

**CITY OF CHARLOTTE  
OFFICE OF INTERNAL AUDIT**

***MEMORANDUM***

To: City Manager's Office and General Services  
From: Tina Adams, City Auditor  
Re: RSM Real Estate Internal Audit Report

June 20, 2023

Please see the attached report from RSM LLP US (RSM) – Real Estate Internal Audit.

**Conclusion**

RSM noted a need for the City to create a policy delineating the master requirements for all departments responsible for executing real property transactions.

**Objective**

RSM's objectives were to assess whether the system of internal controls over the City's Real Estate processes is adequate and appropriate.

**Results Summary**

RSM identified opportunities for improvement in governance practices.

- RSM noted a difference between the required approval thresholds used by departments for the purchase of real estate. Generally, an entity's risk tolerance and associated approval thresholds should be applied consistently across the organization.
- Six leases/licenses with non-profit organizations (NPO) were allowed to lapse while Portfolio Management awaits guidance from City Council and senior management related to the future of the NPO leasing program. The City should determine whether updates to the existing policy are needed.

**RSM Recommendations and City's Response**

Detailed findings, recommendations, and management responses are addressed on pages 11 - 16 of RSM's attached report. Management has planned actions to address the recommendations.

**Actions Planned**

Internal Audit will follow-up with management to ensure the RSM recommendations are implemented in a timely manner.



# Real Estate Internal Audit Report City of Charlotte, North Carolina

February 24, 2023

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## TRANSMITTAL LETTER

February 24, 2023

Ms. Tina Adams  
City Auditor  
City of Charlotte, North Carolina  
600 East 4<sup>th</sup> Street  
Charlotte, NC 28202

Pursuant to our approved Statement of Work dated November 3, 2022, with the City of Charlotte (City), we present our Real Estate Internal Audit Report. Our report is organized into the following sections:

<b>Executive Summary</b>	This section provides a high-level overview and summary of the observations noted in our internal audit of the City's real estate processes in the Real Estate Division and Charlotte Water Department.
<b>Background</b>	This section provides an overview of the real estate transaction process and pertinent background information.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Observations Matrix</b>	This section includes a detailed description of the observation(s) noted during this review. The recommended action(s) are identified with each observation and management's corrective action plan, including the responsible party and estimated completion date.

Before commencing this audit, we completed a risk assessment of the City's processes for executing real estate transactions by various departments. The risk assessment identified departments with a higher risk profile to enable a focused approach for the audit. The risk assessment evaluated the following departments: General Services (Real Estate Division), Aviation, Charlotte Water, Housing and Neighborhood Services, and Charlotte Area Transit System (CATS). Through consultation with the City's Internal Audit Office, the Charlotte Water Department and Real Estate Division within the General Services Department were selected for further internal audit procedures. As such, this audit focused only on those two departments.

We want to thank the staff and all those involved in assisting us with this internal audit. Respectfully

Submitted,

*RSM US LLP*

## EXECUTIVE SUMMARY

### Background

The City uses the Real Estate Division in the General Services Department to oversee most general real estate requirements of the City. Real Estate Division follows a property from project creation until completion. Projects are classified by their type, which determines the deadline for project completion. Additionally, projects are categorized by submission type, including acquisitions and condemnations. Each classification determines the complexity of the real estate transaction. Portfolio Management resides within Real Estate Division, manages inventory, and oversees dispositions and leases.

Each department handling real estate transactions has varying types of projects and prioritization of those projects. Charlotte Water Department has developed its own policies and procedures to manage its real estate transactions internally. Many of the processes and requirements of these two departments are similar, with the key differences highlighted in greater detail in the background of this report.

### Overall Summary / Highlights

The observations identified during our assessment are detailed in the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings evaluate the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and compliance, as well as public perception or 'brand' risk.

### Summary of Observation Ratings

(See page 17 for risk rating definitions)

	High	Moderate	Low
Real Estate Internal Audit	-	2	-

### Objective and Scope

The objective of this internal audit was to assess whether the system of internal controls over the City's real estate processes is adequate and appropriate for promoting and encouraging the achievement of management's objectives for effective monitoring and administration. The scope of our work included the following processes executed within the Real Estate Division and Charlotte Water Department:

- Acquisitions
- Appraisals
- Condemnation
- Disposition
- Leasing

Our approach consisted of the following:

#### Understanding and Documentation of the Process

The first part of this audit consisted primarily of inquiry and walkthroughs to understand the critical personnel, risks, processes, and controls relevant to the objectives of the audit.

#### Evaluation of Design and Effectiveness of the Process and Controls

This section aimed to assess the adequacy of the process(es) design and test compliance and internal controls.

#### Reporting

At the conclusion of this internal audit, we summarized our findings in this report. We have reviewed the results with the appropriate Management personnel and incorporated Management's responses into this report.

## EXECUTIVE SUMMARY (CONTINUED)

### Observations Summary

Below is a summary listing the observations identified during this Real Estate Internal Audit. Detailed observations are included in the observation matrix section of this report.

Summary of Observations	
<b>Observations</b>	
1. Policies and Procedures	Moderate
2. Leases and Licenses	Moderate

Provided below are the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Rating Definition
Low	The observation's volume, size and/or nature presents a low risk to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Low probability of losses if the issue is not addressed, minimal impact on financial statements, internal control environment, organizational reputation and/or minimal regulatory/legal action or business disruption.
Moderate	The observation's volume, size and/or nature presents a low risk to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Moderate probability of losses if the issue is not addressed, moderate impact on financial statements, internal control environment, organizational reputation and/or moderate regulatory/legal action or business disruption.
High	The observation's volume, size and/or nature presents a low risk to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. High probability of losses if the issue is not addressed, material impact on financial statements, internal control environment, organizational reputation, and/or significant regulatory/legal action or business disruption. These require immediate attention from the institution.

## BACKGROUND

### Real Estate Division

The City established the Real Estate Division within the General Services Department to acquire and maintain the various property needs of the City. Their website notes that the Real Estate Division advises the Mayor, City Council, city departments, and the public about city-owned property. Staff evaluates existing facilities and sites to maximize the value of the City's assets. They also acquire all the necessary land rights for public works projects, such as roads, sidewalks, light rail rights-of-way, and stormwater improvements. Real Estate Division staff have expertise in acquisitions, appraisals, disposition, relocations, leasing, title research, and negotiations. The Real Estate Division requests City Council approval for all real estate transactions over \$10,000.

Initially, the Real Estate Division managed all real estate-related demands for each department; however, some individual departments have begun to facilitate their own real estate transactions. Charlotte Water Department has created independent policies and procedures from those initially developed by Real Estate Division and processes real estate needs independently of Real Estate Division.

### Charlotte Water Department

Charlotte Water Department generally only acquires easements, most of which are for the purpose of completing design-build ("DB") construction projects. Generally, Charlotte Water Department's easement acquisitions follow the same processes outlined for Real Estate Division, with the exception of how City Council approval is obtained for the acquisition. Easements acquired for a DB project are included in the initial approval to pursue the DB contract. Concurrent with the City Council's approval of the DB agreement for a project, the Charlotte Water Department also requests City Council's authorization to approve easement acquisitions under \$500,000. In discussions, Charlotte Water Department personnel noted that although approval is granted for acquisitions under \$500,000, the Charlotte Water Department's standard practice is to request specific approval for acquisitions over \$450,000. If easements are acquired through condemnation, City Council approval is obtained regardless of the amount. Additionally, Charlotte Water Department uses e-Builder, a construction management software, to track all easement acquisitions.

### Acquisition Process

#### Timeline of a parcel

Project creation is how every parcel begins. While every parcel has the same starting point, the more complicated a project becomes, the more steps must be taken. An outline of the typical path of a Real Estate Division parcel is shown below.



## BACKGROUND (CONTINUED)

### Project Planning

The City determines what projects to undertake based on its needs. Each City project has different requirements that range from small projects like creating sidewalks and conserving trees to larger projects such as expanding roads or developing new government buildings. The Planning, Design, & Development Department starts each project by selecting plans with the most efficient design and the least intrusive options. During this phase, Engineers are consulted to determine what is required to make the project feasible and to perform due diligence (e.g., environmental impact and facility conditions) as necessary. Project management and engineering work together to oversee project planning, design, and construction.

### Project Management

When a project area falls into private property, the Real Estate Division begins assisting. The project manager will enter the project into RETRO (the division's system that houses various project and parcel information). After the project manager inputs plats/plans, the scope of the project, and the estimated fee into RETRO, an

#### Minor Project (MP)

- 45-day deadline
- Mainly donations and easements - no fees

#### Complex Minor Project (CM)

- 120-day deadline
- Include things like businesses, religious organizations, and HOAs

#### Pre-condemnation (PC)

- 150-day deadline
- Reserve about 6 weeks to get signed and from that point the condemnation process begins

acquisition manager within Real Estate Division will review the project. Then, the acquisition manager assigns a Real Estate Project Manager (REPM) to the project based on qualifications and experience. The REPM will also review the project to verify that the project manager has submitted all required information.

Once there is a complete understanding of the project's scope and the property's needs, the REPM creates the parcel(s) required for the project and assigns a contracted real estate agent to begin the acquisition process. Together the agent and REPM review and prepare for a kick-off meeting, and the agent makes initial contact with the property owner to start the negotiation process. The agent is also responsible for the research related to the property; this includes checking ownership, reviewing deeds, and determining if the property has any liens. The REPM reviews the real estate agent's documentation.

Stormwater projects are classified differently from all other projects. There are three main types of stormwater projects which are described in the graphic. These three types of projects follow the same workflow; however, complex minor projects and condemnations have additional requirements due to their complexity. The Real Estate Division dictates the deadlines for each

type of project to assess the work of their contracted real estate agents, and the division's goal is to meet 85% of deadlines.

All other projects are classified by their submission type. These are identified and detailed in the graphic on the following page. The most common submission type that Real Estate Division handles is easement acquisition. Easements are commonplace on minor and major projects. Walk aways and no acquisitions are all very similar in that these properties are being removed from a project.

## BACKGROUND (CONTINUED)

### Acquisition

- Acquisitions are broken down further into two subcategories; whether it went to closing or not and if the agreement amount required City Council approval.
- Acquisitions below \$10,000 do not require City Council approval. Typically, these acquisitions will only go to a closing attorney if there are issues with the title, otherwise the transaction is completed without a closing.
- Acquisitions requiring City Council approval will go to a closing attorney unless it is temporary in nature or for damages. An example of a temporary acquisition is the right to use the property temporarily to complete construction adjacent to the property. Damages are when completing work adjacent to a property and trees are taken out.

### Condemnation

- Condemnation is the process where the City uses eminent domain laws to take the rights of a private property for public use. Condemnation happens when the owner is not willing to negotiate. This process is described in more detail below.

### Right of Entry

- Right of entry allows the City to enter onto a property without an easement. It is common to have a right of entry requirement when access to a project necessitates transit through a property.

### Encroachment

- Encroachment is when an individual holds any portion of land above or below the area described in the property deed (e.g., air rights).

### Reservation of Easement

- It is required for easements on City-owned property. If the City should sell the property in the future, the easement on the property remains with the City.

### No Acquisition

- No acquisition means that the parcel is being removed from the project.

### Walk Away

- Donations are another common minor project submission type; these projects are looking for property owners to give up the needed area of their property to complete the project. These are common when an easement is required in order to complete a project that will increase the property's value (e.g., flood mitigation projects) and the property owner refuses donation.

### Receipt and Release

- Receipt and release is used to pay property owners for damages when the property owner donates the easement.

### Abandonment

- When the City has previously acquired an easement on a property, and now the easement is no longer needed.

### Relocation

- Relocations are required when the City acquires property and the property currently has a tenant. The City follows the Uniform Relocation Assistance and Real Property Acquisition Code in Federal Regulations to determine the financial assistance needed for a business or residential tenant relocation.

### Donation

- Donations are when the property needed for a project is given to the City without compensation. Stormwater typically requires the donation of easements since they are improving the real property, so if the parcel is not donated, it will most likely be a walk away.

## BACKGROUND (CONTINUED)

### Negotiations

The negotiation process starts with the project's initial presentation to the homeowner. The property's tax value, along with input from the REPM and the agent, determines the initial offer price. Every step in the negotiation process is documented in a negotiation diary. The diary includes all email correspondence, a summary of any in-person communications, and the final status of the parcel. The property owner can counteroffer during this process, and if it is reasonable, the agent will meet the seller's terms and continue to the next steps in the process. If it is apparent that the owner is unwilling to come to an agreement on a parcel necessary for a project, the REPM may begin the condemnation process. The option also exists to walk away from a project if it is not urgent.

### Appraisal

Appraisals describe a property's fair market value and are required on all parcels above \$25,000. Parcels below \$25,000 might be appraised based on the type and complexity of the parcel or if the property owner requests it. Any property that is in pre-condemnation will receive an appraisal regardless of value. Each appraisal is assigned to an independent appraisal firm. A property owner always has the option to obtain an independent appraisal at their own expense. Real Estate Division has several contracted firms to perform appraisals. Each firm is reviewed to assess accuracy and timeliness quarterly. When choosing an appraiser, the division considers each appraiser's specialization and experience to determine the best fit. The appraiser fee is tied to the complexity of the property. Once an appraiser sends the City a completed report, it is given to a second appraisal firm for review. Although not typical, if a need is urgent, the Appraisal Manager (a licensed appraiser) may complete the review in-house. About 50% of the projects completed by the City do not need to need an appraisal or title and can bypass this part of the process entirely.

### Closing

An acquisition goes to a closing attorney when the property requires City Council approval or has title issues. At closing, the title is updated, special provisions are agreed to, and the deed is signed over. Completion of IRS 1099-S is required when there is a monetary exchange for a parcel, which the closing attorney also completes. Exceptions to this requirement include payment for damages and temporary construction easements.

### Condemnation

Condemnation is the process of the government using eminent domain to take possession of property for a specific purpose. Properties reach the point of condemnation for various reasons, including; when ownership cannot be determined, an agreement cannot be reached during negotiation, or if it is the best option for the project timeline. Regardless of value, all condemnation properties go to the City Council for approval.

### Portfolio Management

Portfolio Management properties operations vary slightly compared to the abovementioned Real Estate Division process. The role of Portfolio Management is to buy and sell properties for a specific purpose as needed by the City and subsequently manage that property. Portfolio Management also manages the leases and licenses issued on behalf of the City. These projects often take longer due to their complex nature. It is infrequent for Portfolio Management projects to reach the point of condemnation. A key part of these projects is the required due diligence, including completing environmental and other surveys or rezoning permits as needed. The acquisition process is similar to the one described above, while dispositions and leases have different procedures.

## BACKGROUND (CONTINUED)

### Dispositions

A disposition is the process of selling an asset. Before a property can be sold, the City attempts to find a purpose, such as affordable housing or municipal parking. The City prioritizes using available City-owned real property to develop affordable housing. If the City is unable to use the property for affordable housing, the City will seek to partner with a non-profit or for-profit housing entity to develop the property for affordable housing. If the property is deemed unsuitable for affordable housing or other City priorities, they move to sell the property through a bidding system. Each property will receive an appraisal to determine a price. The property is advertised, and City Council must approve the selected bid.

### Leases

Portfolio Management is responsible for the properties the City leases out (lessor) and the properties they retain a lease for (lessee). For the City to accept a tenant, they must provide an executed agreement and a certificate of insurance. They also manage licensed properties similar to a lease without granting leaseholder rights. Usually, licenses are for the public use of a facility; an example would be a City-owned building used to hold community meetings. All leases over a year need to be approved by City Council. All properties that the City leases must receive approval from City Council if the cost is over \$100,000.

## OBJECTIVES AND APPROACH

### Objectives

The objectives of this internal audit were to assess whether the system of internal controls over the City's real estate process is adequate and appropriate for the achievement of management's objectives for effective monitoring and administration. The scope of our work will include the following processes executed within the Real Estate Division and Charlotte Water Department:

- Acquisitions
- Appraisals
- Condemnation
- Disposition
- Leasing

### Approach

Our audit approach consisted of the following:

#### Understanding and Documentation of the Process

To gain an understanding of the self-insurance process, we performed the following:

- Conducted an entrance conference with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements,
- Reviewed District and departmental policies and procedures,
- Conducted interviews with key management and departmental leadership to obtain an understanding of the overall self-insurance practice and documents, and procedures; and
- Performed walk-throughs of the processes to validate our understanding.

#### Evaluation of Design and Effectiveness of the Process and Controls

The purpose of this phase was to test compliance and internal controls. Our fieldwork testing utilized sampling and other auditing techniques to meet the abovementioned audit objectives. Procedures included, but were not limited to, the following:

- Obtained a population of real estate transactions executed during the 2022 fiscal year for both Real Estate Division and Charlotte Water Department
- Performed detailed testing on a sample of transactions chosen from the population of real estate transactions:
  - o Verified complete and accurate documentation packages for each transaction
  - o Verified proper reviews and approvals occurred for each transaction
  - o Verified appraisals completed by a qualified appraiser and reviewed by City employees
  - o Verified negotiations between the City and the proper owner are documented, and prices agreed upon are based on appraisals in cases of acquisitions and condemnations
  - o Real estate service requests are documented, reviewed at monthly status meetings, and completed accordingly
  - o Appraisals are completed by a qualified appraiser, reviewed, and approved
  - o Verify legal assistance was requested and obtained as required
- Assess the overall real estate transaction processes and control to determine the effectiveness

#### Reporting

During this phase, we summarized our findings/observations and recommendations in this report and have reviewed them with appropriate members of management.

## OBSERVATIONS MATRIX

Observation	1. Policies and Procedures									
<p style="text-align: center;"><b>Moderate</b></p>	<p>Through our detailed testing, we noted inconsistencies between departments in applying the following key processes: (1) approval thresholds for City Council approval, (2) tracking inventories of acquired property. We also noted a gap in the definition of a threshold related to appraisals for both departments. Each of these items is expanded upon below:</p> <p><u>City Council approval thresholds</u></p> <p>In our testing, we noted that Charlotte Water Department and Real Estate Division utilize different thresholds for obtaining City Council approval of land purchases. The table below summarizes each department's threshold and corresponding guidance cited by the Department as the authority for the threshold utilized.</p> <table border="1" data-bbox="583 618 1770 773"> <thead> <tr> <th>Department</th> <th>City Council Approved Threshold</th> <th>Cited Guidance</th> </tr> </thead> <tbody> <tr> <td>Real Estate Division</td> <td>\$10,000</td> <td>Resolution BK37-906 (07/22/2002)</td> </tr> <tr> <td>Charlotte Water Department</td> <td>\$500,000</td> <td>Resolution BK49-281 (12/17/2018)</td> </tr> </tbody> </table> <p>Real Estate Division cites guidance from the 2002 <i>Resolution Authorizing the City Manager and Designees to Contract, Acquire Real Property, and Approve Easements and Encroachments in City Property and Right-of-Way</i>. Within this resolution, the contracting authority is established for the City Manager and designees, and a separate authorization is noted specifically for the acquisition of real property.</p> <p><b>BK 37-905</b> <i>The City Manager and the City Manager's designees [...] are authorized to award, approve and execute contracts or agreements of any kind or nature on behalf of the City when the amount of such contract or agreement does not exceed fifty thousand dollars (\$50,000); provided that the City Council shall have approved a sufficient appropriation in the annual budget for the current fiscal year for the general purpose specified in the contract....</i></p> <p><b>BK 37-906</b> <i>The City Manager and the City Manager's designees are authorized to approve the acquisition by the City of real property having a value of ten thousand dollars (\$10,000) or less.</i></p> <p>Charlotte Water Department cites guidance from the 2018 <i>Resolution Delegating Authority to Award Certain Contracts</i>. Although this resolution updates the contracting authority thresholds for contracts, no additional language is provided to reference the acquisition of real property.</p> <p><b>BK 49-281</b> <i>[T]he City Manager and each of the City Manager's duly authorized designees are authorized to [...] approve, award and execute contracts and amendments to contracts, of any kind or nature when the expected expenditure of City funds is less than \$500,000, provided that the City Council shall have approved a sufficient appropriation in the annual budget for the current fiscal year for the general purpose specified in the contract....</i></p>	Department	City Council Approved Threshold	Cited Guidance	Real Estate Division	\$10,000	Resolution BK37-906 (07/22/2002)	Charlotte Water Department	\$500,000	Resolution BK49-281 (12/17/2018)
Department	City Council Approved Threshold	Cited Guidance								
Real Estate Division	\$10,000	Resolution BK37-906 (07/22/2002)								
Charlotte Water Department	\$500,000	Resolution BK49-281 (12/17/2018)								

## OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Policies and Procedures (continued)
	<p>When Charlotte Water Department submits a design-build project to City Council for approval, an action item is also included for blanket approval to authorize the City Manager to approve the acquisition of easements. The language (or similar) is used to request approval:</p> <p style="padding-left: 40px;"><i>Authorize the City Manager to acquire all easements and real property interests, including by condemnation, when necessary, for construction of the project.</i></p> <p>In our testing, we noted both departments followed their respective City County approval thresholds of \$10,000 and \$500,000. Although no exceptions were identified during testing, we noted a significant disparity between the required thresholds for the departments. Generally, an entity’s risk tolerance and associated approval thresholds should be applied consistently across the organization.</p> <p><u>Inventory and financial reporting</u></p> <p>During walkthroughs and testing, we noted that Real Estate Division and Charlotte Water Department utilize different systems for tracking respective land inventories, which may create inefficiencies and increase the risk of land misstatement within the City’s financial statements. Real Estate Division utilizes RETRO, a program within CityWorks, which was implemented in 2019. RETRO provides a real-time view of the current status of each project within its acquisition lifecycle. Charlotte Water Department utilizes e-Builder for internally managed projects; however, other systems may be used for external projects (e.g., NCDOT projects requiring main relocations).</p> <p>Accumulating the City’s capital assets for financial and other reporting requires a manual compilation from multiple systems. Neither RETRO nor e-Builder is integrated with the City’s financial accounting system. During interviews, finance personnel also expressed concern regarding the completeness and accuracy of land inventories provided by various departments.</p> <p>Although separate processes are utilized for financial reporting and other internal reporting purposes, the collection and amalgamation of complete, accurate, timely, and consistent information are critical for the decision-making process of the City’s leadership. Inaccurate reporting of real property could result in a financial statement misstatement. While only Charlotte Water Department and Real Estate Division were included within the scope of this audit, Finance personnel noted that these concerns apply to land inventories for all City departments.</p> <p><u>Appraisal thresholds</u></p> <p>During our review of appraisal policies and procedures for both departments, we noted that thresholds exist for valuations greater than \$25,000 and valuations less than \$25,000. Both department policies omit requirements for valuations equal to \$25,000. During testing, one sample equaled exactly \$25,000 and did not receive an appraisal. The omission of requirements for this value may increase the risk of misinterpretation and inconsistent application of appraisal thresholds.</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Policies and Procedures (continued)
<p><b>Recommendation</b></p>	<p>Considering that the departments have developed their own policies and procedures, we recommend that the City create a policy delineating the master requirements for all departments responsible for executing real property transactions, which includes a single source of information related to key thresholds and requirements. Examples include:</p> <ul style="list-style-type: none"> <li>• City Council approval thresholds for each type of real property transaction             <ul style="list-style-type: none"> <li>○ Easements</li> <li>○ Fee simple acquisitions</li> <li>○ Acquisitions within other projects or contracts</li> </ul> </li> <li>• Appraisal and review threshold             <ul style="list-style-type: none"> <li>○ Requirements for different types of acquisitions</li> <li>○ Negotiation limits above appraisal value</li> </ul> </li> <li>• IRS Form 1099-S completion             <ul style="list-style-type: none"> <li>○ Compilation of data required</li> <li>○ Submission of data to Finance for issuance to sellers</li> </ul> </li> <li>• Condemnations             <ul style="list-style-type: none"> <li>○ Appraisal and review requirements</li> <li>○ Required attempts to contact and negotiate with property owners</li> <li>○ Title abstracts</li> <li>○ City Council approval</li> </ul> </li> <li>• Acquisition due diligence requirements             <ul style="list-style-type: none"> <li>○ Pre-assessment of acquisitions to confirm alignment with City and departmental strategy</li> <li>○ Environmental due diligence</li> <li>○ Title due diligence</li> </ul> </li> <li>• Legal review requirements             <ul style="list-style-type: none"> <li>○ Defining thresholds for legal review</li> <li>○ Defining property transaction types requiring legal review</li> <li>○ Development of standard agreements with Legal</li> </ul> </li> <li>• Financial reporting             <ul style="list-style-type: none"> <li>○ Compilation of departmental fee simple and easement acquisitions, dispositions, leases, licenses, etc.</li> <li>○ Reporting data to Finance</li> <li>○ Reconciliations between departmental records and Finance records</li> </ul> </li> </ul> <p>After the publication of this policy, departments should verify compliance with their department-level policies and procedures. Additionally, department-level policies and procedures should have policy inception or revision date documented and periodic reviews conducted.</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Policies and Procedures (continued)
<b>Management's Action Plan</b>	<p><b>Response:</b> All real estate activities should be governed by a master plan which clearly defines general policies, key thresholds, and requirements. The development of a master plan would be the result of collaborative input from all departments conducting real estate transactions for the City of Charlotte. Oversight of the master plan would be the responsibility of the General Services Department – Real Estate Division.</p> <p><b>Responsible Party:</b> City of Charlotte Real Estate Division, Real Estate Division Manager</p> <p><b>Estimated Completion Date:</b> Third (3<sup>rd</sup>) quarter 2023</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Leases and Licenses
<p><b>Moderate</b></p>	<p>Subject to the City's <i>Policy on Leasing of City-Owned Facilities to Non-Profit Organizations</i>, the City may award below-market leases to non-profit organizations (NPO). Although no new leases to NPO were executed during our scope period, we noted the City currently has six (6) properties with NPOs as tenants continuing month-to-month under an expired lease or license.</p> <p>Per inquiry with Portfolio Management, the leases/licenses were allowed to lapse while Portfolio Management was pending receipt of guidance from City Council and Senior Management related to the future of the NPO leasing program and, in general, the program's alignment with City priorities.</p> <p>Portfolio Management indicated that several existing leases were renewed after the adoption of the policy in February 2018 but prior to the tenure of the current Real Estate Portfolio Program Manager. Since taking the position in April 2021, the current Program Manager has not renewed any leases, pending guidance as noted above. Considering the original leases/licenses originated prior to the adoption of the policy and have continued with extensions rather than new agreements, Portfolio Management noted concerns regarding noncompliance with the current policy. Specifically, Portfolio Management cited the following policy requirements that may not have been followed with current leases:</p> <ul style="list-style-type: none"> <li>• Application process</li> <li>• Confirming eligibility of applicants, per policy requirements</li> <li>• Inclusion of specific terms within each lease/license agreement</li> </ul> <p>As noted above, uncertainty exists regarding the future of this program. Allowing leases to continue past expiration increases the risk of divergence from City goals and initiatives. Further, continuing lease /license arrangements after expiration with organizations that have not been vetted for compliance with the adopted policy increases the reputational risk to the City.</p>
<p><b>Recommendation</b></p>	<p>We recommend Portfolio Management work with Senior Management and City Council to obtain guidance related to the future of this program. In the short term, this should include guidance on whether to execute updated lease/license agreements with the NPOs currently on month-to-month extensions of expired contracts or to terminate occupancy of city-owned property. In the long term, this should include plans for future lease agreements and the applicability of the existing policy, whether updates to the existing policy are needed, or whether to phase out the program.</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Leases and Licenses (continued)
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> Real Estate Division has draft policies for leasing facilities to non-profits as well as guidelines for the use of neighborhood centers. Real Estate Division plans to redevelop such policies to better align with City goals and initiatives in collaboration with the City Manager and City Council members. Additionally, an interdisciplinary committee composed of leaders from departments across the City has been established to review all real property assets to determine their highest and best use both now and in the future. At these meetings, leases, and licenses associated with these properties will be reviewed to determine whether they align with City goals and should be renewed or terminated.</p> <p><b>Responsible Party:</b> City of Charlotte Real Estate Division, Real Estate Portfolio Program Manager</p> <p><b>Estimated Completion Date:</b> End of fourth (4<sup>th</sup>) quarter 2023</p>



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