



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

CENTRAL MANAGEMENT SERVICES' ADMINISTRATION OF THE STATE'S SPACE UTILIZATION PROGRAM

MANAGEMENT AUDIT

Release Date: October 2013

SYNOPSIS

House Resolution Number 788 directed the Auditor General to conduct a management audit of the Department of Central Management Services' (CMS') administration of the State's space utilization program. The Office of the Auditor General previously released an audit of the State's space utilization program in February 2004. In this audit, we identified many deficiencies that were also issues in the 2004 report.

Our audit found that:

- CMS does not maintain a master record of all items of real property as required by State law. The State Property Control Act requires CMS to maintain a master record of all items of real property, including a description of buildings and improvements. The master record that was provided to us was incomplete, inaccurate, and had an insufficient level of detail.
- CMS has made no recent progress towards implementing a comprehensive computerized real property system.
- CMS was obtaining Annual Real Property Utilization Reports from State agencies only because the State Property Control Act required it. The reports were not being used by CMS to populate the master record of real property as they were intended.
- The procedures in place to identify excess and surplus real property were not fully adequate to ensure that all excess and surplus real property was being identified.
- CMS lease files tested lacked evidence of a check for the availability of State-owned space in 17 of 25 lease files (68%) and lacked evidence of a site visit in 6 of 25 lease files (24%).
- The process for disposing of surplus property was neither adequate nor timely. For the parcels where we could measure the elapsed time from the date declared surplus to the date of final disposition, the average time to dispose of surplus real property was 1,656 days with a median of 911 days. This does not include the 14 properties that remain surplus which includes 8 properties that were surplused in 2005 or prior.
- CMS ignored properties reported as surplus by agencies on the Annual Real Property Utilization Reports and did not notify other agencies of the availability of that surplus property as required by State law.

In recent years, however, the State has made significant progress in reducing lease costs. According to data provided by CMS, since January 2009, lease costs have been reduced by \$55 million through leases that have been consolidated, renegotiated, or rebid. The reduction in lease costs was attributed to many factors including the work of CMS, the oversight provided by the Procurement Policy Board, and the reduction in the State's workforce. Additionally, holdover leases, which were first identified by our Office in a Compliance Examination, were eliminated.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

BACKGROUND

The Office of the Auditor General previously released an audit of the State's space utilization program in February 2004. In this audit, we identified many deficiencies that were also issues in the 2004 report.

House Resolution Number 788 directed the Auditor General to conduct a management audit of the Department of Central Management Services' (CMS') administration of the State's space utilization program. The Office of the Auditor General previously released an audit of the State's space utilization program in February 2004. In this audit, we identified many deficiencies that were also issues in the 2004 report:

- The State lacked an overall system to effectively manage real property;
- CMS did not maintain an accurate and complete inventory of real property;
- Improvements were needed in the forms used by State agencies to annually report utilization of real property;
- CMS did not always check for the availability of space in State-owned facilities prior to leasing space with third parties; and
- The overall process for the disposal of surplus real property was not timely. (page 4)

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State-owned Real Property

The master record provided to us was incomplete, inaccurate, and had an insufficient level of detail.

CMS does not maintain a master record of all items of real property as required by State law. The State Property Control Act requires CMS to maintain a master record of all items of real property, including a description of buildings and improvements. The master record that was provided to us: 1) was incomplete – the master record contained only 1,789 entries which was a fraction of the total items of real property owned by the State (for example, the master record contained only one of nine universities and was missing 33 of the 130 Illinois State Parks); 2) was inaccurate – many of the records were clearly inaccurate or raised questions about their accuracy; and 3) had insufficient level of detail – there was not

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enough detail to be able to identify the property listed. The deficiencies resulted in the inability to use the master record to identify excess and surplus real property. (pages 12-17)

Excess Real Property

State-owned or controlled real property which has no present program need by the holding agency.

Surplus Real Property

Any real property which:

- The State holds fee simple title or lesser interest;
- Is vacant, unoccupied, or unused; and
- Has no foreseeable use by the owning agency.

The record was so deficient that it raised the question of whether the list was in fact the master record. There were multiple reasons for the deficiencies in the master record:

- CMS has made no recent progress towards implementing a comprehensive computerized real property system. Following the release of the previous Management Audit in February 2004, CMS moved towards the implementation of a fully automated system. However, it appears that **little has been done since a contract with a third party vendor was terminated eight years ago.** (pages 15, 25, 27-29)
- CMS was obtaining Annual Real Property Utilization Reports from State agencies only because the State Property Control Act required it. The reports were not being used to populate the master record of real property as they were intended. In addition, CMS did not review the Annual Real Property Utilization Reports to make corrections and changes suggested by the agencies. Instead, the same corrections were submitted by the agencies year after year with nothing being done by CMS to correct the errors in the reports. (pages 17-23)

The Annual Real Property Utilization Reports from State agencies were not being used by CMS to populate the master record of real property as they were intended.

The procedures in place to identify excess and surplus real property were not fully adequate to ensure that all excess and surplus real property was being identified.

The procedures in place to identify excess and surplus real property were not fully adequate to ensure that all excess and surplus real property was being identified. CMS had two primary procedures in place but both had issues with their effectiveness:

- Agencies could report excess and surplus real property on the Annual Real Property Utilization Reports. However, the reports had substantial deficiencies: 1) one of the two

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As of June 2013, CMS reported approximately 6.9 million square feet of leased space which is down by about 2.5 million square feet from January 2009.

The Procurement Policy Board is an important part of the leasing process and its actions have resulted in lease reductions and savings related to leased property in the State.

CMS does not proactively monitor space in State-owned properties.

forms used lacked a suitable area to report excess and surplus property; 2) the individual entries submitted by agencies on the second form were missing key information; and 3) the information that was reported was not used by CMS.

- The second method, which focused on identifying excess space, was on-site investigations and inspections conducted by CMS. However, on-site inspections were not done on a regular basis. (pages 25-27)

Monitoring of Real Property

The State's lease costs have significantly decreased over the past five years and holdover leases, which were first identified by our Office in a Compliance Examination, were eliminated. Our fiscal year 2005 Compliance Examination of CMS reported 305 of 642 leases (48%) as being in a holdover status, all of which were eliminated by June 2010.

CMS has reduced lease costs by consolidating leases, negotiating better lease terms with owners when current leases expire, and using stricter space standards. The involvement of the Procurement Policy Board, the reduction of the State's workforce, and the leasing market in general also contributed to the lease reductions and savings. As a result of these actions, the overall square footage of leases in the State has also decreased.

According to data provided by CMS, since January 2009, lease costs have been reduced by \$55 million through leases that have been consolidated, renegotiated, or rebid. As of June 2013, CMS reported approximately 6.9 million square feet of leased space which is down by about 2.5 million square feet from January 2009. About half of this reduction in square footage and lease costs came from Department of Human Services and Department of Children and Family Services leases that were consolidated, renegotiated, or rebid. (page 33)

The Procurement Policy Board (Board) is an important part of the leasing process and its actions have resulted in lease reductions and savings related to leased property in the State. We reviewed Board meeting minutes from January 2008 to April 2013 and found that the Board has objected to many leases. This oversight often resulted in a better price per square foot or better lease terms. (page 35)

Site visits play a key role in identifying excess space and opportunities for consolidation and more efficient use of State space. CMS, however, does not proactively monitor space in State-owned properties. According to a CMS official, site visits of State-owned space were formerly done annually but are now done on a reactionary basis. CMS relies on agencies to self-report State-owned excess space despite CMS'

acknowledgement of a deficiency on the part of some State agencies to report excess or surplus property and a desire to keep all property assigned to them. CMS tracks and manages leased property using a program called CPROPS (Comprehensive Portfolio Review & Optimization for Performance & Sustainability); however, CPROPS did not contain excess space information for all leases, nor does it contain information about excess space in State-owned facilities.

We judgmentally sampled 25 leases to determine if CMS followed procedures intended to ensure the efficient use of State-controlled space. We found the following:

- CMS files lacked evidence of a check for the availability of State-owned space in 17 of 25 lease files (68%).
- CMS files lacked evidence of a site visit in 6 of 25 leases tested (24%). (pages 37-41)

CMS entered into a contract with a consultant to provide real estate services.

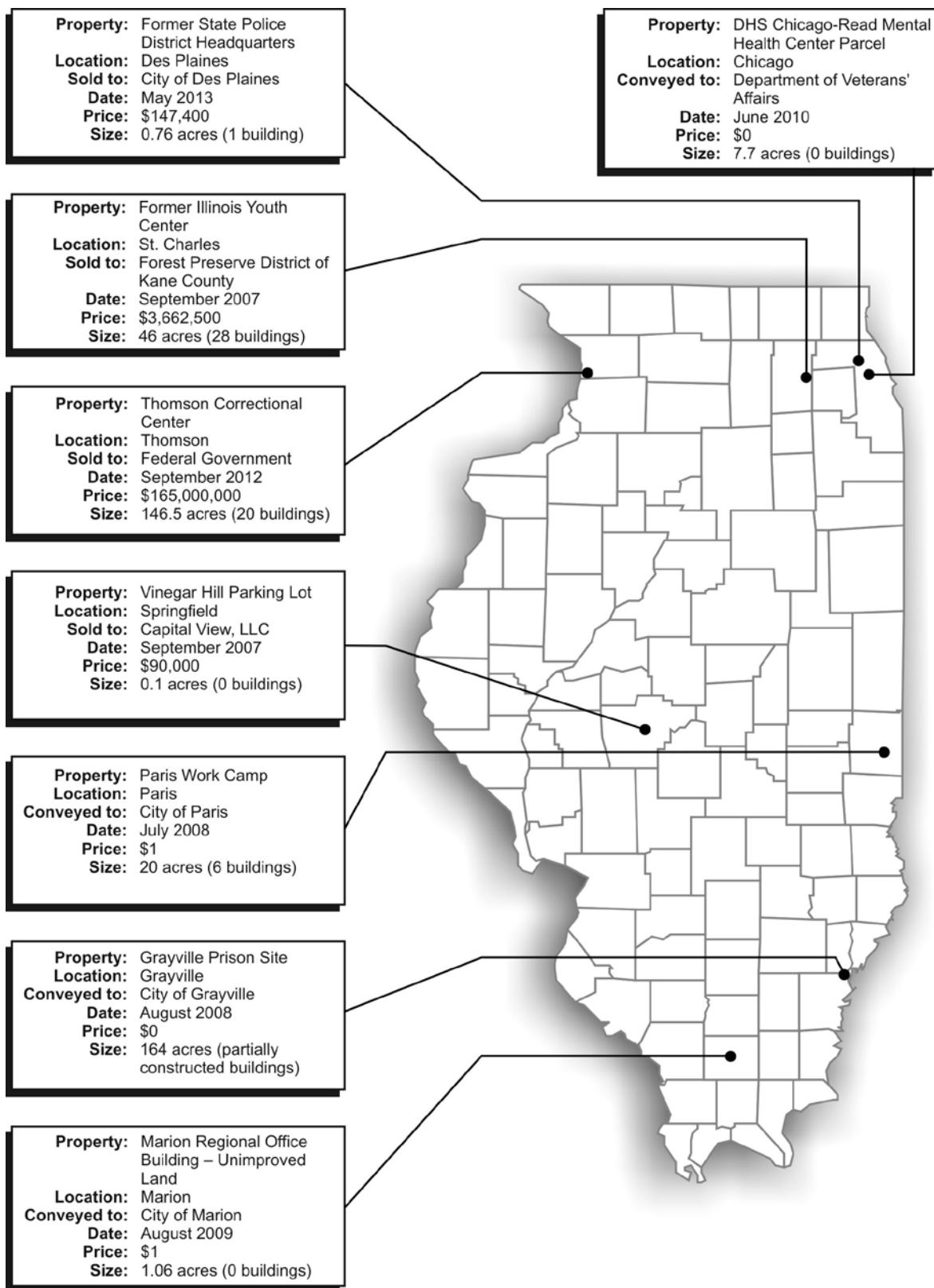
On September 16, 2010, CMS entered into a contract with Jones Lang LaSalle to provide real estate services. CMS renewed this contract for a 2-year period beginning August 1, 2013. As of June 2013, Jones Lang LaSalle had submitted invoices totaling \$1.73 million and had been paid \$1.48 million. Jones Lang LaSalle has assisted CMS in the areas of lease consolidations, property assessments, and surplus property disposal. (pages 42-46)

Disposal of Surplus Real Property

The process for disposing of surplus real property was neither adequate nor timely.

The process for disposing of surplus real property was neither adequate nor timely. Since 2007, eight surplus properties were either sold or conveyed by CMS or were conveyed by Public Act. Digest Exhibit One shows the location of the eight properties along with some general information about those properties.

Digest Exhibit One
SURPLUS REAL PROPERTY SOLD OR CONVEYED SINCE 2007



Source: OAG prepared from CMS information.

For the parcels where we could measure the elapsed time from the date declared surplus to the date of final disposition, the time ranged from 43 days to 6,973 days. The average time to dispose of surplus real property was 1,656 days with a median of 911 days. This does not include the 14 properties that remain surplus which includes 8 properties that were surplused in 2005 or prior.

CMS was also not timely in notifying State agencies of the availability of surplus real property. Many files lacked necessary documentation to make this determination. For those where we could make a determination, the average days for notification exceeded the 60-day standard – 142 days for properties that had been disposed and 257 days for properties that remain as surplus. Digest Exhibit Two shows the 14 properties that remain as surplus including the dates the properties were declared surplus.

In addition, CMS ignored properties reported as surplus by agencies on the Annual Real Property Utilization Reports and did not notify other agencies of the availability of that surplus property as required by State law.

Many of the properties currently listed as surplus have languished for years with little to no activity to dispose of the properties. Eight of the properties have been surplus for more than eight years.

Many of the properties currently listed as surplus have languished for years with little to no activity to dispose of the properties. Eight of the properties have been surplus for more than eight years. Two of the properties have Public Acts directing action on the properties but nothing has been done in the last five years. Five recently surplussed properties have not been offered to other State agencies as required which is the first step in the disposal process.

CMS should conduct a study of the disposal process to determine what changes need to be made to the process to increase efficiencies. If necessary, CMS should seek legislative changes to improve and streamline the process. (pages 48-61)

Executive Order 10-10 issued several directives one of which dealt with the sale of surplus property. The order contained several requirements related to real property and space utilization including developing a comprehensive real estate strategy. CMS was unable to provide any documentation addressing the requirements. (page 62)

Digest Exhibit Two
TIMELINESS OF DISPOSITION OF SURPLUS REAL PROPERTY – STILL SURPLUS
As of June 2013

Property Description	Date Declared Surplus	Notification to Other Agencies	Elapsed Days from Surplus Date	Date of Final Disposition	Elapsed Days from Surplus Date
Former Mine Rescue Station, 245 Buck St., LaSalle	03-18-69	Unknown	Unknown	Still Surplus	
Blue Waters Ditch US 50/IL 3, Cahokia	04-01-89	09-01-89	153	Still Surplus	
Joliet Correctional Center (Parcel 1), 1125 Collins, Joliet	03-02-04	02-01-05	336	Still Surplus	
Joliet Correctional Center (Parcel 2), 1125 Collins, Joliet	03-02-04	Unknown	Unknown	Still Surplus	
Joliet Correctional Center (Parcel 3), 1125 Collins, Joliet	03-02-04	Unknown	Unknown	Still Surplus	
Former State Police District Headquarters, 1551 Old Route 66, Pontiac	06-23-04	02-01-05	223	Still Surplus	
Stateville Correctional Center, Route 53, Joliet	09-09-04	02-01-05	145	Still Surplus	
Former DOT Yard, 2900 S. Damen Ave., Chicago	05-01-05	06-06-06	401	Still Surplus	
Lincoln Developmental Center, 861 S. State St., Lincoln	08-19-09	No notification	-	Still Surplus	
Galum Building, Pyramid State Park, 2880 Conant Road, Pinckneyville	07-27-10	No notification	-	Still Surplus	
Parking Lot, 4th St. and Capitol Avenue, Springfield	07-24-12	05-06-13	286	Still Surplus	
Tinley Park Mental Health and Howe Developmental Center, 7400/7600 W. 183rd St., Tinley Park	12-13-12	No notification	-	Still Surplus	
Singer Mental Health Center, 4402 N. Main St., Rockford	12-13-12	No notification	-	Still Surplus	
Jacksonville Developmental Center, 1201 S. Main St., Jacksonville	12-13-12	No notification	-	Still Surplus	
Average			257		
Median			255		

Source: OAG analysis of CMS property files.

RECOMMENDATIONS

The audit report contains nine recommendations directed towards the Department of Central Management Services. The Department of Central Management Services agreed with all nine recommendations. Appendix E to the report contains the agency responses.



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.. Auditor General

WGH:DJB/TEW

AUDITORS ASSIGNED: This Management Audit was performed by the Office of the Auditor General's staff.