

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Audit of the CRA Northwest Progresso
Flagler Heights Area
Land Acquisition Policies

Report #07/08-8

June 24, 2008



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

No: 07/08-14

Date: June 24, 2008

To: Mayor Jim Naugle
Vice-Mayor Charlotte E. Rodstrom
Commissioner Carlton B. Moore
Commissioner Christine Teel
Commissioner Cindi Hutchinson

From: John Herbst, CPA, CGFO, MBA
City Auditor

Re: Audit Report #07/08-8: Review of property acquisitions by the Community Redevelopment Agency (CRA) - Northwest Progresso Flagler Heights Area

The City Auditor's Office has completed its audit of the Community Redevelopment Agency (CRA) - Northwest Progresso Flagler Heights Area. This was a limited scope audit focused solely on property acquisitions by the CRA. The objectives of our audit were:

- To ensure that written policies and procedures or informal practices exist and are followed when purchasing redevelopment properties within the CRA.
- To ensure that property acquisitions are:
 - aligned with the goals of 1995 CRA redevelopment plan,
 - that fair market value was paid or satisfactory explanation and Commission approval was obtained to justify paying more than fair market value,
 - a written appraisal from a qualified licensed appraiser was obtained.
- To ensure that the CRA land inventory in the City's FAMIS accounting system is accurate, complete and reconciled to the CRA inventory list.

Our review of internal controls over property acquisitions would not necessarily identify all deficiencies that might be significant deficiencies or material weaknesses. As discussed in more detail in the accompanying report, we did note three items that we consider to be control deficiencies. We do not consider these items to be either significant deficiencies or material weaknesses.

Management's responses to the findings and recommendations are included in the report. We did not audit management's responses and accordingly, we express no opinion on them. We are pleased to note that management generally concurs with our recommendations.

cc: George Gretsas, City Manager
Harry Stewart, City Attorney
Jonda Joseph, City Clerk
Kathleen Gunn, Assistant City Manager
Alfred Battle, CRA Director, Northwest Progresso Flagler Heights Area

**CITY OF FORT LAUDERDALE
CITY AUDITOR'S OFFICE
REVIEW OF THE
COMMUNITY REDEVELOPMENT AGENCY
NORTHWEST PROGRESSO FLAGLER HEIGHTS AREA**

PURPOSE

To conduct a limited scope audit focusing on property acquisitions since 2000 of the Northwest Progresso Flagler Heights (NPF) Area of the City of Fort Lauderdale's Community Redevelopment Agency (CRA).

EXECUTIVE SUMMARY

Our review of NPF CRA reveals the following opportunities for improvement.

- Comprehensive written policies and procedures should be developed and followed to purchase redevelopment properties within the NPF CRA.
- Property appraisals were not always documented for each property acquisition and the majority of documented appraisals were from the same firm.
- All property acquisitions should be reviewed and approved by the CRA Board.

STATEMENT OF OBJECTIVES

- ❖ To ensure that written policies and procedures or informal practices exist and are followed when purchasing redevelopment properties within the NPF CRA
- ❖ To ensure that property acquisitions are:
 - aligned with the goals of 1995 NPF redevelopment plan,
 - that fair market value was paid or satisfactory explanation and Commission approval was obtained to justify paying more than fair market value.
 - a written appraisal from a qualified licensed appraiser was obtained.
- ❖ To ensure that the NPF land inventory in the City's FAMIS accounting system is accurate, complete and reconciled to the NPF inventory list.

BACKGROUND

Pursuant to the provisions of Chapter 163 of Florida Statutes, the City of Fort Lauderdale established by resolution (89-88, 4/18/89) a Community Redevelopment Agency. The CRA initially covered an area of 121 acres at the south end of the Central Beach. In 1995, the CRA added the Northwest Progresso Flagler Village area to promote economic development in the blighted northwest section of the City. CRA's are financed primarily

from Tax Increment Revenues¹ and bond proceeds from issues that are secured with a pledge of these ad valorem receipts.

SCOPE & METHODOLOGY

The Director of Economic Development, NPF-CRA Director and the Planner III were interviewed. Property acquisition records from 2000 through 2007 were reviewed. We also examined appraisals from 2003 through 2007 to emphasize more recent activity.

OBJECTIVE 1

To ensure that written policies and procedures or informal practices exist and are followed when purchasing redevelopment properties within the NPF CRA

FINDING 1.1

The current NPF CRA Policies and Procedure Manual is not complete with respect to all the essential steps/requirements in the property acquisition process. Furthermore the routing form used to document that proper notice was provided to all participants involved with the review and approval process does not capture all relevant signatures.

The City Auditor believes that the CRA management hasn't updated their policies and procedures manual and forms for accuracy and completeness. Effective internal controls require that a policy and procedures manual capture significant detailed information of each business process and be periodically reviewed and updated.

Recommendation 1

The City Manager should require the Director of the NPF CRA Area to:

1. Revise section 5 of their Policies and Procedure Manual to be more comprehensive and inclusive of all the significant elements of the land acquisition process, such as approvals required, forms to be used, justification required if purchase price exceeds appraised values, etc.
2. Lower the dollar threshold to \$150,000 for when two appraisals are required.
3. Revise the format of the Property Acquisition Routing form to include the Real Estate office as part of the review and approval process. Moreover, the form should have a signature line for all reviewers/approvers in the process.

Management Response

1. We concur with the findings in this recommendation.

To be more specific, the policies and procedures manual currently includes Routing Forms and Routing Memos for both property purchases within 10% of

¹ The taxable value of property within the CRA is separated into a base and an incremental portion. The CRA receives the City, County, Hospital District and Children's Services Council share of the ad valorem taxes on increases above base in the net taxable value of all properties included in the designated CRA area.

the Appraised Value and for property purchases greater than 10% of appraised value. The Forms identify all individuals currently included in the approval process and provides a signature line for each. Currently, the NPF CRA Director, the Director of Finance and the Assistant City Manager sign the Routing Forms. In addition the Director of Finance requires that the funding source on the Routing Form be verified by the City Accountant who initials next to the Director of Finance signature line before being signed by the Director of Finance. In addition the Routing Form identifies the Originator of the form and the Responsible (Assistant City) Attorney.

The Form routing sequence is that once signed by the NPF CRA Director, Director of Finance and Assistant City Manager, it is routed to the Responsible Attorney for signatures by the City Manager as CRA Executive Director and Mayor as CRA Chairman. The standard Form Agreement provided in the Policies and Procedures Manual which has been prepared by the Responsible Attorney and modified as necessary by the Responsible Attorney is then signed by the Responsible Attorney, CRA Executive Director and CRA Chairman and returned to the Clerk's office and Responsible Attorney where it is dated and distributed. The Routing Form identifies when the approval by the CRA Board occurred by date and action and identifies the Attachments to the Routing Form which includes the Routing Memo (Exhibit 1) and the minutes of the CRA Board meeting which provided the authority for the purchase (Exhibit 2). The Routing Memo is addressed to the City Attorney, CRA Executive Director and CRA Chairman and is from the NPF CRA Director who provides a detailed narrative in the memo identifying the property, the negotiation, size and use of the property, why it is being purchased, purchase price, assessed value, appraised value, date of the appraisal and name of the appraiser, conditions for closing, when closing will occur and when authority to purchase the property by the CRA Board occurred. The routing memo has its own exhibits that include a Location Map, Broward County Property Appraiser information sheet on the property and copy of the Appraisal Report.

For properties where the CRA real estate consultant, The Urban Group, (who has a contract with the CRA approved by the CRA Board) negotiated the purchase, a detailed Negotiation Summary is also provided. For properties where the City Real Estate Officer negotiated the purchase, the Routing Memo is from the NPF CRA Director and the Real Estate Officer. For those properties where Community Development Block Grant funds were used for the Purchase rather than CRA Tax Increment Funds, an Approval of Funds Available is signed by the Housing and Community Development Program Manager.

This summary of actions relating to the acquisition process, which is already provided on the Routing Form and Memo, will be added as a narrative to the Policies and Procedures Manual for further clarification.

2. We partially concur with this recommendation with the City Auditors recommendation to lower the dollar threshold to \$150,000 for when two

appraisals are required. The CRA is currently operating under the standard as dictated by Florida Statutes Chapter 166.045 (Proposed Purchase of Real Property by Municipality; Procedure) which requires two (2) appraisals for property purchases in excess of \$500,000. The City Real Estate Office operates under the same policy and is advised by the City Attorneys Office if two (2) appraisals or an additional review appraisal is warranted. Under F.S. 166.045 an appraisal for purchases of property costing \$100,000 or less may be exempted from an appraisal by the governing body, however NPF CRA Staff has never recommended that the CRA Board exempt any property from the requirements of an appraisal regardless of price and secures appraisals for all properties. NPF CRA Management does not concur NPF CRA Management instead recommends lowering the dollar threshold to \$300,000 for when two appraisals are required since:

- a) The CRA is primarily purchasing commercial real estate where a typical commercial parcel would have a current fair market value in excess of \$150,000; and where smaller commercial parcels and vacant commercial land purchases are under \$300,000; and
 - b) Commercial property appraisals are generally more expensive than residential property appraisals and securing 2 appraisals on what would primarily be vacant land purchases is an inefficient use of public funds since there are few private property purchases in the area and the same comparables to determine value are used by most appraisers.
3. We concur with this recommendation and as described in Management Response Paragraph 1 to Finding 1.1, the Routing Form currently has a signature line for all reviewers/approvers in the process. As recommended by the City Auditor, we will add the City Real Estate Office as part of the review and approval process by providing a signature line on the NPF CRA Routing Form for the City Real Estate Officer regardless of whether or not they were involved in the real estate negotiation.

OBJECTIVE 2

To ensure that property acquisitions are: aligned with the goals of 1995 NPF redevelopment plan, that fair market value was paid or a satisfactory explanation and Commission approval was obtained to justify paying more than fair market value, a written appraisal from a qualified licensed appraiser was obtained.

Observations

Property acquisitions were aligned with the 1995 NPF CRA redevelopment plan.

Fair market value was paid or a satisfactory explanation and Commission approval was obtained to justify paying more than fair market value

FINDING 2.1

The NPF CRA obtained appraisals for 8 out of 14 or 57% of the properties purchased between 2003 to 2007 from Bondaranko Associates.

The fact that NPF has concentrated their appraisal services in one company tends to diminish the independence and objectivity of the reports. Utilizing different appraisal firms helps ensure fresh perspectives and increases objectivity and competitiveness.

Recommendation 2

We recommend that the NPF CRA Director revise the CRA's policies to require the use of different appraisal companies in connection with property acquisitions to ensure objectivity and independence.

Management Response

We concur with this recommendation. For future proposed CRA property purchases, CRA Management will attempt to solicit and utilize other appraisers that are high credentialed, provide efficient delivery time and a competitive pricing advantage to provide the most reliable work product required to acquire property in the target area.

FINDING 2.2

The CA believes that the authority delegated by the Board on July 7, 1999, which allows CRA staff to acquire properties without board approval,² is inconsistent with the City's general policy for property acquisitions and is not necessary based on the low volume of CRA property purchases. Our analysis of property acquisitions between 2000 and 2007 revealed that 56% of the properties acquired by the NPF CRA were purchased under the 10% Delegated Authority Memo. The remaining properties in our population had specific board approval or approval was not required. (Quit Claim transfer between the City and the CRA.)

Best practice would suggest that all property acquisitions be reviewed and final approval provided by the CRA Board.

Recommendation 3

We recommend that the NPF Director present all the property acquisitions to the CRA Board for review and final approval. The delegated authority should be limited to negotiations only.

Management Response

We agree with this recommendation and will present all property acquisitions to the CRA Board for review and approval starting at the beginning of fiscal year 2008-09.

² Board approval is required if the purchase price exceeds the appraised value by at least 10%

OBJECTIVE 3

To ensure that the NPF land inventory in the City's FAMIS accounting system is accurate, complete and reconciled to the NPF inventory list.

Conclusion

The City Auditor reconciled the NPF land inventory listing as of 9/30/07 to the FAMIS trial Balance as of 9/30/07 without exception.

Audit Engagement Team

Martha Romero, Staff Auditor

James Hamill, Audit Manager