



**A Report to the  
Audit Committee**

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Metropolitan  
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Internal Audit

**Audit of the Department of Finance  
- Public Property Division**

September 5, 2024

## EXECUTIVE SUMMARY

September 5, 2024



### Why We Did This Audit

The audit was conducted due to the importance of managing public real property and office spaces for achieving optimal utilization and aligning with long term growth goals.

### What We Recommend

- Establish a schedule of auctions to minimize non-buildable property inventory.
- Establish processes to routinely review leases before expiration.
- Monitor space utilization of owned and leased spaces.
- Collaborate with departments and the administration to determine property goals and strategies.
- Ensure documentation completeness and retention according to records retention policy.

# Audit of the Department of Finance – Public Property Division

## BACKGROUND

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The Department of Finance - Public Property Division processes real estate acquisitions, disposals, and leases on behalf of Metropolitan Nashville Government departments. The division is also responsible for maintaining an up-to-date inventory of government owned properties and evaluating utilization of those properties. Additionally, the division plays a significant role in document signing and legislation execution for easements.

From July 1, 2021, to August 31, 2023, the Metropolitan Nashville Government had \$75.9M in property acquisitions. During the same period, the Metropolitan Nashville Government disposed of \$585,000 in property.

## OBJECTIVES AND SCOPE

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The objectives of this audit are to determine if the Public Property Division:

- Acquires and disposes of real estate effectively and efficiently.
- Monitors and manages leased spaces effectively.
- Strategically plans, manages, and inventories public property for long term purposes.
- Properly processes check payments received.

The scope of this audit includes the operations of the Public Property Division between July 1, 2021, and August 31, 2023.

## WHAT WE FOUND

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The Public Property Division developed and implemented processes to effectively acquire, dispose, and lease property on behalf of Metropolitan Nashville Government departments. Public real property inventory is accurately recorded and tracked. Check payments are deposited timely and recorded accurately.

The Public Property division operated on a reactive basis. Long term planning and ongoing evaluation of space utilization to facilitate decision making were not performed.

Non-buildable back tax property auctions were backlogged without a formal plan on selling properties efficiently. Expiring leases were not reviewed to ensure rates charged were consistent with market rates. Documentation completeness was lacking.

## GOVERNANCE

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The Public Property Division is housed within the Metropolitan Nashville Department of Finance. The Public Property Division was established by Metropolitan Nashville Charter, Chapter 1, § 8.112, *Division of Public Property Administration*. The section sets up the roles, responsibilities, and powers of the division. The section also refers to specific duties of the division as laid out in Metropolitan Nashville Charter, Chapter 1, § 8.103 (k) and (l). The referenced section requires the Public Property Division to:

- k. *“With the assistance of the department of law and the metropolitan planning commission, establish standard procedures for acquiring and disposing of land for metropolitan departments, boards and commissions, exclusive of land acquisition for the Nashville Electric Service and the Nashville Housing Authority.”*
- l. *“Maintain an inventory of public property and equipment.”*

The Public Property Division follows Metropolitan Nashville Code of Ordinance, Chapter 2.24, Article III, Part II. §2.24.230, §2.24.240, and §2.24.250, to fulfill the duties of managing leases, property acquisitions, and property disposals.

The director of public property is appointed by the mayor and leads a division with six total staff. Under the leadership of the director, there is an assistant public property director who oversees daily operations. Other personnel include an administrative officer, a real estate officer, and a finance officer.

## OBJECTIVES AND CONCLUSIONS

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1. *Does the Public Property Division effectively and efficiently acquire and dispose of real estate?*

**Generally, yes.** The Public Property Division has documented policies outlining requirements for acquisition and disposal of property. The policies adhered to the Metropolitan Nashville Code of Ordinances governing the procedures. The acquisition policy required appraisals, funding source verifications, assessing collaborative land use opportunities, and approval by the mayor. If followed, the process had internal controls to ensure efficient acquisition of real estate at a reasonable cost.

A random sample testing of 3 acquisitions during the period found that 2 of the 3 acquisitions (66 percent) did not have sufficient documentation evidencing all required assessments and reviews. Additionally, a review of the only real estate disposal during the period noted a lack of documentation to verify proper initiation of the sale. For all sample selections reviewed, an appraisal and proper Metropolitan Council approval were obtained. **(See Observation D.)**

Non-buildable parcels from delinquent property taxes were backlogged and not offered for sale for lengthy periods. New leadership had begun implementing procedures to govern the auction process of the parcels. The recent launch of an online auction improved transparency and efficiency. However, parts of the auction continue to be cumbersome and inefficient. **(See Observation B.)**

2. *Does the Public Property Division effectively and efficiently manage leased space?*

**Generally, yes.** The Public Property Division developed an administrative guide to enter leases on behalf of Metropolitan Nashville Government departments. The division held regular update meetings to discuss upcoming changes, and an online project management tool aided in lease monitoring. A review of 18 randomly sampled leases found all leases were approved appropriately by the Metropolitan Council. However, market analysis for new leases could not be provided for 6 out of 18 sampled leases (33 percent) where rent was greater than a nominal amount to benefit a public purpose. Additionally, existing lease review could be improved and could be more proactive. **(See Observations C & D.)**

3. *Does the Public Property Division strategically plan, manage, and inventory public property for long term purposes?*

**Generally, no.** The Public Property Division maintained an up-to-date inventory of all government-owned property in accordance with the administrative policy. Additionally, a separate inventory of all properties brought in by delinquent property tax sales was compiled and published annually. A review of all seven purchased properties during the audit period found all properties were included in the inventory. Additionally, the one disposition of property was properly removed from the inventory. A search for unrecorded acquisitions or disposals was performed by going through legislation throughout the audit period. No unrecorded acquisitions or disposals were noted.

However, lack of a comprehensive long-term strategic property plan hinders the Public Property Division's ability to act proactively on future acquisitions and disposals that may align with the government's growth goals. Benchmarking with public property management in comparable municipalities showed the lack of a strategic goal is common. However, many municipalities have a more formal process on site selection and office space utilization evaluation. The Public Property Division did not monitor existing space utilization, which could hinder efficient space usage. **(See Observation A.)**

4. *Does Public Property have an effective and efficient process in place to manage check payments?*

**Yes.** The Public Property Division followed the Finance Department's policy on handling payments. Procedures were developed by the Public Property Division to manage payments received. A total of 50 license agreement checks from 2 vendors were received by the Public Property Division during the audit scope. A review of the payments indicated the checks were deposited timely and recorded into the correct account. The frequency and the amount of the check payments matched the terms on the agreement.

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives to sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

### **Observation A – Utilization Evaluation & Strategic Planning**

Effective use of existing property and future acquisitions to minimize costs is led by having a clear understanding of the current state and future property goals. A strategy for upcoming property planning was created, but routine processes and clear department responsibilities around strategic planning could be improved. Within the Public Property Division, evaluation and monitoring of space utilization is lacking.

Public property transactions often are initiated by or involve multiple departments. However, the Metropolitan Nashville Charter and Metropolitan Code of Ordinances only specifies the role of Public Property. Transactions are required to be signed off by the Director of Public Property, but the steps leading up to the transaction have no oversight specified. The lack of specific roles leads to departments making public property decisions which may not be in the Metropolitan Nashville Government’s best interest. During the audit period, other departments playing a role in the public property process were:

- **Department of Law:** Assists in the preparation or review of documents and instruments such as leases, purchase agreements, deeds, contracts, license agreements, and ordinances.
- **Planning Department:** Responsible for ensuring the mandatory review process for leases and ordinances. The department sends out the proposed leases and ordinances to numerous departments and agencies to review for conflicts.
- **General Services:** Evaluates potential lease spaces for issues and items to be addressed in the lease and provides relocation services for tenants. The department also coordinates with Information Technology Services for relevant installations. They also maintain an occupancy list for owned buildings.
- **Information Technology Services:** Evaluates, designs, and installs technology infrastructure required for new spaces.
- **Metropolitan Nashville Council:** Approves lease legislation to authorize Public Property to enter into a lease agreement.

Formal strategic plans were not used by other municipalities benchmarked. However, interviews with each municipality showed the property or real estate divisions were proactive in communication with both the administration and other departments. Benchmarked municipalities often had clear understandings of property goals and would seek out properties to lease or purchase based on those goals. Benchmarked municipalities were proactive in seeking out properties to acquire, lease, or sell. Exhibit A shows the results of benchmarking performed.

## Exhibit A: Benchmarking on Public Real Property Management

City	Formal Strategic Plan?	Formal Utilization Evaluation?	Staff Size
Nashville	No	No	6
Seattle	No	Yes	9
Denver	No	Yes	23
Dallas	No	No	28
Austin	No	Yes	29

Sources: City of Dallas, City of Seattle, City and County of Denver, and City of Austin, Metropolitan Nashville Government

The Public Property Division did not monitor space utilization of owned properties to assist in determining need of additional property acquisition or leasing. Benchmarking of other municipalities' real property management was performed. The majority (75 percent) of property management divisions surveyed have a formal utilization evaluation process. Interviews noted the divisions keep in regular contact with government departments to ensure space is sufficient and to evaluate future needs.

Lack of processes evaluating the space usage across the Metropolitan Nashville Government increases the risk of unnecessary acquisition, leasing, or disposal. Additionally, lack of strategic planning or growth goals leads to more reactive decision making and potentially higher property costs.

### Criteria:

- Finance Department Public Property Administrative Policy, Dated December 19, 2018.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

### Assessed Risk Rating:

**Medium**

### Recommendations for management of the Finance Department Public Property Division to:

1. Develop processes to continuously monitor space utilization of Metropolitan Nashville Government owned and leased properties. Incorporate review of utilization into decision making of future property leases and purchases.
2. Routinely collaborate with other Metropolitan Nashville Government departments and the administration to determine goals and strategies to guide future real property transactions.
3. Update the Metropolitan Nashville Code of Ordinances to clarify the roles within the public property process.

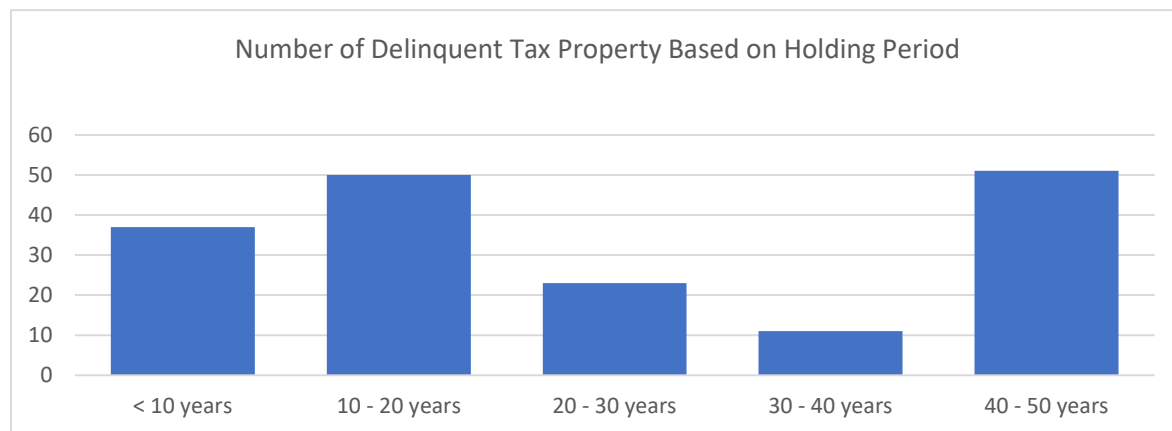
## Observation B – Non-Buildable Property Auctions

A significant backlog of auction eligible non-buildable properties exists, and work could be done to speed up the process of eliminating the inventory. Delinquent tax properties acquired are either buildable or non-buildable. Buildable delinquent tax property acquired was typically claimed by Barnes Fund or auctioned through GovDeals quickly. However, non-buildable delinquent tax properties, which may only be sold to adjacent property owners, were auctioned slowly if at all.

Prior to new leadership in 2022, no formal policies and procedures to govern the non-buildable property sales existed. One person manually auctioned properties from start to end with little oversight. The process posed a great risk on transparency and fair treatment to the eligible potential buyers. New management created and implemented procedures in 2022 to decrease the risks.

Most of the non-buildable delinquent tax parcels have been owned by the Metropolitan Nashville Government for longer than 10 years. Almost half of the parcels were held for more than 20 years. Exhibit B shows length of ownership of the total 172 auction eligible delinquent tax properties in inventory as of June 1, 2023.

**Exhibit B: Non-Buildable Delinquent Tax Property Ownership Length**



Source: Finance Department Public Property Division Delinquent Tax Property Inventory List as of June 1, 2023

The two non-buildable property auctions held during the audit period were reviewed. The number of approved and sold non-buildable delinquent tax properties in the auctions were insufficient to decrease backlogged inventory at an ideal rate. Exhibit C shows results of the auctions in 2022 and 2023.

**Exhibit C: Non-Buildable Delinquent Tax Property Auction Results**

Auction Year	Properties in Inventory before Auction	Approved Properties to Auction	Bids Received	Properties Receiving Bids	Properties Sold
2022	185	8	4	4	3
2023	172*	35	17	14	14

Source: Finance Department Public Property Division of Nashville Metropolitan Government

\* Between the 2022 and 2023 auctions, the Barnes Fund claimed 10 parcels for future use.

While surplus property could be auctioned to anyone, non-buildable properties are only eligible for purchase by adjacent property owners. Adjacent property owners were sent letters with eligible codes to submit bids for the properties in hubNashville. The current auction process, though online, still included the manual task of ensuring only eligible property owners bid on the non-buildable property. Due to limited staff and the need to manually send letters and verify bids, the Public Property Division was limited in the properties that could be auctioned each period.



Holding delinquent tax properties longer than necessary increases liability risk if damages or injuries occur on the property. Additionally, holding properties increases maintenance costs and results in lost income.

*Criteria:*

- Finance Department Public Property Administrative Policy, Dated December 19, 2018.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Finance Department Public Property Division to:*

Establish and document a consistent auction schedule to eliminate the non-buildable delinquent tax property inventory.

***Observation C – Lease Review***

Reviews of leases where Metropolitan Nashville Government is lessee and lessor were not occurring regularly. A review of 18 randomly sampled current leases and license agreements indicates that the review on expiring leases or agreements is not always done. Out of 18 leases reviewed, 1 lease (6 percent) with Metro as the lessee shows the lease expired in January 2023 with the option to extend. There was no document available to indicate this lease was evaluated any time prior to the end of its term.

Additionally, the review of billboard lease payments received by the Public Property Division showed one license agreement was signed between the Metropolitan Nashville Government and LAMAR in 2007 and has not been reviewed since. The lease was month to month after it originally expired in 1999, and the \$345 monthly payment amount received never changed. An updated lease amount could have been negotiated due to inflation over the years.

Absence of routine lease review increases the risk of lost income where the Metropolitan Nashville Government is the lessor. Additionally, when Metropolitan Nashville Government is the lessee, the absence of a proactive lease review could lead to urgency to meet space needs resulting in higher rent or fewer space options.

*Criteria:*

- Finance Department Public Property Administrative Policy, Dated December 19, 2018.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

*Assessed Risk Rating:*

**Low**

*Recommendation for management of the Finance Department Public Property Division to:*

Establish a routine process to review leases on a timely basis before expiration. Document the review and basis for any resulting decisions.

### ***Observation D – Documentation Retention***

Documentation for property acquisitions, disposals, and leasing was not complete. The review of real property transactions in the audit scope noted 3 out of 4 sampled acquisitions and disposal (75 percent) lacked documentation, including the user request and initiation form, verification of funding, assessment of possible collaborative land use by other departments, the phase I environmental survey, and settlement documents. Additionally, market valuation analysis documentation was not available for 6 out of 18 randomly sampled leases (33 percent) reviewed where the rent amount was greater than a nominal fee.

Incomplete documentation enhances the risk of overlooking key steps when evaluating real property transactions. Missing documentation hinders transparency of the process supporting property decisions.

#### *Criteria:*

- Finance Department Public Property Administrative Policy, Dated December 19, 2018.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

#### *Assessed Risk Rating:*

**Low**

#### *Recommendation for management of the Finance Department Public Property Division to:*

Retain documentation according to the Metropolitan Nashville Government’s records retention policy and make documents available upon request.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To accomplish our audit objectives, we performed the following steps:

- Reviewed Metropolitan Nashville Finance Department Public Property Division Administrative Policies.
- Interviewed key personnel within the Public Property Division.
- Performed benchmarking on public real property operations and strategic plans.
- Evaluated internal controls currently in place.
- Performed analysis on the real property inventory and license agreement payments received.
- Reviewed sample selections to evaluate the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

## **AUDIT TEAM**

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Nan Wen, CPA, In-Charge Auditor

Lauren Riley, CPA, CIA, CFE, CMFO, ACDA, Metropolitan Auditor

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Risk</i>	<i>Recommendations for management of the Finance Department Public Property Division:</i>		
M	<b>A.1</b> Develop processes to continuously monitor space utilization of Metropolitan Nashville Government owned and leased properties. Incorporate review of utilization into decision making of future property leases and purchases.	Accept  Executive Order #51: Space Planning Committee for the Metropolitan Government was issued effective May 16, 2024. The purpose of Executive Order #51 is to establish a proactive, collaborative, and consistent space planning for all departments, commissions, and agencies. The committee is charged with providing advice, direction, and oversight for space planning initiatives including but not limited to: Workforce and workplace planning, space standards, portfolio optimization, decisions about whether Metro should lease or own space, operational and logistics facility planning. The Department of General Services has been identified as the Metro department to provide staff support.	Currently Implemented
M	<b>A.2</b> Routinely collaborate with other Metropolitan Nashville Government departments and the administration to determine goals and strategies to guide future real property transactions.	Accept  Executive Order #50: Metropolitan Property Special Projects Steering Committee was issued May 16, 2024. The purpose of Executive Order #50 is to advance complex and multi-department initiatives on public land to align with the city's strategic long-term goals and maximizes the utility of underutilized Metro owned property and buildings. The Planning Department has been identified as the Metro department to provide support staff.	Currently Implemented

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
M	<b>B.1</b> Establish and document a consistent auction schedule to eliminate the non-buildable delinquent tax property inventory.	Accept  Public Property will develop and implement a quarterly auction schedule and document processes designed to reduce the non-buildable delinquent tax property inventory.	December 31, 2024
L	<b>C.1</b> Establish a routine process to review leases on a timely basis before expiration. Document the review and basis for any resulting decisions.	Accept  Public Property will have monthly internal meetings dedicated to reviewing leases prior to expirations. Both meeting and document review notes will be developed and maintained to support decisions made. Process flows and lease renewal schedules will be documented and shared with departments that have lease arrangements.	December 31, 2024
L	<b>D.1</b> Retain documentation according to the Metropolitan Nashville Government’s records retention policy and make documents available upon request.	Accept  Public Property will develop written procedures and processes to ensure all documents pertaining to acquisition and disposal transactions within Metro government are maintained and readily accessible.	December 31, 2024

## APPENDIX B – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
<b>HIGH</b>	Large financial impact >\$25,000  Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
<b>MEDIUM</b>	Moderate financial impact \$25,000 to \$10,000	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
<b>LOW/ Emerging Issues</b>	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective  Implementing / enhancing controls could prevent future problems	Generally, complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			