results for its performance measures, it could improve the satisfaction survey it sends to its customers. Furthermore, the division needs to create policies and procedures that directly apply to major division functions.

## **Key Recommendations**

To improve its operations, the City and the Real Estate Division should act on all the recommendations presented in this report, including the key recommendations outlined below:

*To begin providing comprehensive space planning for the City, the Board of Supervisors and mayor should give the division the authority, responsibility, and general fund money with which to conduct comprehensive space planning.*

*The division should form a new unit and call this unit the Space Forecasting and Management Unit. The division should then hire a space manager to direct the unit. The unit would be responsible for the following functions:*

- Developing space management policies and procedures.
- Forecasting the City's space needs.
- Identifying surplus and underused property.
- Producing collocating plans.
- Relocating city departments.
- Reviewing building management.

*The Board of Supervisors and mayor should authorize the Capital Improvement Advisory Committee to review and approve space-planning proposals before submitting them to the Board of Supervisors.*

*To improve its operations and documentation, the division should do the following:*

- Create a written policy requiring that all leases for private tenants state the amount and process for the division's charging late payment penalties and interest. The division should then routinely charge and collect these penalties and interest.
- Conduct a new inventory of all city property, improve its procedures for updating city property records, and enhance its system for identifying properties that are underused and surplus.
- Devise a uniform system of receiving and logging service requests, and file them in one location. The division should regularly analyze building service request data and make changes to building management services accordingly.
- Distribute a customer survey form to all city departments and divisions at least once a year, and

include questions designed to gauge the recipients' knowledge of or satisfaction with the quality of the division's services.

- Document the rationale for all city-as-landlord and city-as-tenant leasing rate decisions.

*To gauge how well it is accomplishing its purpose and to establish a comprehensive set of management tools, the division should take these steps:*

- Develop a strategic plan that will result in a comprehensive set of goals and objectives linked to the division's mission. The plan should bring together the division's vision, mission, goals, objectives, and performance measures, and the division should review the plan annually.
- Implement a valid methodology for the next customer survey it conducts.
- Create policies and procedures that directly apply to each of the division's major functions.

#### **Department Response**

The Real Estate Division substantially agrees with the report's conclusion that the division should be the lead agency for conducting strategic space planning in the City. However, the division fears that budget constraints will prevent it from assuming this role. In addition, the division states that it will be unable to serve this function without the active commitment and participation of city departments. The division's full response is attached to the report.



# INTRODUCTION

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The Real Estate Division (division) is part of the Department of Administrative Services of the City and County of San Francisco (City). Before the San Francisco Charter (charter) changed in 1996, the division was known as the Real Estate Department, and it reported to the City's chief administrative officer. However, the agency's name change did not affect its role and functions: The division continues to arrange real estate transactions and agreements between city departments and other entities. The Board of Supervisors and mayor approve many division transactions, including acquisitions, sales, and most leases of city property.

According to its mission statement, the division does the following:

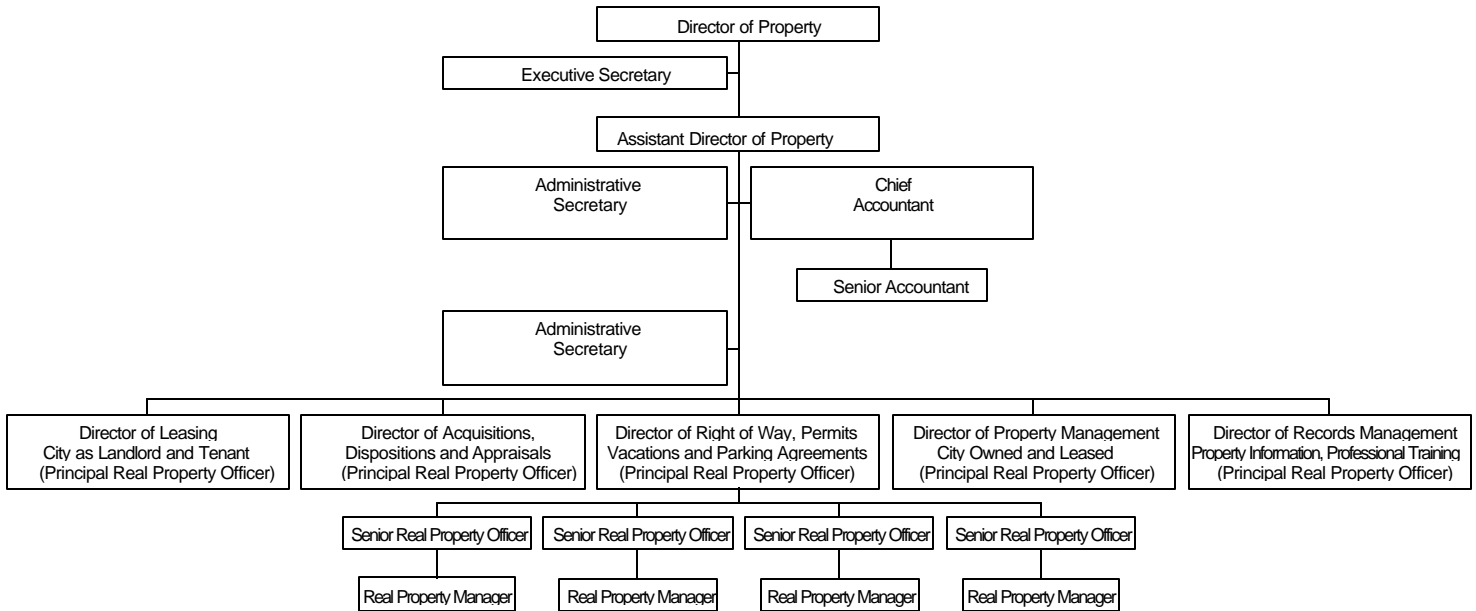
- Acquires all real property required for city purposes.
- Sells surplus real property owned by the City.
- Leases property required by various city departments.
- Performs appraisals of real property considered for city sale or acquisition.
- Contracts for the demolition of obsolete city-owned buildings.
- Provides property management services, such as the drafting of lease agreements, for miscellaneous city departments.
- Manages some city-owned buildings, such as 25 Van Ness Avenue and 1660 Mission Street.
- Collects rent from tenants housed in city-owned property.

The division's mission statement does not mention space planning, and the City has not charged the division with conducting comprehensive space planning for the City's long-term needs.

The division has a budget for 26 full-time equivalent positions. Overseeing the division are the director of property and the assistant director of property. The director of property reports to the director of the Department of Administrative Services. During this audit, both the director of property and the assistant director retired. The director of the Department of Administrative Services appointed a new director of property and an assistant director of property in September 2001. The division's organizational structure appears in Exhibit 1.

## Exhibit 1

### Organization of the Real Estate Division



For fiscal year 2001-02, the division's budget is \$52,424,091, of which \$37,830,000 (73 percent) is allocated for the purchase of 30 Van Ness Avenue. Only \$355,554 of the division's revenues comes from the City's general fund. Almost all of the rest of the division's revenues come from work orders, which are funded requests by other city departments that need the division's services.

As Exhibit 2 shows, the City owns almost 98,000 acres of real property, over 5,500 acres of which is within San Francisco.

**Exhibit 2**  
**Real Property Owned by the City and County of San Francisco**  
**Fiscal Year 2000-2001**

Departments, Divisions, and Commissions	Acres Within San Francisco	Acres Outside San Francisco	Total
Administrative Services			
Animal Care & Control	1		1
Purchasing	3		3
Real Estate	70		70
Airport		4,939	4,939
Consumer Assurance (Agriculture)	5		5
Art Commission	3		3
Asian Art Commission	2		2
Community College	71		71
Fire	37		37
Human Services	2		2
Juvenile Court	3	612	615
Library	8		8
Library/RecPark (Fuhrman Bequest)		1,472	1,472
Mayor	5		5
Parking & Traffic	5		5
Police	19		19
Port Commission	1,039		1,039
Public Health	88		88
Public Transportation	57		57
Public Utilities Commission			
Clean Water Program	122		122
Hetch Hetchy	68	22,534	22,602
Water	813	61,629	62,442
Public Works	156	2	158
Recreation and Park	2,516	784	3,300
S.F. Unified School District	429		429
Sheriff		158	158
Telecommunications & Information Services	3		3
War Memorial	8		8
<b>TOTAL</b>	<b>5,533</b>	<b>92,130</b>	<b>97,663</b>

Source: 2001 Property Book, produced by the Real Estate Division. Figures are rounded for this report.

## **Terms That Appear in This Report**

**Building management**—The oversight of building maintenance and operations.

**Capital planning**—In the context of real estate, a strategy or plan that evaluates the current and ongoing physical needs of properties and assesses the cost implications of those needs.

**Colocating**—The placement of two or more city agencies close together so that they can share common facilities. Example: Libraries, parks, and community centers are often located close together to make these community services accessible to citizens in one visit.

**Comprehensive space planning**—For the purposes of this report, forecasting the City’s work-space needs and managing city property to support the entire spectrum of programs within the City.

**Real property**—Land and generally anything else, including buildings, that stands on or is affixed to that land.

**Strategic plan**—An overall system or plan that directs an organization in achieving its mission and goals.

**Surplus property**—Real property in excess of the amount needed.

**Underused property**—Real property that is not being used to its full potential.

**Work order**—One city department’s request for service from another city department. The requesting department uses money from its budget to pay the servicing department.

## **SCOPE AND METHODOLOGY**

The purpose of this audit was to review the status of the City’s comprehensive planning for work space needed by city departments, to assess the overall performance of the main services and management controls of the division, and to identify areas in which the division can improve. This audit was conducted as part of the mandate of the Controller's Office to conduct performance audits of all city departments.

The audit reviewed the status of comprehensive space planning in the City by examining the current process and by interviewing the staff of several city departments. We did not assess how well departments are managing their spaces. In addition, we compared San Francisco’s space planning to that of 11 peer jurisdictions and identified the potential components of effective citywide space planning.



To gauge the effectiveness of the division in charging and collecting late fees and penalties from tenants housed in city-owned property, we reviewed the division's accounting statements and lease files for calendar year 2000, and analyzed the process by which the division charges and collects on overdue accounts. We interviewed division managers and staff about the division's process for maintaining property records, and discussed the division's plan to improve record keeping. Although we did not conduct on-site inspections, we created a property management survey that gathered 48 responses from city entities about the quality and type of property management and leasing services they received from the division. We used the combined response as an indicator of how satisfied tenants are with the type and quality of service that the division provides.

Finally, to determine whether the division is achieving its objectives, we evaluated the division's management controls—that is, the tools it uses to operate, including its strategic planning methods, policies and procedures, and performance measurements. The audit also reviewed recent budgets and other documents to assess the adequacy of the division's mission, goals, objectives, performance measures, and management reports



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# CHAPTER 1

## THE CITY WOULD BENEFIT FROM COMPREHENSIVE SPACE PLANNING

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### CHAPTER SUMMARY

**T**he City and County of San Francisco (City) does not conduct comprehensive space planning for the city government's anticipated needs for work space. Although some city departments estimate their work-space needs for their own purposes, no city agency (that is, department, commission, or board) regularly analyzes the City's overall needs for work space during current or future years. As a result, the City cannot ensure that its departments operate in the most cost-effective, logical locations to best serve the citizens of San Francisco. Moreover, the Real Estate Division (division), which currently acquires, sells, and leases the City's real property, is not authorized or required to conduct comprehensive space planning, nor does it receive funding with which to conduct such planning.

When we contacted other cities in the United States to learn how they perform citywide space planning, we found that the jurisdictions conduct space planning in different ways with varying degrees of regularity, complexity, and funding. Nevertheless, our interviews indicated that by planning for their future space needs, these cities are able to use their owned and leased property efficiently.

Because conducting comprehensive space planning would likely save the City money and enable the city government to better serve its citizens, the Board of Supervisors (board) and mayor should empower the division to form a new Space Forecasting and Management Unit (unit). This unit should have the responsibility, authority, and necessary funding with which to conduct comprehensive space planning. To ensure that the unit's proposals serve the best interests of the City, the board and mayor should assign the Capital Improvement Advisory Committee (committee) the responsibility for reviewing the unit's proposals. The committee has much expertise in evaluating similar proposals; it reviews and then advises the Mayor's Office on all capital improvement projects and long-term financing proposals.

To anticipate the City's future work-space needs, the unit will need accurate data on the City's current facilities and real property. However, the City's current system for tracking the condition of city facilities fails to provide such information. Therefore, the unit should work with appropriate city agencies to improve the existing inventory of city facilities.

## **BACKGROUND**

The term *comprehensive space planning* does not refer to a specific set of processes and procedures. For the purposes of this report, *comprehensive space planning* denotes all the analyses and planning efforts that a space-planning entity might conduct. Our discussion assumes that a space-planning agency should have various tools at its disposal and that it should pick the appropriate tools to match its jurisdiction's needs. We also assume that to perform comprehensive space planning, an entity must have complete, accurate information about current leased and owned properties and about the condition and cost of maintaining all city-owned facilities.

A planner for a city's future needs for work space might have the following responsibilities:

- Developing policies and procedures for requesting, disposing of, and using city property.
- Forecasting citywide space needs.
- Establishing standards for office space, including the amount of floor space recommended for different employee classifications.
- Describing the requirements city departments must follow in reporting how they use their space.
- Maintaining a comprehensive inventory of all city-owned and leased properties and facilities.
- Making recommendations for locating and relocating city agencies.
- Monitoring the condition of city facilities.

### **NO CITY DEPARTMENT CONDUCTS COMPREHENSIVE SPACE PLANNING FOR THE CITY'S FUTURE PROPERTY NEEDS**

Although some city agencies perform their own work-space planning, neither the division nor any other city entity plans for the City's overall space needs in the future. Most of the division's funding comes through work orders from city departments, and neither the Board of Supervisors nor the mayor has directed the division to conduct comprehensive space planning. Therefore, the division focuses on responding to specific requests from city departments rather than on assessing the City's overall space needs. In fiscal year 2001-02, the division will receive \$355,554 directly from the City's general fund, and the budget does not earmark these funds for comprehensive space planning. The division's former assistant director of property, who retired in May 2001, stated that the division uses its general fund money for services it provides to general fund departments, such as the Board of Supervisors and the Mayor's Office. The division's former director of property, who also retired in May 2001, stated that the division needs the appropriate authority if it is to conduct meaningful space planning for the City.

Several city departments and commissions—including the Public Utilities Commission, the Department of Human Services, and the Department of Public Works—plan for their own work-space needs. However, these space-planning efforts do not apply to other city departments or to the City as a whole.

Both the Planning Department’s chief of comprehensive planning and the acting director of the City Architect’s Office said that comprehensive space planning would be beneficial, but they cautioned that creating an effective space-planning entity would require a large initial investment. They stated that space planning requires a dedicated group with the right set of skills. Further, the acting director of the City Architect’s Office said that such a group should have expertise in real estate, space assessment, engineering, architecture, project management, finance, and facilities management.

### **UNLIKE SAN FRANCISCO, OTHER CITIES CONDUCT COMPREHENSIVE SPACE PLANNING SO THAT THEY USE RESOURCES EFFICIENTLY**

Most of the other cities we contacted forecast their future space needs for real property. Thus these jurisdictions have some information on which to base their decisions about buying, selling, or leasing property and about where to locate city facilities and departments for the greatest benefit. Unlike these cities that anticipate their future work-space needs, San Francisco is ill-equipped to make appropriate property decisions.

After gathering relevant information from the February 2000 issue of *Governing* magazine, we spoke to employees from 11 cities around the country to learn how these jurisdictions structure their comprehensive space-planning efforts. A monthly magazine that covers news and trends within state and local governments, *Governing* had reviewed and graded 35 cities in the categories of financial management, human resources, information technology, capital management, and managing for results. Although capital management differs from comprehensive space planning, we assumed that cities receiving high grades in capital planning would be more likely to conduct comprehensive space planning than would those receiving lower grades. We therefore developed a list of questions to ask the jurisdictions that received high grades in capital management. Of the 35 cities the magazine reviewed, 14 received grades of B+ or higher in capital management. San Francisco received a grade of C+. We interviewed employees of 11 of the 14 cities. In addition, we requested space plans and other appropriate documents from the 11 cities, which are Austin, Boston, Chicago, Honolulu, Milwaukee, Minneapolis, Phoenix, San Diego, San Jose, Seattle, and Virginia Beach (Virginia). (See the appendix for further information about *Governing* magazine and its report.)

Many of the cities we contacted recognize the benefits of comprehensive space planning. For example, Minneapolis found that implementing a full service facilities,

space, and asset management program would improve policy and decision making, enhance customer service, promote fairness and equity, reduce time spent on non-core functions, and promote more efficient use of financial resources.

Of the 11 cities we contacted, none provided comprehensive space planning in precisely the same manner. Some cities maintain departments that are responsible for conducting comprehensive space planning. Others have committees that consider space issues when the need arises. Some cities periodically hire consultants to perform forecasts or other specific space-related duties. We summarize below how six of the cities provide this type of planning:

- **Honolulu.** All city departments must prepare and submit to the design and construction department a six-year space plan estimating their growth and space needs. The design and construction department uses these plans to create a citywide plan, which forecasts space needs 6 to 10 years in the future.
- **Minneapolis.** The space and asset management department identifies surplus and underused property; forecasts future space needs; determines whether to buy, lease, or sell city property; examines colocating possibilities; maintains a facilities database; and manages the city's leases. A facilities, space, and asset management committee considers and recommends many of the policies and plans that the department creates.
- **Phoenix.** In 2000, the department of public works acted as the lead entity in developing a long-range space plan. The department asked all other departments to submit estimates of their projected growth and hired consultants to write the plan. The public works, budget, and telecommunications departments and the city architect participate in a committee that reviews facilities and space standards for the city.
- **San Jose.** Composed of staff from the city manager's office and from the finance, general services, and public works departments, the city's office-space committee considers and rules on department space requests, creates city space standards, and identifies surplus and underused property. In 1993, the committee issued a report forecasting city space needs through 2020. The committee also surveyed departments to compile an inventory of office space that the city owned and leased.
- **Seattle.** Representatives from the real estate services division, the city's budget office, the department of finance, and the architecture, engineering, and space-planning division are members of a comprehensive space-planning committee. The committee hires consultants to write 10-year municipal civic center plans, which include forecasts of space needs. Departments such as fire, police, utility, library, and recreation and park do their own space planning.

- **Virginia Beach, Virginia.** The city has used both city staff and consultants to create 10-year, written master plans for city-owned property within and around its municipal center. The plans address how to accommodate growth in city government, the use of surplus property, and provide recommendations for relocating and colocating city departments. After the city council approves the plan, the department of general services monitors departmental compliance with the plan and works with departments to monitor space and facility needs.

### **THE DIVISION SHOULD FORM A UNIT DEDICATED TO FORECASTING THE CITY'S SPACE NEEDS**

The benefits that 11 other cities derive from forecasting space needs indicate that comprehensive space planning would improve San Francisco's policy and decision making and thus save the City money and improve the services it offers citizens. According to the assistant director of property, the City currently has "millions of dollars tied up in property or facilities that we are not using efficiently." To use city property most efficiently and to anticipate the City's space needs, the division's director of property should form a new Space Forecasting and Management Unit (unit) headed by a skilled space manager.

After examining the best practices of the cities we contacted, we determined that San Francisco's new unit should perform the following functions:

- Develop space management policies, procedures and roles. The unit should create a document detailing the policies and procedures for requesting, disposing of, and using the City's office space. This document should also list the duties that various city departments are required to perform in managing the City's office space, such as reporting how they are using their current space. Before submitting it to the Board of Supervisors, the unit should first submit the document to the Capital Improvement Advisory Committee, which reviews and advises the Mayor's Office on all capital improvement projects and long-term financing proposals. If the Board of Supervisors and mayor decide to add the document's policies and procedures to the San Francisco Administrative Code, the unit should distribute the document to all city departments.
- Do space forecasting. The unit should forecast annually each department's and the City's space needs in upcoming years. To complete the forecast, the unit should refer to forms that department heads will complete annually about their expected staff and space needs. The unit may also conduct its own assessments of departments' space needs to verify the departments' estimates.
- Create space standards. The unit should establish office-space standards that specify the amount of floor space that the City will generally allot for different employee classifications and common areas. The unit will use such standards as

one basis for determining the amount of space a department requires.

- Assess surplus and underused property. The unit should require all departments to complete a form annually listing all city properties under their jurisdictions. The form should ask department heads to identify properties' use levels. In other words, the department heads will specify whether their properties are fully used, underused, used on an interim basis, unused (but will be used in future), or surplus. Throughout the year, departments will report within 30 days any changes in usage. The unit should use citywide office-space standards and inspections to verify the accuracy of reported building usage. The unit should maintain a database containing a complete record of all property that the City owns and leases, and information on the use level of all properties. As changes occur, the unit should prepare and update a list of surplus and underused city property. The unit's manager should develop procedures for maintaining accurate city property records.
- Develop a collocating plan. The unit should create and update annually a prioritized list of departments and divisions that the City should locate in the same building or in close proximity to one another. The plan should address whether to create district community centers that can provide key government functions for the City, and it should recommend possible collocations of community-based organizations that receive city funding.
- Plan for relocations. The unit should produce annually a written plan that recommends interdepartmental transfers and relocations of divisions and departments. The unit should submit the plan to the Capital Improvement Advisory Committee for review and approval.
- Participate in building management decisions. Although different departments will continue to provide building maintenance in the City, the unit's space manager should participate in decisions about building and facilities management throughout San Francisco. The space manager may recommend the restructuring of facilities management and submit suggestions to the Capital Improvement Advisory Committee.

### **THE CAPITAL IMPROVEMENT ADVISORY COMMITTEE SHOULD OVERSEE THE CITY'S COMPREHENSIVE SPACE PLANNING**

To ensure that the division's Space Forecasting and Management Unit reflects the interests of the City and its departments, the Board of Supervisors and mayor should authorize the Capital Improvement Advisory Committee, through the director of property, to oversee the division's efforts to manage city space. Although the board and mayor may wish to add new members to the committee to reflect the committee's new responsibilities, because the committee approves capital improvement projects



and long-term financing for all city departments, it is well suited to review the City's comprehensive space-planning efforts.

The San Francisco Administrative Code (administrative code), Chapter 3, specifies that the mayor's finance director is to chair the Capital Improvement Advisory Committee, and committee members are to include the following individuals or their designees: the city administrator, the controller, the director of the Department of Public Works, the director of the Planning Department, and the president of the Board of Supervisors. In addition, the chair of the committee is to choose two individuals who will serve two-year terms.

The administrative code also requires all departments, boards, agencies, and commissions to submit all proposed capital improvement projects and long-term financing proposals to the committee for review. According to the administrative code, the City cannot authorize funds for capital improvement projects or issue any long-term financing until the committee reviews the proposals and submits its recommendations to the Mayor's Office and to the Board of Supervisors.

#### **TO CONDUCT EFFECTIVE SPACE PLANNING, THE CITY MUST IMPROVE ITS MONITORING OF CITY FACILITIES**

The division does not maintain or have access to a complete inventory of city facilities and their conditions. As a result, any new space-planning agency, including the Space Forecasting and Management Unit that we propose, will be unable to consider such information as it makes decisions about the use of city-owned property and facilities.

The Department of Public Works assesses city facilities and enters the information into an electronic database. This Facility Condition Monitoring Program (program) is designed to maintain an inventory and assess the condition of permanent, city-owned facilities supported by the City's general fund; identify current and potential deficiencies within city buildings; develop cost estimates to address these problems; and assist departments in developing capital improvement plans to address facility repair and rehabilitation needs. The program aims to assess every five years each building paid for by the general fund and to assess every year at least 100 to 120 other facilities.

We did not test the accuracy or completeness of the program's database. Nevertheless, statements by various officials indicate that the database does not provide complete and up-to-date information about city facilities. According to an information systems manager at the Department of Public Works, the program only gathers information on facilities supported by the general fund. Further, he said that because the City does not adequately fund the program, the program only assesses these facilities every seven years. The Real Estate Division's assistant director of

property said that the City does not have a comprehensive inventory of the City's facilities, and the division's proposed real estate information and asset management plan contends that there is a critical need to create a new process of monitoring all city facilities. The City Architect's Office researched other facility monitoring systems and contracted with a company to conduct a complete assessment of the City's Hall of Justice. The firm, 3D/International, Inc., created a database that itemizes the cost of maintaining and repairing facilities in the Hall of Justice. The software provides cost estimates for making repairs now or in future years.

If information about all city facilities and their conditions were readily available, the division would be better prepared to make recommendations about the use of city property, including whether to fund deferred maintenance or to replace existing buildings. Although implementing a new system would be expensive because of the costs of purchasing the software, training city staff, and potentially hiring temporary staff to complete an inventory of city facilities, the City would likely save money over time because it could maintain its facilities more efficiently than it does now.

If the division—or any other city agency—is to conduct comprehensive space planning that will help the City operate more efficiently, it needs a reliable, up-to-date inventory of all property that the City owns and leases. Conversely, the current absence of an inventory that lists all city facilities and their conditions, combined with the City's lack of adequate property records in general (see Chapter 2), will hinder any efforts by the division to plan for the City's work-space needs.

## **RECOMMENDATIONS**

To allow the City to begin conducting comprehensive space forecasting and management, the Board of Supervisors and mayor should take the following actions:

- Authorize the Real Estate Division to form a Space Forecasting and Management Unit under the direction of a qualified space manager who reports to the director of property. The unit would be responsible for the duties outlined in this chapter.
- Authorize the Capital Improvement Advisory Committee to review the space management proposals that the Real Estate Division prepares.
- Modify Chapter 3 of the administrative code to add to the Capital Improvement Advisory Committee the Real Estate Division's director of property and the city architect, or their designees.

In consultation with the Real Estate Division, the Department of Public Works should:

- Consider ways to improve or replace its Facility Condition Monitoring Program so that the City can maintain a more complete, accurate inventory of its facilities.

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## CHAPTER 2

### THE REAL ESTATE DIVISION SHOULD IMPROVE SOME OF ITS OPERATIONS AND DOCUMENTATION

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#### CHAPTER SUMMARY

**B**efore it assumes any responsibility for comprehensive space planning, the Real Estate Division (division) should improve some of its operations to ensure that it collects all overdue fees owed the City and County of San Francisco (City), maintains complete and accurate property records, and documents its reasons for making certain decisions, especially those with fiscal implications. Because the division does not attempt to charge or collect late fees and interest from tenants in city-owned real property, the City loses an estimated \$15,100 a year in late fees, and tenants have no incentive to pay their rents on time. Some cases may warrant the division's waiving late fees; however, the division never charges these fees and does not document its reasons for eliminating late fees. Further, the division acknowledges that its records of property that the City owns and leases are neither completely accurate nor comprehensive, and these weaknesses hamper the division's efforts to identify available space for city departments and may lead the City to lease or buy buildings unnecessarily. The division is aware of the problems with the current system and has taken initial steps to improve the division's property records.

The division should also improve its record keeping in building maintenance even though our survey about the division's property and building management indicated that city departments in division-managed buildings are generally satisfied with the building maintenance that the division provides. We sent our survey to 87 city agencies and received 48 (55 percent) completed surveys. Ninety percent of survey respondents in buildings managed by the division said they were satisfied with their building's management, and this percentage meets the division's performance goal related to customer satisfaction. Nevertheless, the division's continued ability to provide service of the highest quality may be in doubt because the division does not adequately track the building service requests it receives or how it responds to such requests.

Further, the division should improve its record keeping when it arranges space for city departments in privately owned buildings or rents space to private tenants in city-owned property. The division does not document its reasons for choosing buildings or charging certain rents, leaving the division without a written basis for its decisions. Without documentation, the division is unable to demonstrate that it is acquiring economical rental rates on behalf of city departments.

## **BACKGROUND**

The City leases a small amount of its property to private tenants, including private companies, nonprofit organizations, and others. The San Francisco Administrative Code (administrative code), Chapter 23, authorizes and directs the division to collect all rents due under leases of city-owned real property except as otherwise provided by the administrative code or the San Francisco Charter.

The administrative code requires the director of property to maintain complete records of property that the City owns, and these records are to include the name of the department in charge of each parcel; the purchase price, if known; and a reference to all deeds or grants establishing the City's title. In addition, the administrative code stipulates that the director of property will report annually to the mayor, the controller, the director of the Administrative Services Department, and the Board of Supervisors the estimated value of each parcel. The director of property also must make recommendations to the mayor and to the director of the Administrative Services Department on the advantageous use, disposition, or sale of real property not in use.

The division maintains electronic records of real property that the city owns, that it owns and leases out to private tenants, and that it leases as a tenant from private landlords. From its records of city-owned property, the division produces an annual property book. The property book shows the locations of properties (either by address or by cross streets) owned by the City, the Community College District, and the San Francisco Unified School District. In addition, the property book indicates the city department with jurisdiction over each property, the property's square feet, the historical value of the land, the value of improvements, and block and lot numbers.

### **THE CITY IS LOSING REVENUE BECAUSE THE DIVISION DOES NOT CHARGE AND COLLECT LATE FEES AND INTEREST**

The division is causing the City to lose revenue because it does not charge or collect late fees and interest from city tenants that are delinquent in paying rent. In calendar year 2000, the division should have charged and attempted to collect an estimated \$15,100 from private parties occupying city-owned real property. The division does not include late payment provisions in its electronic database of properties the City leases to private tenants, and this omission makes it cumbersome to determine the precise amount overdue at any time.

***The Division Did Not Charge an  
Estimated \$15,100 in Late  
Penalties and Interest in 2000***

In calendar year 2000, the City did not receive thousands of dollars in late fees owed by its tenants because the division did not charge or collect these fees. The division collected rent or other fees from between 57 and 78 tenants and permit holders each month, with new charges each month ranging from \$249,565 to \$391,507. However, the division did not collect late penalties and interest from tenants with overdue rents. According to monthly reports that the division submitted to the Controller's Office, between 5 and 15 accounts were delinquent in their payments each month. The amount past due each month ranged from \$20,417 to \$77,135.

Most leases between the City and private tenants occupying space in city-owned real property include provisions for charging penalties and interest on delinquent accounts. The lease files we reviewed generally allow the division to charge a 6 percent penalty and 10 percent yearly interest on overdue amounts. However, according to the division's head accountant, the division did not charge or collect any late fees or interest in 2000. The head accountant said that when tenants are behind in their rent by two months, the division generally sends them a notice to vacate the property within three days. He said also that although the division threatens to charge penalties as a means to collect past due amounts, the division rarely charges or collects such fees and interest. According to the head accountant's statements, the division does not attempt to collect late fees because often there is an understandable reason for the late payment, such as if the tenant is experiencing financial difficulties or if a normally reliable tenant was late with one payment. He said that it is in the City's best interests for tenants to remain in their locations.

Our audit determined that the division could have charged an estimated \$15,100 in late fees and interest in 2000. We were unable to calculate how much of the \$15,100 the division should have collected and how much it should have waived. Nevertheless, the division's decision not to levy any late fees or interest has caused the City to lose money that it could have applied to maintaining city property or to funding division operations. By not enforcing late payment penalties, the division also did not provide tenants with an incentive to pay their rents on time. Moreover, the division should have recorded in writing any reasons for waiving late fees and interest.

***The Division's Process for Tracking  
Late Payments Makes Collecting  
Late Fees Difficult***

The system that the division uses to track payments from tenants has flaws and needs improvement. The division maintains a master list of all properties that the City leases to private tenants. Maintained in electronic database and spreadsheet formats, the list

does not show the late payment penalties and interest rates that the division may charge according to the provisions of each lease. Therefore, to determine applicable late fees and interest for delinquent payments, the accountant must look up the paper copy of the lease agreement and then calculate the amount of late fees and interest. This cumbersome process probably discourages the division from charging late fees and interest.

### **THE DIVISION DOES NOT MAINTAIN FULLY ACCURATE RECORDS OF ALL PROPERTY THAT THE CITY OWNS AND LEASES**

The division's records of property that the City owns and leases are somewhat inaccurate and limited, and the division does not have a process for correcting all inaccuracies. Moreover, the division does not assess whether properties under the City's jurisdiction are underused or surplus; instead, the division relies on departments to report to the division which of their properties are surplus. By not having reliable property records, the division is not as prepared as it could be to make decisions about leasing and buying property. If the division is making less than fully informed decisions, the City may be spending money unnecessarily on leasing or buying new property when existing city-owned property is already available.

#### ***The Division Does Not Keep Current Its Records of City-Owned Real Property***

Because the division produces and distributes just once a year a property book listing the City's real property, the property book does not always reflect the current status of the property. The existence of outdated information in the property book affects the division's ability to make the most appropriate and cost-effective decisions regarding city property. According to the assistant director of property, the property book is accurate when the division produces it, but the book—and the database that supplies the book's information—does not always reflect a property's current status because changes occur throughout the year. Thus, the division has difficulty when it considers whether to lease, purchase, or sell property. Without information on the status of the property, the City may lose money by leasing or purchasing a new property when existing city-owned property has available space.

Although it is aware of inaccuracies in its electronic database of city-owned property, the division has no process in place to check the accuracy of existing records. The division only updates its records of city-owned property when legislative action authorizes the acquisition, sale, or transfer of city property. In the absence of legislative changes to property ownership, any inaccurate data in the database remains inaccurate, and these errors or omissions can perpetuate the problems associated with incomplete information.

Although the administrative code requires the division to maintain complete records of city-owned property, the administrative code does not give the division the necessary authority with which to require all city entities to provide information about the use of facilities on property under their jurisdictions. Because it lacks this authority, the division does not have complete, accurate information on which to base property decisions.

The assistant director of property said that he hopes to establish a live update system that would enable the division to enter ownership changes as they occur. The division could post such a database on the World Wide Web and provide up-to-date property information to legislators, city departments, and the public. The assistant director of property has convened several meetings of city departments to discuss ways to implement such a system. However, without new authority, the division will have no way to ensure that departments supply information about properties under their jurisdictions.

***The Division Does Not Update Frequently Its  
Records of City-Owned and City-Leased Property***

The division also acknowledges that its records of property the City leases out to private tenants and its records of property the City leases from private landlords are not completely accurate. By not having fully accurate information about city property, the division cannot provide fully accurate information when the Board of Supervisors, city departments, or any other entity requests it. The division also cannot use information about city property to make appropriate decisions about purchasing, selling, or leasing property. Further, by not having complete information about property the City leases out to private tenants, the head accountant sometimes does not realize when tenants in city-owned property should be paying higher rents. Thus the City may be losing rental income.

The division's process of updating its property records database requires that the division's real property officers (agents) complete lease abstract forms for new leases and for existing leases that undergo changes. The division enters this information in its database and in a spreadsheet. Although the database contains information regarding the monthly rent, the rent per square foot, and the start and end date of the lease, the database does not include fields specifying applicable late payment penalties and interest. Furthermore, according to the assistant director of property, agents who manage leases do not always report changes, such as lease terminations or rent increases. The absence of such information prevents the division from ensuring that the City is receiving the proper amount of rent.

The division follows a similar process for updating its records of property the City leases from private landlords. As a result, the division does not know the exact rents that city departments are paying. The agent responsible for a lease completes and submits to the executive secretary a lease abstract form for all new leases and for each change to existing leases. The executive secretary and a real property officer enter the

information into the database and the spreadsheet, respectively. According to the assistant director of property, some city-as-tenant records are inaccurate because city departments pay their rents directly to the property owners, and the division never reviews the payments.

***The Division Does Not Assess  
Surplus and Underused Property***

The division does not conduct its own assessments of surplus and underused city property so the City may be spending money unnecessarily on leasing or acquiring new properties. The City may also lose money by not selling or leasing property that the City no longer needs. Although the division periodically produces a list of surplus property, it wholly relies on the information that city departments, agencies, and commissions supply. In addition, the division does not compile information about underused properties or space within city office buildings that the City could use for other purposes. Moreover, departments may not report all of their surplus and potentially surplus property because they often want to retain property under their jurisdictions. Because it does not compile a comprehensive list of all surplus and underused property, the division is not aware of all office space that could be used by city government or rented to private tenants.

Further, because the division does not maintain extensive information about the use levels for all city property, the division is not prepared to respond to some of the information requests by policymakers, city departments, and the public. For example, on March 26, 2001, the Board of Supervisors adopted an ordinance requiring the division's director of property to create an inventory of spaces within all city-owned and city-leased property that may be appropriate for temporary and occasional use by nonprofit arts and cultural organizations. Because the division's real property database does not contain such information, the division had to prepare and mail a questionnaire to department and commission heads asking about space they have available for nonprofit organizations. As of September 19, 2001, almost six months after the Board of Supervisors passed the original legislation, the division had not yet completed the inventory of available space. Not only did the division have to spend valuable staff time developing a questionnaire for city departments, but the Board of Supervisors has also had to wait close to six months for the information it requested. Even after the division finishes its inventory of real estate space, the list will probably be incomplete and may be inaccurate because it relies on information supplied by departments. Like the division's list of surplus property, the inventory is unlikely to include a full catalog of available space.

***The Division Acknowledges  
Shortcomings in City Property  
Records and Has Proposed a Solution***

The assistant director of property recognizes problems in the way that the City maintains city property records, and he has produced a plan to address many of the



problems outlined above. According to the assistant director of property, the division, the airport, the port, the Redevelopment Agency, the San Francisco Unified School District, the Recreation and Park Department, the Public Utilities Commission and other city agencies currently maintain separate databases of real estate information about property owned and leased by San Francisco. The assistant director of property's real estate and asset management plan proposes combining the information in these electronic databases to create a new real estate information system (system). This system is intended to unify all of these databases and make information about all city property and facilities accessible through an electronic map of the City maintained by the Department of Public Works. The division will be responsible for information on the real property owned and leased by the City. To develop the system, the division will conduct an inventory of property owned and leased by the City and then update its property database. To incorporate historical property records, the assistant director of property plans to purchase a high-speed scanner to scan historical property books into the system.

In addition, the assistant director of property has formed a committee to coordinate the new system and to recommend to the mayor and to the Board of Supervisors how best to implement a comprehensive system for real estate management. The committee members are discussing what property data their departments will provide to the division.

### **CITY DEPARTMENTS ARE SATISFIED WITH THE DIVISION'S MAINTENANCE OF CITY-OWNED BUILDINGS, BUT ITS RECORD KEEPING IS INADEQUATE**

Our property and building management survey showed that most city departments in the three city-owned buildings the division managed during our audit are satisfied with the maintenance of their buildings. However, the division lacks an adequate system of assessing how well it maintains buildings, thus jeopardizing its ability to maintain buildings effectively.

Although we did not test the quality of the division's maintenance of city buildings, we did conduct a survey to gauge city departments' satisfaction with the building and property management services that the division provides. We distributed the survey to city departments, divisions, and commissions. Survey recipients were city employees located in city-owned buildings for which the division provides building maintenance, in city-owned buildings for which the division does not provide building maintenance, and in privately owned buildings for which the landlord provides building maintenance. In the survey instructions, we asked that the survey be completed by the person who most often reports property or lease management concerns for the agency in that building. We mailed 87 surveys and received back 48 (55 percent) completed surveys.

Respondents expressed general satisfaction with the division's building management services in city-owned buildings. For 7 of 8 survey categories related to building maintenance, an equal or higher percentage of survey respondents located in buildings managed by the division (compared to other buildings) indicated that they were "very satisfied" or "satisfied." In questions about building managers, the division also received high marks. For 8 of 10 categories, 90 percent of respondents in division-managed buildings said that they "strongly agreed" or "agreed" with the positive statement listed. In city-owned buildings that the division did not manage and in privately owned buildings, no category received 90 percent agreement from respondents.

Nevertheless, tenants' expressions of satisfaction with building management cannot accurately measure the division's effectiveness in responding to tenants' requests. The division has no tool to gauge its performance, and each of the division's two building managers uses a different method for receiving and filing service requests. As a result, the division cannot quantify the number of service requests it receives, analyze the characteristics of requests, or determine the amount of time it takes to respond to requests. The division also cannot compare its effectiveness year to year or by building manager, and it does not have the capacity to compare the performance of contractors hired to fix problems, the kinds of service that different buildings need, and the solutions that work best. Finally, by not storing service requests in one location, division staff may have difficulty assuming temporary responsibility for a building when the regular building manager is unavailable.

### **THE DIVISION SHOULD DOCUMENT ITS RENTAL RATE DECISIONS**

The division should document the reasoning behind its decisions to lease on behalf of city departments particular spaces in private buildings or to charge particular rental rates in city-owned buildings. Because the division is not documenting its decisions, it cannot demonstrate that it is obtaining reasonable rates for city departments that must rent space for their operations. Cases for which such information is particularly valuable involve the division's decisions to secure and lease real property that is not the least expensive space available in the desired area because the requesting departments have special requirements. Such needs might include departments' requirements for large reception areas or for buildings that will accommodate large information systems centers.

In addition, while the division does use rental-rate benchmarks to which it can compare the rental rates that the division charges for city-owned property, the documentation of these benchmarks does not include narratives that explain the reasoning for choosing a particular rate. Such narratives could include descriptions of how the division arrived at the rental rates that the City charges in the buildings that it owns. For example, the division could document that it followed city policy in giving

a lower-than-market rate to a nonprofit organization, or that it negotiated a higher rental rate with a private company.

We believe that the City should expect the division to document the reasons behind major decisions involving the commitment of city funds for years in the future. Currently, the division is unable to document why it entered into lease agreements and why it conducted property transactions. Most of the jurisdictions we contacted keep this kind of documentation. Specifically, four out of the five jurisdictions we interviewed use some form of documentation to record their leasing rate decisions.

## RECOMMENDATIONS

To improve its operations and documentation, the Real Estate division should do the following:

- Create a policy for handling delinquent payments from private tenants. The policy should require that the division do the following:
  - State in each lease the amount and process for charging late payment penalties and interest. The division should document any exceptions granted by the director of property.
  - Charge and collect late payment penalties and interest routinely and according to lease provisions unless tenants have received written waivers signed by the director of property.
  - Direct the head accountant to notify delinquent tenants when they are 30 days late in their payments and to specify the late payment penalties and interest added to the accounts.
  - Include in the electronic records for properties that the City leases to private tenants two additional fields stating the amount of the late payment penalties and the interest rate that the division should charge for each lease.
  - Conduct a new inventory of all property that the City owns and leases from private owners.
- Improve its procedures for updating city property records and update its electronic records regularly. As part of this process, the division should determine the proper amount of rent that all city tenants should be paying and develop a system to ensure that the division knows the schedule for changes in rents.
- Ask the Board of Supervisors and mayor to give the division the authority to ensure that all city departments supply information about properties under their jurisdictions. The division should revise its system for identifying properties that are surplus and underused. The division should update and post the list on the division's Web site as changes occur.
- Devise a uniform system for receiving and logging building service requests, and file these requests in one location.
- Analyze the data for building service requests and change building management services accordingly.

- Distribute at least once a year a customer survey form to all city departments and divisions that use the division's services. Include questions designed to gauge the recipients' knowledge of or satisfaction with the quality of the division's various services. The division should then use the list to gauge the division's performance and to make appropriate changes.
- Ensure that it uses these methods to document its leasing rate decisions:
  - Create a documentation process or other support that will state the reasons behind the division's decisions to lease particular privately owned buildings over other available buildings and that will explain why the rental rate is reasonable.
  - Record the reasons why rental rates that the division negotiated for city-owned buildings are reasonable.

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## **CHAPTER 3**

### **THE REAL ESTATE DIVISION SHOULD IMPROVE ITS MANAGEMENT CONTROLS SO THAT IT CAN BETTER FULFILL ITS MISSION**

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#### **CHAPTER SUMMARY**

**N**ot only does the Real Estate Division (division) of San Francisco's Department of Administrative Services need to improve some of its operations, but it also needs to develop a strategic plan that encompasses a results-oriented mission statement as well as goals and objectives that support that mission statement. This comprehensive strategic plan should improve the division's overall management tools and enhance the way it administers property owned or leased by the City and County of San Francisco (City). Moreover, if the division is to become responsible for anticipating the City's long-term needs for work space, the division's strategic plan should outline the goals, objectives, and desired results for the space-forecasting program. Currently, the division reports mostly accurate results for its existing performance measures, but it could improve the adequacy of its customer survey. The division also needs to make its policies and procedures apply directly to major division functions, such as lease agreement procedures and delivery of property management services. Further, the division should ensure that its staff follows these policies and procedures.

#### **BACKGROUND**

To enhance an organization's ability to succeed, its management can develop detailed processes to guide staff. Tools managers use to control the functions of their organizations may include policies and procedures, forms, records, performance standards for employees and for the organization as a whole, budgets, and management information reporting. Such management controls support the elements of a strategic plan, thus enabling an organization to achieve its goals and to minimize risks.

According to Section 88.2 of the San Francisco Administrative Code (administrative code), the San Francisco Performance and Review Ordinance of 1999, each city department must develop goals and performance measures to better address public needs. The ordinance states that each department's articulation of its vision, mission, and goals will improve program efficiency and effectiveness as well as help the Board of Supervisors make policy and spending decisions.

The ordinance also states that the City is seriously disadvantaged in its efforts to improve program efficiency and effectiveness because of insufficient articulation of the vision, mission, and goals of programs. Consistent with this ordinance, the San Francisco Charter, Section 9.114, requires that each department develop an annual budget that contains, among other things:

- The overall mission and goals of the department.
- Strategic plans that guide each program or activity.
- Productivity goals that measure progress toward achieving strategic plans.

The administrative code, Section 3.5, further requires that each department do the following:

- Identify policy outcome measures that reflect the mission and goals of the department and that management can use to gauge progress toward attaining these goals.
- Develop and review annually a three-year strategic plan to reflect policy outcomes from the operations of the department that are consistent with the then-approved budget.

Although these requirements do not apply to individual units or programs within city departments, the division would benefit if it developed its own strategic plan because its mission is distinct from those of other units within the Department of Administrative Services, and the plan would express the major results sought by the division. Undoubtedly, each city program or unit, including the division, could benefit from establishing its own mission statement, goals, objectives, and performance measures.

### **A STRATEGIC PLAN LINKS AN ORGANIZATION'S VISION, MISSION, GOALS, AND OBJECTIVES**

A model strategic plan begins with an organization's vision for the future, the organization's mission, its goals, the objectives that flow from those goals, and the performance measures that will indicate the organization's progress toward accomplishing the objectives. The plan should directly connect the goals and objectives to the organization's mandated duties. For the division, such duties—as expressed in the mission statement—include building acquisitions, sales, leasing, and property management services.

Using authoritative literature and the Controller's Performance Measurement Instructions, we developed a model of the strategic planning process, which Exhibit 3 on the following page displays. Beginning with the vision statement, each step in strategic planning is essential to the step that follows. A vision statement consists of values and ideals on which the organization bases its practices. For example, a municipal real estate unit's vision of its role should focus on ensuring that city departments are housed in property that adequately allows the departments to fulfill their missions. Reflecting the vision and intent of the organization, the mission statement clarifies the organizational purpose without providing details of methods for achieving it.

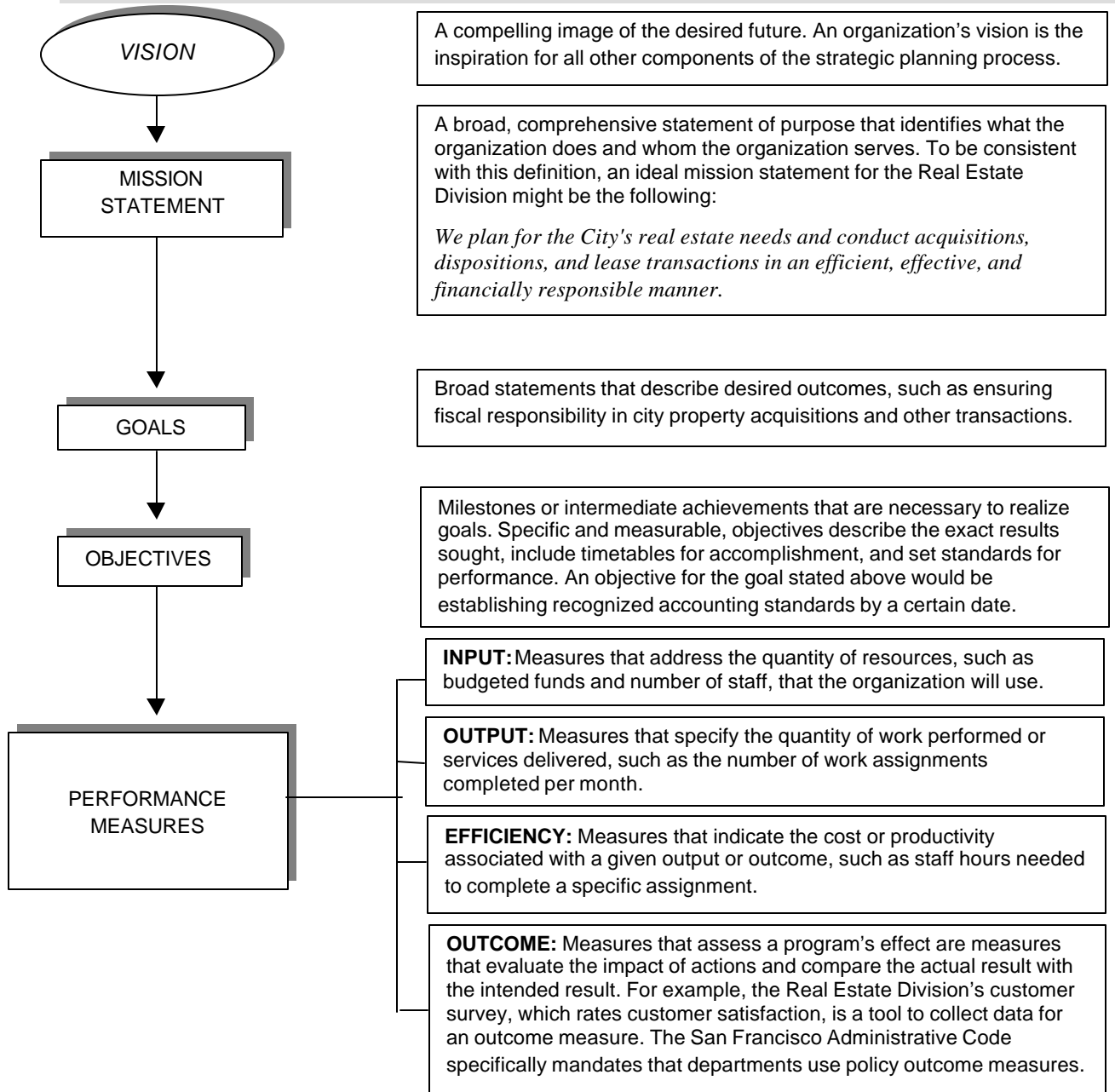
The strategic plan's goals and objectives specify how an organization will accomplish its mission, while performance measures specify how well, or to what degree, it did so. Goals identify the general changes or results that the organization must achieve to fulfill

its vision and carry out its mission. Goals can be internal or external to the organization, depending on the result desired. For example, in the Real Estate Division, an internal goal may be for the division to respond to all departmental work orders within a specified time, while an external goal may be for staff to create a comprehensive public inventory of city-owned property. After an organization determines its goals, it needs to develop specific activities—expressed as objectives—to achieve the goals. For example, under the goal of responding to work orders, an objective would be for the division to establish a procedure for collecting and monitoring completion of these requests. Finally, organizations must establish specific ways to measure its performance in fulfilling its mission. To this end, the division could create and use performance measures that reflect the extent to which the division meets its objectives and goals for the fiscal year.

### Exhibit 3

## A Standard Strategic Planning Process for Organizations

An essential part of quality management, this future-oriented process involves diagnosis of problem areas, the setting of objectives, and the development of strategy. This process relies on careful consideration of an organization's capacities and environment and leads to significant decisions about allocation of resources. Strategic planning emphasizes effective uses of resources to achieve meaningful results.





## **THE DIVISION'S CURRENT MISSION STATEMENT DOES NOT REFLECT ITS VISION**

The division has not created a mission statement based on its desired program results. Desired results might include efficiency, effectiveness, and fiscal responsibility as stated in the ideal mission statement in Exhibit 3. Instead, the division's current mission statement resembles a list of services more than a statement of purpose:

The Real Estate Division is responsible for the acquisition of all real property required for city purposes, the sale of surplus real property owned by the City, and the leasing of property required by various city departments. The Real Estate Division also provides property management services for miscellaneous city departments as well as managing city-owned buildings such as 25 Van Ness Avenue and 1660 Mission Street. Additionally, the division completes market value appraisals of real property considered for city sale or acquisitions, and contracts for the demolition of obsolete city-owned buildings.

Without a focused mission statement that reflects its vision, the division will have difficulty developing goals and objectives.

## **THE DIVISION HAS NOT CREATED GOALS, OBJECTIVES, OR PROGRESS REPORTS**

The division did not include several key components in its fiscal year 2000-01 budget request as required by Section 3.5 of the administrative code. In addition to not preparing a strategic plan, the division omitted its goals and a report of the extent to which the division achieved or failed to meet its mission, goals, and objectives. Although the administrative code only requires departments, and not divisions, to include its mission, goals, objectives, and a strategic plan in the budget, it is in the interests of the division to develop them and to monitor its achievements through performance indicators. Information on division achievements enables the Department of Administrative Services and the Board of Supervisors not only to monitor the work the division is doing, but also to acknowledge the division for its performance. Establishing goals and objectives that support the division's mission statement will enable the division more easily to develop performance measures that can track the activities of the division. Moreover, calculating the extent to which division activities exceed or fail to meet the division's stated mission, goals, and objectives, will underscore areas for improvement on which management can focus its attention.

## **ALTHOUGH ITS PERFORMANCE MEASURES ARE MOSTLY ACCURATE, THE DIVISION SHOULD IMPROVE ITS CUSTOMER SURVEY**

Although the division's reported results for its current performance measures were mostly accurate, the division used a flawed process for one measure regarding customer satisfaction. The division distributed a written survey only to selected customers, and it based its customer service rating on one of the survey's questions: "How would you rate the service we recently provided you?" The survey provided clients with answer choices of excellent, very good, good, fair, poor, and not applicable. The division counted responses of "good" or better toward its performance measure that directs it to achieve 90 percent customer satisfaction. The division distributed the survey to 31 clients in 1998 and 42 clients in 1999.

Although the number of clients that the division contacted was sufficient, the way in which it chose the clients to survey for fiscal years 1997-98 and 1998-99 did not ensure that the customer surveys truly reflected the satisfaction levels of all division clients. Authoritative literature states that customer surveys should go to every client served or to a sample that represents all clients.<sup>1</sup> A faulty survey methodology may make the survey's results invalid. Instead of using standard survey methods that would help ensure accurate results, the former director of property chose to send the survey to departments for which the division had done the most work in the past year. Consequently, we could not determine whether the division selected departments that accurately reflected the customer satisfaction of all division clients, including departments that infrequently used the division's services, for the two years.

Furthermore, the division wrote into the performance measures for the 1999-2000 budget the results of its annual survey even though it did not conduct a customer satisfaction survey that year. Reporting results for a survey conducted another year could corrupt the integrity of the system for reporting performance and could give city decision makers misleading information upon which to base policy decisions.

## **THE DIVISION NEEDS TO DEVELOP STRONGER POLICIES AND PROCEDURES**

The division's written policies and procedures are inadequate to guide either its current activities or any additional duties the division may perform if it becomes the lead space-planning agency for the City. Because this management control is inadequate, the division is less able to ensure that staff performs duties correctly and consistently.

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<sup>1</sup> Hatry, Harry, *Customer Surveys for Agency Managers: What Managers Need to Know*. Urban Institute Press, Washington D.C., 1998. Hatry, Harry, *Performance Measurement: Getting Results*. The Urban Institute Press, Washington D.C., 1999, p. 35.

Although the division has a collection of documents that the division calls its policies and procedures manual, most of the documents in it are from outside the division, and many are not relevant to the division's routine operations.

Because it lacks an adequate manual, the division is taking a risk that staff is not documenting or carrying out accurately, effectively, and consistently each of the division's major functions. For example, without a procedure that directs staff to include standard terms in all lease agreements, the division is less able to ensure that each contract includes the same provisions for penalties, late fees, and other duties and obligations. This omission leaves the division liable to complaints of unfairness when it must enforce leases that needlessly include different provisions. Further, the manual has no index, table of contents, or other means for staff to find a specific document easily.

Because the collection of documents that the division considers a policies and procedures manual has little relevance to the major functions of the division, staff generally does not follow any written procedures. For example, two division employees told us that they do not currently refer to a policies and procedures manual but thought it would be useful if the division had such a manual. Because staff members use their own methods, there is a greater risk that clients may not receive service of a consistent quality from the division.

## **RECOMMENDATIONS**

To develop a strategic plan that will help management and staff improve current operations and perhaps take on new responsibilities, the Real Estate Division should take these steps:

- Follow Section 3.5a of the administrative code by developing a strong mission statement that emphasizes the division's desired results, establishing goals and objectives that lead to mission accomplishment, and implementing an annual review of division activities so that management may take corrective action where needed.
- Implement a valid methodology for the next customer survey. The division may consult with the Controller's Performance Management group to determine how best to design this survey and to fulfill the preceding recommendation.
- Report results only for performance that has actually occurred.
- Create policies and procedures that apply directly to each of the major division functions. The division should also develop standard forms and templates for leases and for other transactions and agreements.
- Compile policies and procedures in a manual or other useful tool for organization, distribute the policies and procedures to each staff member, and update the manual or other tool regularly to increase its relevance.

We conducted this audit according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Staff: Mark Tipton, Audit Manager  
Kai Mander  
Shawna Paulson

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## Appendix

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### *Governing Magazine's Grades for Cities*

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We did not attempt to complete a scientific survey of the comprehensive space-planning efforts of U.S. cities. Rather, to learn how San Francisco might structure its own space-planning efforts, we sought information from cities that currently conduct comprehensive space planning.

To determine which cities to contact, we turned to *Governing* magazine, which covers news and trends within state and local governments. According to the magazine, its primary audience consists of state and local government officials. Titled "Grading the Cities," the February 2000 issue published grades for 35 cities in five management categories. *Governing* collaborated with Syracuse University's Maxwell School of Citizenship and Public Affairs on the project. Since 1996, the Maxwell School's Government Performance Project has rated the management capacity of local and state governments and of selected federal agencies in the United States.

None of the five categories for which cities received grades specifically addressed comprehensive space planning. Nevertheless, using the criteria that *Governing* lists, we determined that cities receiving high grades in the area of capital management were most likely to provide valuable information about how to conduct comprehensive space planning. We called 11 of the 14 cities that received grades of B+ or higher in the category of capital management.

The February 2000 issue of *Governing* lists the following major criteria for evaluating capital management:

1. Thorough analysis of future needs, including a formal capital plan that coordinates and prioritizes capital activities; a multi-year linkage between operating and capital budgeting; a multi-year linkage between strategic planning and capital budgeting; and sufficient data to support analysis.
2. Monitoring and evaluation of projects throughout their implementation.
3. Appropriate maintenance of capital assets (notably streets and facilities), including the generation of sufficient data to plan maintenance adequately, and the appropriate funding of maintenance.

Information on the history, goals, and status of the Government Performance Project is available at [www.maxwell.syr.edu/gpp](http://www.maxwell.syr.edu/gpp).



**RESPONSE TO THE AUDIT REPORT  
REAL ESTATE DIVISION**





**City and County of San Francisco**



**Real Estate Division  
Administrative Services Department**

December 7, 2001

**Re: Performance Audit  
Real Estate Division**

Mr. Ed Harrington  
Controller  
City & County of San Francisco  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA. 94102-4694

Dear Mr. Harrington:

Enclosed for your review is the response of the Real Estate Division to your draft report of the Performance Audit of the DRE. We sincerely appreciate the opportunity to review the draft report and would be happy to address any questions you may have about our response.

We look forward to your comments and to continuing the dialogue regarding the performance of the Division of Real Estate.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc McDonald", written over a large, stylized flourish.

Marc McDonald  
Director

Enclosure

(415) 554-9850  
FAX: (415) 552-9216

Office of the Director of Property  
25 Van Ness Avenue, Suite 400

San Francisco, 94102

As a work order organization, The Real Estate Division has traditionally been cast as a project -driven customer service organization. The project driven approach is suitable for a small, concentrated governmental organization with a limited set of missions, constituencies, funding sources, initiatives and property requirements. However, the complex demands of the modern San Francisco City government demands that real estate actions be executed as elements of a set of strategic plans.

DRE substantially shares the vision of the Controller's Office that casts us as the lead agency for strategic space planning in the City. However, because of current budget constraints, DRE may be unable to fulfill that role. In addition, regardless of whether we are given the budget to create a space planning unit, DRE cannot by itself forecast the space needs of city departments. Departments will have to create their own strategic plans with an eye to the implications any changes in their operations will have on their space needs. We are willing to consult with and advise departments to help them accomplish this task and, if given adequate general fund resources in our budget, DRE would be willing to take the steps necessary to establish a space forecasting and management unit as the Controller recommends.

In the spirit of finding a way for DRE to enhance the use of its current resources to provide strategic advice to the Departments DRE submits the following comments to the reports submitted by the Office of the Controller Audits Division.

<p><b><i>“The Division” should begin providing comprehensive space planning for the City; the Board of Supervisors should give the Division the authority, responsibility, and general fund money with which to conduct comprehensive space planning.</i></b></p>	<p>Currently Departments are responsible for space planning. Space Planning should remain the primary responsibility of each Department in close consultation with the Division of Real Estate.</p>
<p><b><i>The Division should form a new unit and call this unit the Space Forecasting and Management unit. The Division should then hire a space manager to direct the unit. The unit would be responsible for the following functions:</i></b></p>	<p>This is an interesting concept and worthy of closer review as resources become available to support this as an item that is funded as overhead rather than through work orders.</p>
<ul style="list-style-type: none"> <li>• Developing space management policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Space management policies and procedures should remain the responsibility of Departments and developed with the advice and consultation of the Division</li> </ul>
<ul style="list-style-type: none"> <li>• Forecasting the City’s space needs</li> </ul>	<ul style="list-style-type: none"> <li>• Forecasting the City’s space needs should be initiated through a multi-department task force that would have the responsibility to develop five and ten-year space plan forecasts for City Departments.</li> </ul>

<ul style="list-style-type: none"> <li>Assessing surplus and underused property</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of surplus and underused property should remain the responsibility of Departments in consultation with the Division.</li> <li>In consultation with the Division, the Departments should establish clearly articulated criteria for the definition of the terms “surplus” and “Underused” and work closely with DRE to inspect, review and evaluate properties under control of the Departments.</li> </ul>
<ul style="list-style-type: none"> <li>Producing collocating plans</li> </ul>	<ul style="list-style-type: none"> <li>The Division, in consultation with Departments, should work with Departments to develop collocating plans.</li> </ul>
<ul style="list-style-type: none"> <li>Relocating City Departments</li> </ul>	<ul style="list-style-type: none"> <li>The Division should work closely with Departments in assessment of suitable location programs.</li> </ul>
<ul style="list-style-type: none"> <li>Reviewing building management</li> </ul>	<ul style="list-style-type: none"> <li>The Division should be responsible for management of buildings occupied by multiple departments.</li> </ul>
<ul style="list-style-type: none"> <li>Overseeing the City’s property database</li> </ul>	<ul style="list-style-type: none"> <li>The Division should be responsible for management of the City’s database regarding all City-owned real estate.</li> </ul>
<p><b><i>The Board of Supervisors should authorize the Capital Improvement Advisory Committee to review and approve space planning documents before submitting them to the Board of Supervisors</i></b></p>	<p>It is not clear that a “Capital Improvement Advisory Committee” could have the ability to adequately serve the mission driven varied space demands of each Department.</p> <p>Rather, Space Planning should be conducted as an element of each department’s budgeting process. This will ensure that each department is managing space in a manner that supports its mission, goals and objectives.</p> <p>Through this approach DRE could consult with each Department on a periodic basis to review the Department’s space plans and provide advice regarding the suitability of the Department’s space plan to support the mission of the Department.</p>
<p><b><i>To improve its operations and documentation, the Division should do the following:</i></b></p>	

<ul style="list-style-type: none"> <li>• Create a policy requiring that all leases for private tenants state the amount and process for the Division's charging late payment penalties and interest. The Division should then routinely charge and collect these penalties and interest.</li> </ul>	<ul style="list-style-type: none"> <li>• The policy already exists and is clearly articulated in all leases.</li> <li>• Concur that the policy should be enforced.</li> <li>• The policy has not been enforced due to inadequate staffing. Staff is reviewing an automated billing system that would notify tenants of delinquencies and bill accordingly.</li> </ul>
<ul style="list-style-type: none"> <li>• Conduct an inventory of all City property</li> </ul>	<ul style="list-style-type: none"> <li>• This inventory already exists. *</li> </ul>
<ul style="list-style-type: none"> <li>• Improve its procedures for updating city property records</li> </ul>	<ul style="list-style-type: none"> <li>• This process improvement is currently under review with the intent of implementing a computerized property records system.</li> </ul>
<ul style="list-style-type: none"> <li>• Enhance its system for identifying properties that are underused and surplus.</li> </ul>	<ul style="list-style-type: none"> <li>• The Division will initiate a program to work closely with Departments to articulate policies and procedures for identifying properties that are underused and surplus.</li> </ul>
<ul style="list-style-type: none"> <li>• Devise a uniform system of receiving and logging service requests, and file them in one location. The Division should regularly analyze building service request data and make changes to building management services accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of practices and procedures to implement such a program is underway.</li> </ul>
<ul style="list-style-type: none"> <li>• Distribute a customer survey form to all city departments and Divisions at least once a year, and include questions designed to gauge the recipient's knowledge of or satisfaction with the quality of the Division's services.</li> </ul>	<ul style="list-style-type: none"> <li>• The Division has conducted surveys on an occasional basis. A review of the Division's customer survey program is underway with the goal of conducting more comprehensive surveys on a regular basis.</li> </ul>
<ul style="list-style-type: none"> <li>• Ensure that it supports its leasing rate decisions with documentation by creating a rent survey process or other tool that records the decisions the Division makes.</li> </ul>	<ul style="list-style-type: none"> <li>• An enhanced documentation process is under review.</li> </ul>
<p><b><i>To gauge how well it is accomplishing its purpose and to establish a comprehensive set of management tools, the Division should take these steps:</i></b></p>	

\* Auditor note: We modified the report to read "...a new inventory..."

<ul style="list-style-type: none"> <li>• Develop a strategic plan that will result in a comprehensive set of goals and objectives linked to the Division's mission.</li> <li>• The plan should bring together the Division's vision, mission, goals, objectives, and performance measures, and the Division should review the plan annually.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the Division's strategic plan and its foundations is underway.</li> </ul>
<ul style="list-style-type: none"> <li>• Implement a valid methodology for the next customer survey it conducts.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the Division's customer survey program is underway.</li> </ul>
<ul style="list-style-type: none"> <li>• Create policies and procedures that directly apply to each of the Division's major functions.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and documentation of Policies and Procedures is underway.</li> </ul>

The Audit makes reference to two surveys that it has conducted. One survey was of the Space Planning Practices, Policies and Procedures of other municipalities. The other survey reviewed Customer Satisfaction Levels. The Division requests copies and results of both surveys.

In conclusion, the recommendations of the Office of the Controller Audits Division are most productive and helpful. The comments of the Audits Division are predicated on the notion that DRE should assume a more strategic role in the management of real estate used by the City.

DRE shares the vision of the Audits Division. Unfortunately DRE is currently resource constrained. Consequently we are unable to provide the highest level of service as a strategic advisor and as a project execution team. We believe that many of the recommendations from the Audits Division will help us fulfill that dual role. We are in the process of implementing many of those recommendations and will seek further implementation recommendations in the future.

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
City Attorney  
Public Library  
Budget Analyst  
KPMG LLP