

Office of the Auditor General
Performance Audit Report

Real Estate Division
Department of Technology, Management, and Budget
December 2015

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit

Real Estate Division

Department of Technology, Management, and Budget

Report Number:
071-0126-15

Released:
December 2015

The Real Estate Division's (RED's) mission is to provide cost-effective, functional, and efficient space by providing maximum value in an ethical, professional, and timely manner to exceed the customer's expectations. RED is responsible for the procurement and oversight of the space in which executive branch State agencies conduct their day-to-day operations. RED is not responsible for the acquisition and disposal of land and facilities for the Michigan Department of Transportation, Department of Natural Resources, Department of Military and Veterans Affairs, and the Michigan Land Bank Fast Track Authority. As of October 1, 2014, RED reported 487 active leases with annual lease payments totaling \$83.8 million.

Audit Objective			Conclusion
Objective: To assess the effectiveness of RED's utilization of State-owned and leased properties.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
RED needs to work with the Office of Financial Management to require State agencies to include lease identifying information when recording lease expenditures. Such requirements would improve RED's ability to identify inaccurate or unauthorized lease payments. Also, it would reduce the number of unnecessary steps to compare actual to expected lease payments (<u>Finding #1</u>).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.audgen.michigan.gov

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Doug A. Ringler, CPA, CIA
Auditor General

December 7, 2015

Mr. David B. Behen, Director
Department of Technology, Management, and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Behen:

I am pleased to provide this performance audit report of the Real Estate Division, Department of Technology, Management, and Budget.

Your agency provided a preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General

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REAL ESTATE DIVISION

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

UTILIZATION OF STATE-OWNED AND LEASED PROPERTIES

BACKGROUND

The Real Estate Division (RED) provides facility leasing and real property sales and acquisition services to executive branch State agencies.

RED's facility leasing services include:

- Acquiring new offices, warehouses, and other facilities.
- Drafting and processing leases, rental agreements, licenses, lease addendums, renewals, and exercise options.
- Modifying and renovating leased space.
- Leasing excess space in State facilities to non-State parties.
- Enforcing lease compliance.
- Reviewing agency lease expenses.

RED's real property sales and acquisition services include:

- Acquiring real property.
- Redeploying and reusing surplus facilities.
- Disposing of surplus State real property.
- Requesting statutory authorization to transfer property between State agencies.
- Obtaining approval for jurisdictional transfers.
- Acquiring easements for State use and provision of easements across State-owned lands.
- Obtaining licenses and leases for the use of State-owned land and facilities.
- Assisting with the drafting of memorandums of understanding between State agencies.
- Maintaining records of land and facility transactions.

AUDIT OBJECTIVE

To assess the effectiveness* of RED's utilization of State-owned and leased properties.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- After the prior audit, RED established practices and procedures to improve the completeness and accuracy of ARCHIBUS* data.
- RED looks to use current State-owned or leased space before entering into new leases.
- RED revised work station guidelines to 8' x 8' from 8' x 10', which helped decrease office requirements and increase occupancy.
- For the period January 2012 through October 2014, RED decreased the number of executive branch State agency leased facilities from 522 to 487 and reduced the area of leased space from 6.4 million to 5.5 million square feet.
- For the period October 2011 through February 2015, RED reported that it reduced agency expenditures by a total of \$1.3 million through its reviews of tenant paid expenses and landlord reimbursements.
- As of October 2014, RED managed State-as-lessor lease agreements to non-State tenants for an annual income of \$2.5 million.
- In fiscal years 2012 and 2013, surplus land sales revenues to the State and the cost avoidance related to those properties totaled \$1.9 million.
- Reportable condition* related to lease expenditure information.

* See glossary at end of report for definition.

FINDING #1

Improvements are needed to ensure that lease expenditures were for the proper amounts and to identify irregularities.

RED needs to work with the Office of Financial Management (OFM) to require State agencies to include lease identifying information when recording lease expenditures. Such requirements would improve RED's ability to identify inaccurate or unauthorized lease payments. Also, it would reduce the number of unnecessary steps to compare actual to expected lease payments.

Sections 18.1219 and 18.1221 of the *Michigan Compiled Laws* and Department of Technology, Management, and Budget (DTMB) Administrative Guide procedures 110.03 and 110.05 authorize RED to procure and oversee space in which executive branch State departments conduct their day-to-day operations. Also, RED is responsible for maintaining tenant reported expense and base rent data and performing lease expenditure audits.

RED did not consistently compare actual monthly lease expenditures to signed lease agreements because State agencies generally do not provide lease identifying information within their lease payment transactions in the Michigan Administrative Information Network* (MAIN). Consequently, after RED obtains lease expenditure data recorded in MAIN, it summarizes the data by agency and then compares the data to the agency's previous month's expenditures with the active lease report of rents at fiscal year-end. If RED identifies a variance of \$10,000 for an agency with larger monthly lease payments (less for State agencies with smaller monthly lease payments), RED reviews additional information from sources including ARCHIBUS, signed lease agreements, or other RED documents to identify the applicable lease(s) and determines the cause of the variance. If the variance remains unresolved, RED will contact the State agency for more information.

As of October 1, 2014, RED reported 487 active leases with annual lease payments totaling \$83.8 million. Our comparison of the annual lease costs reported on RED's October 1, 2014 active lease report with the fiscal year 2014 lease and rental expenditures recorded in MAIN identified:

- 272 (55.9%) leases had a net variance of \$1.8 million (2.1%) while the expenditures recorded in MAIN were less than the total reported annual rent costs.
- Individual leases with variances had expenditures recorded in MAIN ranging from \$317,000 less than to \$351,000 more than the reported annual lease cost.

If RED was provided access to the detailed lease payment information, it could minimize its efforts in reconciling the actual lease expenditures to the authorized lease expenditure

* See glossary at end of report for definition.

amounts. Although RED communicated with DTMB's Office of Financial Services and some State agencies to enhance lease payment data, RED has neither worked with OFM to establish a procedure to require State agencies to include lease identifying information when recording lease expenditures nor required State agencies to provide that information.

RECOMMENDATION

We recommend that RED work with OFM to require State agencies to include lease identifying information when recording lease expenditures.

**AGENCY
PRELIMINARY
RESPONSE**

RED provided us with the following response:

DTMB RED agrees and will comply with a plan to enhance audit procedures and work with OFM to require lease identifying information on expenditures.

RED's current procedures include a monthly audit of lease payments by agency for reasonableness to lease terms and random detail reconciliations of expenditures to specific leases or groups of leases throughout the year. RED will review current procedures in order to identify and implement process improvements that will enhance the efficiency and accuracy of lease expenditure audits.

In the past, RED worked with DTMB Financial Services and the financial services divisions of the larger agencies to develop the most effective identification of lease expenditures through the MAIN financial system. Specific lease identification was not possible on a Statewide basis due to limitations in the MAIN coding structure. RED will revisit the current reporting of MAIN expenditures from DTMB Financial Services to determine if additional identifying information can be reported.

RED participated in the initial SIGMA financial system design meetings to express the desire to require lease identification information on lease related expenditures. RED will work with OFM to ensure that lease identification information is recorded on lease expenditures through SIGMA.*

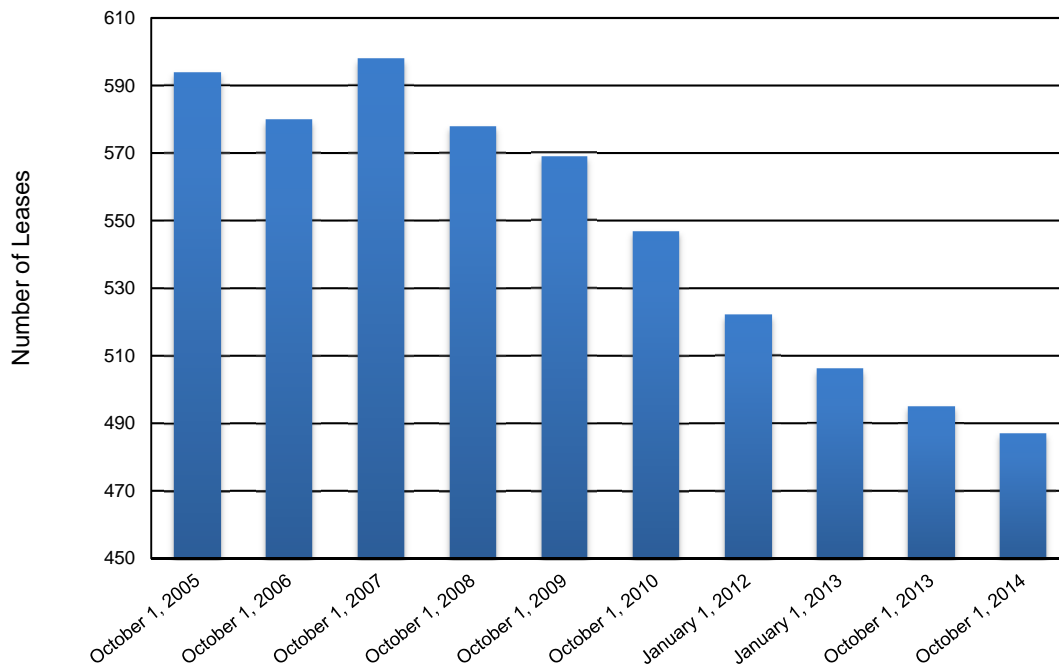
* See glossary at end of report for definition.

SUPPLEMENTAL INFORMATION

As part of our audit report, we prepared supplemental information that relates to our audit objective (see Exhibits #1 through #5). Our audit was not directed toward expressing a conclusion on this information.

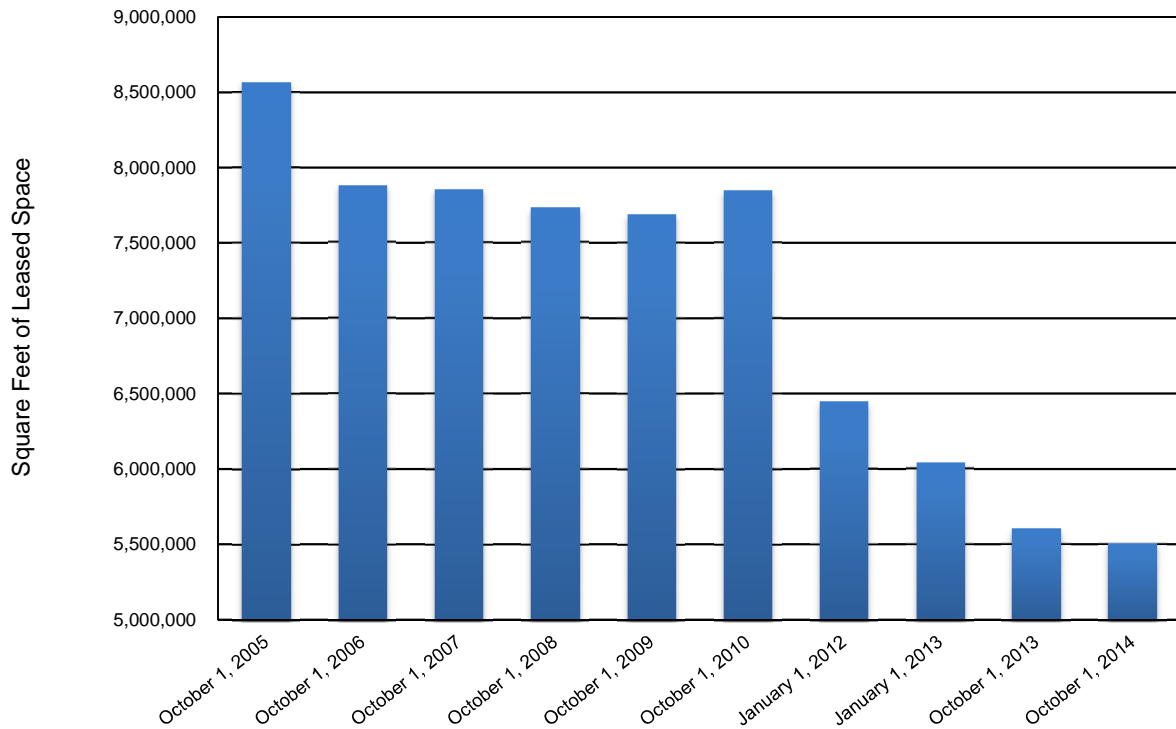
UNAUDITED
Exhibit #1

REAL ESTATE DIVISION
Department of Technology, Management, and Budget
Number of Leases
During the Period October 1, 2005 Through October 1, 2014



Source: Prepared by the Office of the Auditor General based on information obtained from RED's October 1, 2014 active lease report.

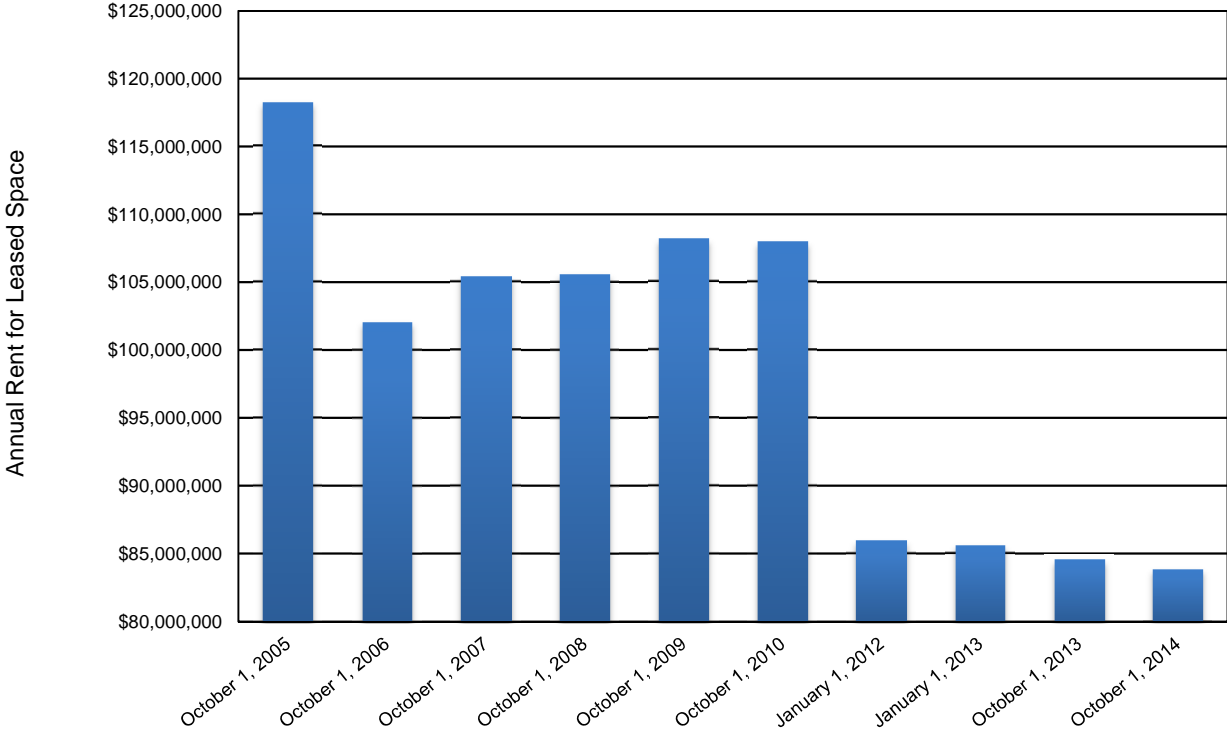
REAL ESTATE DIVISION
Department of Technology, Management, and Budget
Leased Space by Square Feet
During the Period October 1, 2005 Through October 1, 2014



Source: Prepared by the Office of the Auditor General based on information obtained from RED's October 1, 2014 active lease report.

REAL ESTATE DIVISION
Department of Technology, Management, and Budget

Annual Rent for Leased Space
During the Period October 1, 2005 Through October 1, 2014



Source: Prepared by the Office of the Auditor General based on information obtained from RED's October 1, 2014 active lease report.

REAL ESTATE DIVISION
Department of Technology, Management, and Budget

State-Owned Facilities
As of November 1, 2014

Facility Name	County	Agency	City	Building Type	Area (Square Feet)
Allegan Ramp	Ingham	Not applicable	Lansing	Parking Ramp	9,508
Richard H. Austin Building	Ingham	SOS, MDT	Lansing	Office Building	Not provided
Cadillac Place	Wayne	AG, DCH, DCR, DEQ, DHS, DTMB, LARA, MSF, MSHDA, MSP, SOS, MDT	Detroit	Office Building	1,338,710
Constitution Hall	Ingham	DEQ, DNR, MDARD, DTMB, LARA	Lansing	Office Building	471,592
Construction and Technology Facility	Eaton	MDOT	Dimondale	Offices, Laboratory, Workshops	100,142
Energy Center	Eaton	DTMB	Dimondale	Physical Plant	Not provided
Escanaba State Office Building	Delta	DHS, LARA, DTMB, MDT	Escanaba	Office Building	24,298
Flint State Office Building	Genesee	DCR, DHS, DTMB, LARA, MDT	Flint	Office Building	107,564
General Office Building	Eaton	DTMB, LARA	Dimondale	Office Building	243,059
General Services Building	Eaton	DTMB	Dimondale	Office Building	152,750
Grand Rapids State Office Building	Kent	DCR, DEQ, DHS, DTMB, JUD, LARA,	Grand Rapids	Office Building	88,672
Grand Tower	Ingham	DHS, DTMB	Lansing	Office Building	273,691
Michigan Hall of Justice	Ingham	JUD	Lansing	Court Rooms, Offices	271,099
John A. Hannah Building	Ingham	MDE	Lansing	Office Building	180,196
Jackson State Office Building	Jackson	DEQ, DHS, DTMB, LARA	Jackson	Office Building	73,193
North Complex Joint Lab	Ingham	DCH, DEQ, DTMB	Lansing	Laboratory	Not provided
Joint Operations Center	Ingham	DTMB	Lansing	Emergency Operations	Not provided
Lansing Forensic Lab	Eaton	MSP	Dimondale	Office, Laboratory	Not provided
Lewis Cass Building	Ingham	DCH, DTMB, LARA	Lansing	Office Building	205,016
Lottery Building	Ingham	BSL, GCB	Lansing	Office Building	286,561
Stevens T. Mason Building	Ingham	Vacant*	Lansing	Office Building	204,192
MDOT Photo Lab	Eaton	MDOT	Dimondale	Office Building	28,831
MDOT Warehouse	Eaton	MDOT	Dimondale	Warehouse	93,594
Michigan Library and Historical Center	Ingham	DNR, MDE, LARA, MSHDA	Lansing	Library, Offices	286,374
Operations Center	Eaton	MDT, DTMB	Dimondale	Office Building	346,736
Ottawa Building/Ramp	Ingham	LARA, DIFS	Lansing	Office Building	174,600
Records Building	Ingham	DNR, DTMB, MDT	Lansing	Warehouse	6,293
George W. Romney Building	Ingham	DTMB, LARA, MSHDA	Lansing	Office Building	228,927
Roosevelt Parking Ramp	Ingham	EXEC, Others	Lansing	Parking Ramp	Not provided
Saginaw State Office Building	Saginaw	DHS, DTMB, LARA, MDT,	Saginaw	Office Building	111,186
Secretary of State Building	Eaton	SOS	Dimondale	Office Building	119,316
Michigan State Police Headquarters	Ingham	MSP, DTMB	Lansing	State Police Headquarters	138,940
Michigan State Police First District	Eaton	MSP	Dimondale	Police Post	138,384
Michigan State Police Training	Eaton	MSP	Dimondale	Training	143,748

This exhibit continued on next page.

REAL ESTATE DIVISION
Department of Technology, Management, and Budget

State-Owned Facilities
As of November 1, 2014
Continued

Facility Name	County	Agency	City	Building Type	Area (Square Feet)
Traverse City State Office Building	Grand Traverse	DHS, DTMB, LARA, DCH, MDARD, MDT	Traverse City	Office Building	51,655
Murray Van Wagoner Building	Ingham	LARA, DTMB, MDOT	Lansing	Office Building	231,657
Vehicle and Travel Services	Eaton	DTMB, MSP	Dimondale	Garage, Offices	86,588
SOM Warehouse Complex	Ingham	DTMB	Lansing	Warehousing and Office Complex	Not provided
G. Mennen Williams Building	Ingham	AG	Lansing	Office Building	128,555

Legend:

MDARD	Michigan Department of Agriculture and Rural Development
AG	Department of Attorney General
BSL	Bureau of State Lottery
DCR	Department of Civil Rights
CSC	Civil Service Commission
DCH	Department of Community Health
DOC	Department of Corrections
MDE	Michigan Department of Education
DEQ	Department of Environmental Quality
EXEC	Executive Office of the Governor
GCB	Gaming Control Board
DHS	Department of Human Services
DIFS	Department of Insurance and Financial Services
JUD	Judicial
LARA	Department of Licensing and Regulatory Affairs
DMVA	Department of Military and Veterans Affairs
DNR	Department of Natural Resources
SOS	Secretary of State
MSHDA	Michigan State Housing Development Authority
MSP	Michigan Department of State Police
MSF	Michigan Strategic Fund
DTMB	Department of Technology, Management, and Budget
MDOT	Michigan Department of Transportation
MDT	Department of Treasury

* As of November 1, 2014, the Stevens T. Mason Building was vacant during renovation. During 2015, DIFS, LARA, and DTMB took occupancy after the renovation.

Source: Prepared by the Office of the Auditor General based on information from RED's Section 221a(1)(a) report dated November 1, 2014.

REAL ESTATE DIVISION
Department of Technology, Management, and Budget

Leased Facilities
As of November 1, 2014

County	Agency*	City	Total Square Feet	Annual Rent
Alcona	SOS	Harrisville	1,113	\$ 14,724
Alger	DHS, SOS	Munising	6,156	\$ 109,825
Allegan	DHS, MSP, SOS	Allegan, Saugatuck, Wayland	31,582	\$ 422,365
Alpena	DHS, LARA, MDOT, MSP, SOS	Alpena	37,219	\$ 292,150
Antrim	DHS, SOS	Bellaire	7,075	\$ 87,145
Arenac	DHS, SOS	Standish	11,308	\$ 101,345
Baraga	DHS, SOS	Baraga, L'Anse	7,402	\$ 107,490
Barry	DHS, MSP, SOS	Hastings	16,933	\$ 299,994
Bay	DEQ, DHS, DNR, DOC, MSF, MSP,	Bay City	72,463	\$ 838,586
Benzie	DHS, SOS	Beulah, Honor	7,520	\$ 130,911
Berrien	DHS, DMVA, DOC, MSF, SOS	Benton Harbor, St. Joseph, Niles	88,155	\$ 1,819,140
Branch	DHS, SOS	Coldwater	15,349	\$ 247,190
Calhoun	DEQ, DHS, DOC, MSF, SOS	Albion, Battle Creek, Marshall	56,986	\$ 944,737
Cass	DHS, MSF, SOS	Cassopolis, Dowagiac	17,449	\$ 203,323
Charlevoix	SOS	Charlevoix	1,431	\$ 12,164
Cheboygan	DHS, SOS	Cheboygan	12,750	\$ 85,360
Chippewa	DHS, DOC, LARA, SOS	Kinross, Sault Ste. Marie	15,608	\$ 248,836
Clare	DHS, DNR, SOS	Clare, Harrison	19,734	\$ 155,091
Clinton	DHS, MSP, SOS	Lansing, St. Johns	104,315	\$ 427,498
Crawford	DCH, DHS, MSP, SOS	Grayling	22,637	\$ 265,920
Delta	DNR	Escanaba	2,936	\$ 28,692
Dickinson	DHS, DTMB, MDOT, MSP, SOS	Kingsford, Iron Mountain	12,807	\$ 107,683
Eaton	DHS, DMVA, DTMB, LARA	Charlotte, Grand Ledge, Lansing	48,682	\$ 794,251
Emmet	DCR, DHS, SOS	Petoskey	14,805	\$ 190,324
Genesee	DCH, DHS, DMVA, DNR, DOC, LARA, MDE, MSF, MSP, SOS	Clio, Davison, Fenton, Flint, Holly, Otisville	273,806	\$ 3,801,733
Gladwin	DHS, DNR, SOS	Gladwin	14,456	\$ 197,610
Gogebic	DHS, MSP, SOS	Bessemer, Wakefield	20,696	\$ 114,453
Grand Traverse	DHS, DNR, LARA, MDOT, MSF, SOS	Traverse City	52,633	\$ 906,868
Gratiot	DHS, SOS	Alma, Ithaca	14,404	\$ 194,688
Hillsdale	DHS, MSF, MSP, SOS	Hillsdale, Jonesville	16,102	\$ 276,339
Houghton	DHS, DNR, LARA, SOS	Calumet, Hancock, Houghton	16,548	\$ 225,938
Huron	DHS, SOS	Bad Axe	10,805	\$ 115,753
Ingham	AG, CSC, DCH, DCR, DEQ, DHS, DMVA, DOC, DTMB, LARA, MDARD, MDE, MDT, MSF, MSHDA, MSP, SOS	East Lansing, Lansing, Okemos, Mason	1,512,762	\$ 24,804,196
Ionia	DHS, SOS	Ionia	15,955	\$ 204,288
Iosco	DHS, DNR, SOS	East Tawas	24,791	\$ 134,679
Iron	DHS, DNR, SOS	Iron River, Caspian, Mastodon Twp.	11,043	\$ 90,991
Isabella	DHS, MSP, SOS	Mt. Pleasant	37,791	\$ 709,797
Jackson	DOC, MSF, SOS	Jackson	12,065	\$ 149,984
Kalamazoo	DCH, DEQ, DHS, DOC, LARA, MDT,	Kalamazoo, Portage	140,556	\$ 1,934,563
Kalkaska	DHS	Kalkaska	7,719	\$ 67,618
Kent	BSL, DEQ, DHS, DTMB, LARA, MDOT, MSP, SOS	Grand Rapids, Sparta, Rockford, Wyoming	376,052	\$ 7,866,638
Keweenaw	SOS	Mohawk	880	\$ 9,680
Lake	DHS	Baldwin	14,600	\$ 60,000
Lapeer	DHS, MSF, SOS	Lapeer	22,861	\$ 235,671
Leelanau	DHS, MSP, SOS	Lake Leelanau, Leland, Suttons Bay	2,020	\$ 15,471
Lenawee	DHS, MSF, SOS	Adrian	26,754	\$ 251,040
Livingston	DHS, DOC, MDOT, MSF, MSP, SOS	Brighton, Howell	42,085	\$ 657,054
Luce	DHS, DNR, SOS	Newberry	12,205	\$ 145,938

This exhibit continued on next page.

REAL ESTATE DIVISION
Department of Technology, Management, and Budget

Leased Facilities
As of November 1, 2014
Continued

County	Agency*	City	Total Square Feet	Annual Rent
Mackinac	DHS, MDOT, MSP, SOS	Mackinac Island, St. Ignace	7,241	\$ 71,413
Macomb	BSL, DEQ, DHS, DMVA, DOC, MDOT, MDT, MSF, MSP, SOS	Chesterfield Twp., Clinton Twp., Mount Clemens, Romeo, Roseville, Shelby Twp., St. Claire Shores, Sterling Heights, Warren	264,863	\$ 4,679,405
Manistee	DHS, SOS	Manistee	12,085	\$ 141,098
Marquette	AG, DEQ, DHS, LARA, SOS	Marquette	38,961	\$ 521,992
Mason	DHS, MSF, SOS	Ludington	12,473	\$ 65,901
Mecosta	DCH, DHS, DNR, SOS	Big Rapids, Paris	25,206	\$ 372,344
Menominee	DHS, SOS	Menominee	9,198	\$ 85,422
Midland	DHS, MSF, SOS	Midland	29,202	\$ 343,923
Missaukee	DHS, SOS	Lake City	18,795	\$ 214,218
Monroe	DHS, MSF, SOS	Monroe, Temperance	36,004	\$ 638,916
Montcalm	DHS, MSP, SOS	Greenville, Lakeview, Stanton	24,528	\$ 276,222
Montmorency	DHS, MDARD, SOS	Atlanta	15,615	\$ 106,707
Muskegon	DHS, DOC, MSF, SOS	Muskegon, Muskegon Heights	61,477	\$ 717,321
Newaygo	DHS, MSF, SOS	Fremont, White Cloud	18,753	\$ 139,650
Oakland	DHS, DMVA, DOC, LARA, SOS	Clarkston, Highland, Madison Heights, Novi, Oak Park, Pontiac, Rochester Hills, Southfield, Troy, Walled Lake, West Bloomfield	252,296	\$ 4,034,322
Oceana	DHS, SOS	Hart	17,146	\$ 245,112
Ogemaw	DHS, MSF, MSP, SOS	West Branch	17,353	\$ 143,396
Ontonagon	DHS, SOS	Ontonagon	4,278	\$ 36,023
Osceola	DHS, SOS	Reed City	1,627	\$ 22,753
Oscoda	DHS, SOS	Mio	6,655	\$ 70,984
Otsego	DEQ, DHS, DMVA, LARA, MSF, MSP,	Gaylord	45,989	\$ 625,000
Ottawa	DHS, DMVA, DNR, MSF, SOS	Allendale, Grand Haven, Holland,	54,687	\$ 858,653
Presque Isle	DHS, SOS	Rogers City	6,044	\$ 84,430
Roscommon	DHS, SOS	Prudenville, Roscommon	10,400	\$ 108,943
Saginaw	DOC, LARA, MSF, SOS	Saginaw, St. Charles	49,632	\$ 756,384
St. Clair	DHS, MSF, SOS	Port Huron	42,790	\$ 898,607
St. Joseph	DHS, DOC, SOS	Centreville, Sturgis, Three Rivers	21,979	\$ 323,923
Sanilac	DHS, MSP, SOS	Sandusky	16,937	\$ 179,574
Schoolcraft	DHS, MSP, SOS	Manistique	6,144	\$ 133,589
Shiawassee	DHS, MSF, SOS	Owosso	27,243	\$ 413,365
Tuscola	DHS, MSP, SOS	Caro	26,957	\$ 524,315
Van Buren	DHS, MSF, SOS	Hartford, Paw Paw	38,897	\$ 496,150
Washtenaw	DHS, DNR, SOS	Ann Arbor, Chelsea, Ypsilanti	62,731	\$ 673,119
Wayne	AG, BSL, DHS, DMVA, DOC, DTMB, LARA, MDOT, MSF, MSP, SOS	Belleville, Brownstown, Canton, Dearborn, Detroit, Garden City, Grosse Pointe Woods, Hamtramck, Highland Park, Inkster, Lincoln Park, Livonia, Redford, Southgate, Taylor, Trenton, Wayne, Westland	855,180	\$ 12,668,538
Wexford	DEQ, MSP, SOS	Cadillac	41,783	\$ 425,778
Out of State	EXEC, MDOT	Washington, D.C.; Dallas, Texas; Elmhurst, Illinois; Independence, Ohio; Irvine, California; Purchase, New York	15,341	\$ 397,007

* See Exhibit #4 legend for agency abbreviations.

Source: Prepared by the Office of the Auditor General based on information from RED's Section 221a(1)(a) report dated November 1, 2014.

AGENCY DESCRIPTION

RED's mission* is to provide cost-effective, functional, and efficient space by providing maximum value in an ethical, professional, and timely manner to exceed the customer's expectations. RED, which operates within DTMB, is responsible for the procurement and oversight of the space in which executive branch State agencies conduct their day-to-day operations.

In meeting its responsibilities, RED:

1. Secures and administers most leased land and facilities for executive branch State agencies.
2. Acquires and disposes of real estate for those State agencies that otherwise do not have statutory authority to execute these transactions.
3. Processes grants and purchases easements.
4. Leases and administers State-owned, DTMB-managed facilities to private tenants.
5. Assists all State agencies with move management, space programming, interior design, and furniture installation.
6. Drafts legislation for the statutory authorization to transfer property between State agencies.

RED is not responsible for the acquisition and disposal of land and facilities for the Michigan Department of Transportation, Department of Natural Resources, Department of Military and Veterans Affairs, and Michigan Land Bank Fast Track Authority.

RED had expenditures of \$3.5 million and \$3.7 million for fiscal years 2013 and 2014, respectively. As of February 2015, RED had 29 full-time equated employees.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine RED's activities and other records related to asset management. 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through February 28, 2015.

METHODOLOGY

We conducted a preliminary survey to obtain an understanding of RED's strategic planning, land management, leasing, space coordination, and warehousing services, operations, and activities in order to establish our audit objective and methodology. As part of our preliminary survey, we:

- Interviewed RED management and program staff.
- Reviewed applicable laws, regulations, policies, and procedures.
- Analyzed and reviewed RED documents and reports.
- Reviewed Statewide lease expenditures.

OBJECTIVE

To assess the effectiveness of RED's utilization of State-owned and leased properties.

To accomplish this objective, we:

- Reviewed records for a judgmental selection of 7 and a random sample of 20 of the 487 active leases as of October 1, 2014 to determine whether RED completed required notification to State agencies, submitted requests for proposals, prepared market analyses, and obtained the proper approvals.
- Analyzed RED data related to leased and State-owned properties' workspace and occupancy rates and visited

* See glossary at end of report for definition.

3 properties to evaluate the accuracy of the reported occupancy.

- Reviewed records for a judgmental selection of 10 and a random sample of 20 of the 487 active leases to determine that RED's legislative reports and ARCHIBUS data were complete and accurate.
- Reviewed records for a judgmental selection of 1 and a random sample of 13 of 130 leases canceled as of October 1, 2012 or later to determine that RED's legislative reports and ARCHIBUS data were complete and accurate.
- Examined RED's process to review executive branch State agencies' lease expenditures to confirm that they were reasonable.
- Reviewed the deeds of properties sold to local units of government during the period October 2011 through February 2015 for "public use" to confirm that the deeds included "public use" restrictions.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 1 finding and 1 corresponding recommendation. RED's preliminary response indicates that it agrees with the recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

**PRIOR AUDIT
FOLLOW-UP**

Within the scope of this audit, we followed up 3 of the 6 prior audit recommendations from our June 2002 performance audit of the Real Estate Division (07-126-01). We also followed up 4 of the 6 prior audit recommendations from our May 2005 performance audit of the Space Planning and Leasing Process (07-128-04). RED complied with the 7 prior audit recommendations, and we determined that the 5 other prior audit recommendations were not related to this audit's scope.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #5. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

ARCHIBUS	A computerized facility management system.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
OFM	Office of Financial Management.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SIGMA	New Statewide information system.

