

REPORT DIGEST

MANAGEMENT AUDIT OF THE

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

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State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

To obtain a copy of the report
contact:

Office of the Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703
(217) 782-6046 or
TDD: (217) 524-4646

This report is also available on the
worldwide web at:
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SYNOPSIS

The State lacks an overall system to effectively manage real property. A real property management system should treat land and buildings as strategic assets to be managed proactively. The Department of Central Management Services (CMS) is designated as the State agency responsible for the State's space utilization program.

CMS does not maintain an accurate and complete inventory of real property owned by the State:

- In response to our survey, agencies reported to us that there were 201 properties that were owned by the agencies but which were not included in the CMS master record or were assigned to the incorrect agency. State-owned properties such as Lincoln's New Salem State Park, the Vandalia State House, and Lincoln's Tomb were not in the CMS master record. There were also 100 properties that needed some form of correction on the master record.
- The 102 county assessors we surveyed identified 27,783 parcels of land owned by the State. We sampled 150 parcels and found that 28% (42 of 150) should have been included in the CMS master record but were not.
- An automated system developed by CMS to report on real property owned by the State contained inaccurate information and its use was discontinued in August 2003.

CMS has no formal policies and procedures for ensuring that excess and surplus real property is reasonably considered when filling State agencies' space requests. In 69% of the lease files sampled (33 of 48), CMS did not check for availability of space in State-owned facilities until **after** CMS set up, and the lessor signed, the lease.

In our testing, we identified a significant amount of excess space in both State-owned and State-leased properties:

- 17 State agencies surveyed listed excess space in 270 leases, representing approximately 413,000 square feet of excess leased space.
- Our testing identified that 90 of 574 buildings at DHS facilities were unoccupied; 18% of the total square footage at DHS facilities was not being used. Several DHS facilities also reported excess land at their facilities.
- DHS leased excess space at its facilities to other entities; the 25 leases generated an average of \$0.15 per square foot in annual lease revenue; many of the leases charged minimal or no rent.

Since 1998, CMS has sold or conveyed seven State properties declared surplus by the controlling State agency.

- CMS did not meet timeframes established in administrative rules for notifying State agencies of the availability of surplus property.
- As of August 2003, CMS had only six properties listed as surplus.

The audit contains nine recommendations to the Department of Central Management Services to improve its space utilization program.

REPORT CONCLUSIONS

The State lacks an overall system to effectively manage real property. A real property management system should treat land and buildings as strategic assets to be managed proactively. The Civil Administrative Code (20 ILCS 405/405 *et seq.*) and the State Property Control Act (30 ILCS 605/1 *et seq.*) assign responsibility for certain State properties, acquisitions, and services to the Department of Central Management Services (CMS). CMS is designated as the State agency responsible for the State's space utilization program (44 Ill. Adm. Code 5000).

A complete and accurate real property inventory is an essential element of an effective Statewide space utilization system. The master record of State-owned property maintained by CMS, and reported to the General Assembly, is neither complete nor accurate. In response to a survey we sent State agencies asking them to review the accuracy of properties on the CMS master record, the agencies identified:

- 201 properties that were currently owned by the agencies but which were not included in the CMS master record or were assigned to the incorrect agency, and
- 100 additional properties that needed some form of correction on the CMS master record. For example, the property was no longer owned by the agency, the property had been transferred to another agency, the property was a duplicate entry, or buildings had been demolished at the site.

Our review of county assessor records also identified shortcomings with the CMS master record. We contacted the 102 county assessors' offices in the State, all of which provided timely information on property owned by the State of Illinois in their counties. The assessors identified 27,783 parcels of land as owned by the State. The CMS master record lists 3,091 State-owned properties (such as land and buildings). There are valid reasons for some of the differences between the assessor and CMS records – for example, the CMS master record reports by property name (e.g., the Elgin Mental Health Center) which may comprise multiple parcels, and parcels related to highway rights-of-way may be included in the assessor records but are exempted from the CMS master record.

However, there were properties on assessor records that should have been included in the CMS master record but were not. Our review of 150 parcels from assessor records found that 42 of the parcels (28 percent) were not specifically exempted by law and should have been included in the CMS master record but were not.

Furthermore, inconsistencies in the information presented in the master record significantly limit its usefulness to the State. For example, for some agencies, individual buildings as well as land were listed (such as 927 entries for Southern Illinois University), whereas for others, only one entry was listed for all land and buildings owned by the agency (such as one entry for Chicago State University).

Improvements in the State agencies' reporting of real property to CMS are needed. Some agencies do not report in the format prescribed by CMS. Also, more detailed information on individual buildings, as well as any leases with external entities to use State-owned space, would provide useful information to CMS.

During the past two years, CMS attempted to automate the master record of State-owned real property. We found that the information contained in the system is neither complete nor reliable. Testing found that:

- 57 percent of the changes we sampled from the State-Owned and Surplus Real Property report, which is submitted annually to the General Assembly, were not reflected in the automated system.
- Data maintained in CMS' automated system, that was input from previous submissions from State agencies, was extremely incomplete. For example, only 25 percent of the records contained a tax identification number and only 10 percent contained information on the acreage of the property.

For these data accuracy reasons, the system was taken offline in August 2003 and is no longer available to State agencies for submitting real property information. The master record continues to be maintained as a word processing file with no ability to provide management reports.

CMS' Bureau of Property Management has not been successful in implementing goals and objectives from the 2002 CMS Strategic Plan. Of the eight goals and objectives identified as being applicable to the space utilization program, three were partially completed and five were not completed. Failure to complete the goals and corresponding objectives increases the likelihood that the space utilization program is not efficiently managed.

CMS and other large land holding agencies have reported to us that they do not perform long-term planning for space use. A coordinated approach to real property planning could help the agencies make better use of the lands and buildings they own and allow for more cost efficiencies in State government.

CMS lacks a formal policy or procedure to identify open space in State-owned buildings that the Department controls. We found that the process for analyzing open space is informal and not documented nor communicated to CMS’ Real Property Division. Additionally, CMS relies on State agencies to report excess space at agency-owned facilities and does not verify those agency assertions. State agencies do not always report excess space in their facilities to CMS. Failure to analyze and report on open space in State-owned buildings can result in the State leasing space for State agencies and wasting State resources.

CMS has no formal policies and procedures for ensuring that excess and surplus real property is reasonably considered when filling State agencies’ space requests. Additionally, since CMS is not adequately tracking and identifying excess and surplus real property, we would conclude that excess and surplus property is not being considered in filling space needs.

CMS does not proactively monitor space in State-leased properties. Failure to monitor and identify any excess space results in the State leasing space when there may be other opportunities for dollar savings. CMS’ Real Estate Leasing Division doesn’t always check with CMS’ Real Property Division for the existence of excess space in State-owned facilities prior to leasing space with third parties. When this check is made, it generally is after the lease has already been signed by the lessor and not at the beginning of the process, when an Agency Space Request Form is received, as dictated by CMS procedure. Specifically, we found in our testing of lease files:

- 33 of 48 (69 percent) lease files showed the check for availability of space in State-owned buildings occurred **after** CMS set up, and the lessor signed, the lease to fill the agency request.

However, in our testing, State agencies identified a significant amount of excess space in both State-owned and State-leased properties. This excess space should be considered by CMS prior to CMS leasing space for State agencies from third parties. In response to our survey of 54 State agencies that lease space through CMS:

- 17 agencies listed excess space in 270 leases and we calculated that there would be almost 413,000 square feet of excess leased space based on these survey results.

A significant amount of excess space also exists at State-owned facilities. In our survey, nine State agencies reported having excess space

in 18 properties. Based on our testing at the Department of Human Services (DHS) we found that 90 of the 574 buildings at the DHS facilities were unoccupied with an additional 10 buildings partially occupied. A total of 1,653,714 square feet (or 18%) of the total square feet was not being used. While some of this space may be unusable due to the physical condition of the buildings, other vacant space was in good condition and could be utilized. Also, based on the location of vacant buildings, it appears that the potential for selling pieces of the facility property exists at five facilities. None of the available space was reported as excess or surplus in CMS's annual report to the General Assembly.

DHS entered into agreements to lease space at DHS facilities to other organizations without, according to CMS, cost benefit analyses to determine whether the arrangement is the most advantageous to the State as a whole. DHS had 25 leases at its facilities generating approximately \$75,000 annually. However, the annual lease revenue per square foot averaged only \$0.15. The low lease amounts are attributable to the many lease agreements that charge minimal or no rent. For 13 of the leases, no rent was charged. According to DHS policy, real estate to be rented must have been reported to CMS as excess on the Annual Real Property Utilization Report.

State agencies, including DHS, lease office space in some of the same cities, at substantially higher rates per square foot, where the DHS facilities are located and lease to agencies outside of State government. Moving some of these State agencies into space at DHS, State-owned facilities, could save the State dollars currently spent to lease space from outside parties.

Since 1998, CMS has sold or conveyed seven State properties that were declared surplus by the controlling State agency. Four of the seven were sold to cities or private buyers for \$3.2 million while the other three were conveyed or transferred to a community college, a not-for-profit organization and the Illinois State Supreme Court. Additionally, CMS granted easements for three other properties for various purposes and fees totaling over \$143,000.

While CMS met some of the guidelines established in statute and administrative code for the disposal of surplus real property, improvements are needed:

- CMS was not timely in notifying State agencies within the required 60 days of the availability of surplus property. The length of time between declaration of surplus to CMS and CMS notification to

State agencies ranged from 13 days to more than 7 years (2,687 days). The median time to notify agencies was 214 days.

- The disposal of surplus property was also not timely. For the seven parcels where we could measure the elapsed time from the date declared surplus to the date of final disposition, the time ranged from 349 days to 7,521 days. The median time to dispose of surplus property was 963 days.
- The State Property Control Act requires that the sale price of auctioned property be no less than the fair market value. Of the three properties that were sold at public auction, two were sold for less than the appraised fair market value of the property.

As of August 2003, CMS had six State properties listed as surplus in its records. Testing indicated that the steps for disposal were not always followed. According to CMS files, two properties have never been declared surplus. Several of the properties have never been offered at a public auction. For other properties, it was unclear why CMS listed them as surplus (such as Memorial Park at Chicago-Read Mental Health Center and Rice Cemetery in Galesburg). The Illinois Commerce Commission uses another property listed as surplus, in Des Plaines, but control of the property has not been transferred over to the Commerce Commission.

The State lacks a single centralized system to dispose of surplus real property. CMS is not the only State agency that disposes of surplus property. We found that other State agencies dispose of real property owned by the agency without the assistance of CMS or the property ever being declared as surplus by the agency. These disposals are made pursuant to statutory authority or special legislation enacted by the General Assembly. The Illinois Department of Transportation has statutory authority to dispose of unused highways lands based on provisions of the Highway Code. Additionally, the Department of Natural Resources transfers or sells lands based on legislation enacted by the General Assembly.

BACKGROUND

On December 11, 2002, the Legislative Audit Commission adopted Resolution Number 126 directing the Office of the Auditor General to conduct a management audit of the Department of Central Management Services' administration of the State's space utilization program. (See Appendix A for a copy of the Resolution.) The Resolution directed the Auditor General to determine:

- Whether procedures are in place to adequately identify excess and surplus real property;

- Whether such procedures ensure that excess and surplus real property is reasonably considered in fulfilling State agencies’ space needs; and
- Whether the process for disposing of surplus real property is adequate and timely. (pages 4-5)

SPACE UTILIZATION PROGRAM

The Civil Administrative Code (20 ILCS 405/405 *et seq.*) assigns responsibility for certain State properties, acquisitions and services to CMS. Additionally, CMS is responsible for requiring proper utilization of State property and administering the provisions of the State Property Control Act. Further, CMS has the authority to lease unused or unproductive lands that in the judgment of the Director are in the best interests of the State.

CMS is the agency designated to manage the State’s space utilization program.

The State Property Control Act also requires the CMS Director to submit an annual report on or before February 1 to the Governor and the General Assembly containing a detailed statement of surplus real property either transferred or conveyed (30 ILCS 605/7.1 (e)).

The Illinois Administrative Code (44 Ill. Adm. Code 5000) outlines the basis of the space utilization program for the acquisition, management and disposal of real property. CMS is designated as the agency to manage the space utilization program.

It is also the responsibility of agencies to assist and cooperate with CMS in the assignment and utilization of space, including the furnishing of data relative to the use of space occupied and personnel housed or to be housed. It is further the responsibility of the agencies to continuously study and survey space occupied by them to ensure efficient and economical space utilization. Agencies are also to report to CMS any excess space that might be assigned to other agencies (44 Ill. Adm. Code 5000.510).

State agencies need to assist and cooperate with CMS in the assignment and utilization of space.

The space utilization program is designed to effect maximum efficient utilization of State-owned and controlled space. Space for which there is no current or foreseeable need by the occupying agency will be considered available for reassignment or other appropriate action. Underutilized leased space will not be renewed or extended under normal circumstances (44 Ill. Adm. Code 5000.520).

The space utilization program is administered within the Bureau of Property Management at CMS. The three divisions in the Bureau that deal

with real property are the Real Estate Leasing Division, Real Property Division, and the Facilities Management Division. (pages 5-9)

INVENTORY OF STATE-OWNED REAL PROPERTY

Before CMS can identify excess and surplus real property, CMS needs to be able to identify what property is owned by the State. A real property inventory must be accurate and complete. We found that the inventory of State-owned real property maintained by CMS, and reported to the General Assembly, is neither accurate nor complete.

Current Method for Reporting Real Property to CMS

CMS relies on State agencies to report information on the real property owned by the agencies on the Annual Real Property Utilization Report. This report is commonly known as a “Form A.” The Form A contains information such as the tax index number, present use of the property, acreage and/or square footage of the land/building, and the appraised value of the property. CMS compiles the information from all the Form A’s into a master record.

Improvements to State Agency Reporting

Improvements are needed in agencies’ reporting of properties to CMS. CMS allows agencies to report information in differing formats or provide incomplete information without follow up. According to CMS staff, certain agencies have not provided all the information required on the Form A report. Additionally, CMS officials have questioned the accuracy of the information submitted by State agencies on the Form A reports. However, no attempt has been made by CMS to obtain corrected information.

There is no consistency in how property is presented on the master record. For some agencies, such as Southern Illinois University with 927 entries, entries consist of both individual buildings and land the agency owns. For other agencies, such as Chicago State University, a single entry exists for the entire campus with no details on the number of buildings.

More consistent and detailed reporting of property would provide needed information to effectively utilize State-owned property. For example:

The inventory of State-owned real property reported to the General Assembly is neither accurate nor complete.

CMS allows agencies to report information in differing formats or provide incomplete information without follow-up.

The Form A does not require agencies to identify portions of a property that may be considered excess or surplus.

Agencies do not have to report space leased to third parties in State-owned buildings as part of the Form A.

- CMS allows agencies to report on a property location as a whole and does not require detailed information on each building. CMS officials indicated a preferable reporting mechanism would be for the agency to provide information on each building at a location.
- The Form A does not require agencies to identify *portions* of a property that could be considered excess or surplus. In our survey of State agencies discussed below, DHS reported to us that the Choate Mental Health and Developmental Center has no excess space but they “do have excess land.” Officials listed four tracts of land totaling 43.7 acres that they would consider surplus. Additionally, officials from the Alton Mental Health Center reported that the Center “includes 213 acres, some of which are certainly excess.” On the Form A submitted for these facilities, DHS did not identify any land considered excess.
- The Form A does not require agencies to report occupancy levels for the buildings owned by the State agencies.
- Absent from the Form A is information on space in State-owned property that the State agency may lease to third parties. This information would be helpful to CMS in ensuring that State-owned property is being effectively used. (pages 14-17)

DEFICIENCIES IN THE MASTER RECORD OF STATE OWNED PROPERTY

To determine the accuracy of the master record maintained by CMS we: 1) surveyed State agencies – providing them their respective portion of the February 2003 master record and asking them to determine whether the properties were still owned by the agency; 2) contacted county assessors in all 102 Illinois counties and requested lists of State-owned real property in their counties; and, 3) selected a sample of parcels from the assessor reports and tested files at the corresponding agency to see if the parcels were in agency records.

Pyramid State Park was not on the CMS master record yet DNR purchased over 19,000 acres for the park between 1971 and 2002.

Survey of State Agencies

State agencies we surveyed reported owning 201 properties that were not on CMS records or were on the record but not assigned to the correct agency. Many of the 201 properties were purchased a number of years ago – going back to 1865 (Historic Preservation’s Douglas Tomb). Thirty-eight properties were obtained by the State prior to 1960. Pyramid State Park in Perry County was not listed on the master record maintained at CMS, yet DNR has purchased over 19,000 acres for the park during the time period 1971 through 2002.

Sixteen State agencies also reported to us that 100 of the properties on the CMS master record (as of February 2003) contained errors that needed to be corrected. Corrections included: properties that were no longer owned by the agency; properties that had been transferred to other State agencies yet still appear as being owned by the previous State agency; properties that have had buildings demolished; properties that were duplicate entries; or the agency couldn’t identify the property in its records because of a lack of information contained on the master record. (pages 19-22)

County Assessor Information

County assessors maintain records on individual parcels of real property within their counties. These parcels are tied to some type of identification number, normally a tax identification number. We contacted all 102 county assessors’ offices around the State and requested the assessors provide us information on all State-owned property located in their counties. All 102 assessors responded to our request and provided reports in a very timely manner. While not all assessors were able to provide all the information requested, we were able to determine that there were at least 27,783 parcels of State-owned land within the counties.

There are several reasons for the differences in State-owned property figures between the master record (3,091 listing entries) and information maintained by county assessors (27,783 parcels of property). These include: the CMS master record reports by property name and not by parcel number; water and highway right-of-ways are exempt from reporting to CMS; and some property was owned by the State yet not reported to CMS by State agencies. (pages 23-24)

Results of Sample of Assessor Records

To determine whether all State property was included in State agency records, we selected a sample of 150 parcels of State-owned lands, as reported by county assessors. We then reviewed documentation for these parcels – which encompassed 13 State agencies and 35 counties around the State – to ascertain if any of the parcels were not listed on CMS records.

EXAMPLES OF STATE-OWNED PROPERTY NOT ON CMS MASTER RECORD

- ❑ Lincoln’s New Salem State Park in Menard County
- ❑ Fort Kaskaskia in Randolph County
- ❑ Ulysses S. Grant Home in Jo Daviess County
- ❑ Vandalia State House in Fayette County
- ❑ Lincoln Tomb in Sangamon County
- ❑ Chain O’Lakes State Park in Lake and McHenry Counties
- ❑ Des Plaines Conservation Area in Will County
- ❑ Kerr and Cutler Farms in McDonough County
- ❑ State Police Communications Bureau Office in Sangamon County

County assessors reported 27,783 parcels of land owned by the State.

42 of the 150 parcels we reviewed were not reported on the CMS master record and were not specifically exempted by law from that reporting requirement.

Seventy-one percent (107 of 150) of our sample cases were reported by assessors as owned by the State but were **not reported** on the CMS master record. Of these 107 cases not reported, 42 of the parcels (39 percent) were not specifically exempted by law and should have been reported on CMS’ master record. These 42 parcels included 26 parcels acquired for flood and wetland mitigation projects. The parcels exempted by law from being reported to CMS included rights-of-way for highways and waterways. Digest Exhibit 1 summarizes the parcels as either reported or not reported on CMS records for the parcels sampled. (pages 24-25)

Digest Exhibit 1				
REVIEW OF 150 PARCELS SAMPLED FROM ASSESSOR RECORDS				
Agency	Reported in CMS Master Record	Parcels Not Reported in CMS Master Record		Total
		Exempt from Reporting¹	Should Have Been Reported²	
Transportation	1	62	2	65
Natural Resources	21	0	27	48
Historic Preservation	1	0	9	10
Corrections	3	0	2	5
Southern Illinois University	3	0	1	4
Military Affairs	3	0	0	3
Central Management Services	2	0	1	3
Eastern Illinois University	2	0	0	2
Housing Development Authority	0	2	0	2
Illinois Courts	1	0	0	1
State Police	1	0	0	1
Tollway	0	1	0	1
Veterans' Affairs	1	0	0	1
Total:	39	65	42	146³
Notes:				
¹ – Includes parcels exempt from reporting by law and properties acquired during 2003.				
² – Includes 26 flood and wetland mitigation parcels which are not specifically exempted by law from being reported to CMS.				
³ – 3 of the 150 parcels in our sample were subsequently conveyed to other entities. For one parcel, it was unclear who owns the property and if it was reported on CMS master record.				
Source: OAG Summary of Agency and Assessor Records.				

ATTEMPT AT COMPUTERIZING THE MASTER RECORD

During the past two years CMS attempted to automate the master record of State-owned real property. We found that the information contained in the system was neither complete nor reliable. Testing found that:

- 57 percent of the changes we sampled from the ‘State-Owned and Surplus Real Property’ report, which is submitted annually to the General Assembly, were not reflected in the automated system.
- Data maintained in CMS’ automated system, that was input from previous submissions from State agencies, was extremely incomplete. For example, only 25 percent of the records contained a tax identification number and only 10 percent contained information on the acreage of the property.

The System was taken offline in August 2003 and was being scrapped. Documentation from CMS showed that 600 hours were spent on developing and cleaning up the Real Property System, which was 325 hours over the 275 that were estimated. (pages 29-31)

VERIFICATION OF SPACE PRIOR TO LEASING

CMS rules dictate that leased space shall be acquired only when satisfactory State-owned or controlled space is not available. (44 Ill. Adm. Code 5000.200) CMS has no formal policies and procedures for ensuring that excess and surplus real property is reasonably considered when filling State agencies’ space requests. Additionally, since CMS is not adequately tracking and identifying excess and surplus real property, we would conclude that excess and surplus property is not being considered in filling space needs.

During Fiscal Year 2003, State agencies expended over \$162.5 million to lease real property for their operations. This figure includes all lease payments that are processed by the Comptroller and was taken from Comptroller records – not just those lease payments for agencies that go through CMS to acquire leased space. This figure would not include lease payments made from locally held funds and not processed through the Comptroller.

When State agencies are in need of additional space, they submit an Agency Space Request Form to the Real Estate Leasing Division at CMS. According to documentation and officials at CMS, the Real Estate Leasing Division should initially check with the Real Property Division to ascertain whether space is available in any State-owned or controlled facilities in the city where the requesting agency is seeking space.

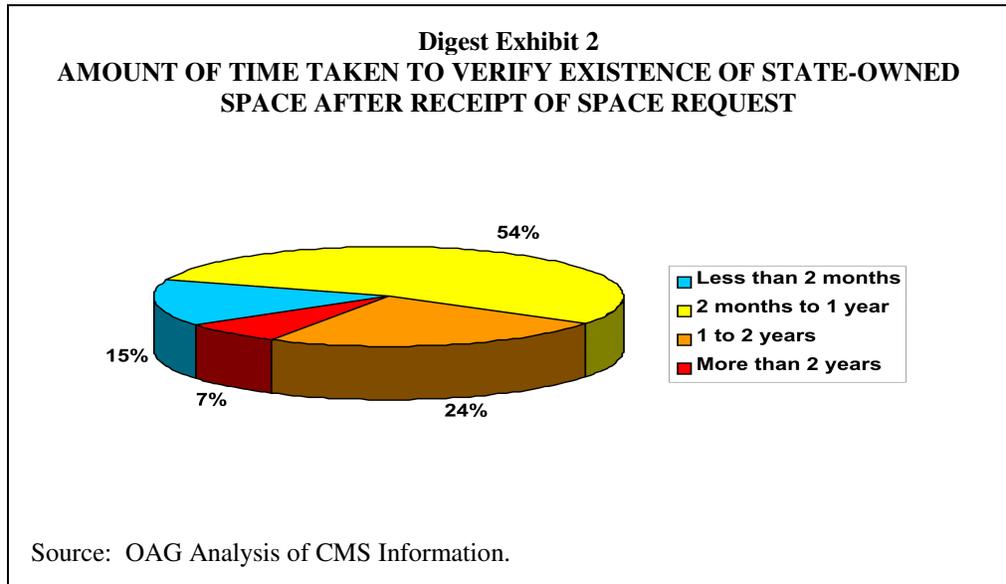
Our testing indicated that CMS’ Real Estate Leasing Division is not timely in checking whether space exists in State-owned buildings before initiating the steps in the leasing process. CMS averaged 301 days from the time a space request was received from a State agency requesting space until the Department performed the verification check on whether space

The CMS automated system contained data that was neither complete nor reliable.

CMS should verify no excess space exists in State-owned buildings prior to leasing space for State agencies.

CMS averaged 301 days from the time they received a space request until they verified if any space was available in State-owned buildings.

was available in State-owned facilities. Digest Exhibit 2 summarizes the time taken to check for State-owned space. The range of days was between 8 days and 989 days.



In 33 of 48 leases sampled, CMS did not check to see if space existed in State-owned buildings until after the lessor signed the lease.

We also found that while CMS documentation shows the verification process should be completed at the beginning of the leasing process, that was not always followed. In 69 percent (33 of 48) of the lease files sampled where information was available (two files did not contain documentation to show a verification was made), CMS did not check to see if State-owned space was available to fill the space request until **after** CMS expended resources to find a lessor, develop the lease and have the lessor sign the lease. (pages 38-41)

MONITORING OF SPACE BY CMS

CMS places too much reliance on State agencies in the self-reporting of excess space.

CMS does not proactively monitor space in both State-owned and State-leased properties. CMS has no formal process in place to monitor space availability in State-owned buildings or space leased from third-party lessors. Additionally, CMS places too much reliance on State agencies in the self-reporting of excess space – both in State-owned and leased facilities. Failure to monitor excess space can result in State dollars being expended for leased space when there would be excess space in State-owned or controlled facilities or leases that may be able to be combined to achieve savings.

CMS Owned Buildings

Officials at CMS stated that CMS facility managers are in charge of property owned and controlled by the Department. These managers are

responsible for knowing when space is available at the buildings they manage. However, building managers do not prepare a formal analysis of space needs or open space available in buildings they manage.

Before CMS leases space for agencies with space needs, the Real Estate Leasing Division checks with the Real Property Division for the existence of space in State-owned buildings. We found that any reporting from the building managers at the individual facilities is not provided to the Real Property Division. Thus leasing decisions are made without the benefit of actually knowing if space exists in State-owned buildings.

Of the four CMS building managers we contacted, the only formal analysis performed was at the Thompson Center. In June 2003, the CMS building manager did space inspections at the Thompson Center as a special project based on agency work force reductions due to the early retirement initiative. A summary was completed and provided to the manager of the Bureau of Property Management, which identified some unused space. This summary was not provided to the Real Property Division within the same Bureau. In our survey sent to CMS during August/September 2003, the Department reported no excess space at the Thompson Center. (pages 42-43)

State Agency Owned Property

Excess real property is State-owned or controlled real property that has no present program need by the holding agency. The Illinois Administrative Code requires that excess and surplus property shall be reported to CMS annually, and monthly as property becomes available (44 Ill. Adm. Code 5000). CMS relies on State agencies to report on this type of space.

CMS officials stated they send out a letter once a year soliciting information on excess space, but no agency ever indicates it has excess space. The Real Property Division also does not inspect any State-owned property.

In response to our survey sent in August 2003, most agencies reported no excess space at State-owned property. However, 9 agencies did report excess space at 18 of the properties. The number of properties with excess space by agency is shown in Digest Exhibit 3.

The three properties at CMS had been declared surplus as of February 2003. Of the remaining 15 properties, plans for future use of excess space at six properties had been made by the controlling agencies as of September 15, 2003. These plans included declaring the property surplus,

In June 2003, CMS determined there was some excess space at the Thompson Center. This summary was not provided to the Real Property Division. The Real Property Division is supposed to monitor excess space.

Nine State agencies reported to us that excess space existed in 18 properties.

selling the property, or converting the unused space into office space to consolidate staff.

Five agencies with excess space at the remaining nine properties did not indicate a planned future use of the excess space in their survey responses. The Department of Corrections indicated that 18.2281 acres of unimproved property in Chicago was not being utilized and did not indicate a future use for the property. The Department of Human Services gave no indication of its plans for most of its excess space. DHS officials from the Alton Mental Health Center reported that “Two buildings on campus, the Administration building and Willow, are both empty and are excellent candidates for other agencies to occupy.” The Department of Public Health indicated no plans for 5 acres of land adjacent to the Regional Office Building in Springfield. (pages 45-46)

Nine properties that had reported excess space did not have an indicated planned future use.

Digest Exhibit 3 STATE-OWNED PROPERTIES REPORTED AS HAVING EXCESS SPACE BY STATE AGENCIES September 15, 2003	
Agency	# of Properties with Excess Space
Human Services	6
Central Management Services	3
Corrections	3
Children & Family Services	1
Military Affairs	1
Natural Resources	1
Public Health	1
Transportation	1
Southern Illinois University	1
Total:	18
Source: OAG Summary of Agency Information.	

Department of Human Services

We conducted a detailed review of property at Department of Human Services (DHS) facilities. Analysis of information obtained by auditors showed that 90 of the 574 buildings at the DHS facilities were unoccupied with an additional 10 buildings partially occupied. A total of 1,653,714 square feet (or 18%) of the total square feet at DHS facilities was not being used. While some of this space may be unusable due to the physical condition of the buildings, other vacant space was reported as being in good condition and could be utilized. Also, based on the location of vacant buildings, it appears that the potential for selling pieces of the facility property exists at five facilities. None of the available space was reported as excess or surplus in CMS’s annual report to the General Assembly. (page 47)

1.65 million square feet of space at DHS facilities was not being utilized.

Leasing of Unused Space by DHS

DHS leases unoccupied space at some of its facilities to outside parties. CMS officials stated that DHS will come to CMS with a lessor already lined up to take the space. CMS assists in setting up the leases. No cost benefit analysis is conducted to determine whether the State would be better off to move current State agencies, which expend monies on their current leased space, into this unoccupied space to save taxpayer funds. Also, CMS does not conduct cost benefit analyses to determine whether lease rates charged by State agencies to outside parties are fair and reasonable for the space leased in State-owned buildings.

DHS had 25 leases at its facilities generating approximately \$75,000 annually. However, the annual lease revenue per square foot averaged only \$0.15. Excluding parking spaces leased by Madden Mental Health Center, the total square footage leased is 492,876. The relatively low lease amounts are attributable to the many lease agreements that charge minimal or no rent. Under DHS policy this is permissible under certain conditions. According to the policy, real estate to be rented must have been reported to CMS as excess on the Annual Real Property Utilization Report. This arrangement may not be the most economically beneficial to the State overall. Digest Exhibit 4 identifies leases reported at DHS facilities. (pages 49-51)

Using the Unoccupied Space for State Agencies

CMS rules dictate that leased space shall be acquired only when satisfactory State-owned or controlled space is not available (44 Ill. Adm. Code 5000.200). The potential exists for the State to save monies expended for agency lease payments if space in DHS facilities was used for other State agencies. The audit examined excess space at four DHS facilities, two of which are illustrated below. These facilities either reported excess space as part of our fieldwork or leased excess space to other entities. While there may be valid programmatic or logistic reasons why using this space at DHS facilities to house certain State agency operations would not be feasible, these are options that an effective space utilization program should consider, to ensure efficient use of State funds and property.

DHS leased 492,876 square feet of excess space at its facilities to other entities at an average annual lease rate of 15 cents per square foot.

Potential savings to the State exist if excess space at DHS facilities would be used, if feasible, for other State agencies that currently lease space.

MANAGEMENT AUDIT – CMS’ ADMINISTRATION OF THE STATE’S SPACE UTILIZATION PROGRAM

Digest Exhibit 4 LEASED SPACE BY DHS FACILITIES					
DHS Facility	Lessee	Purpose	Square Feet Leased	Annual Lease Amount	Annual Lease Revenue per Square Foot
Choate MHC & DC	Shawnee Community College	Junior College.	27,687	\$15,046	\$0.54
	Sunrise Pre-School	Preschool/daycare.	7,416	\$6,081	\$0.82
	Southern Seven Health Dept.	Headstart program.	7,087	\$3,482	\$0.49
	Regional Superintendent of Schools	Adult education program and safe school.	3,846	\$3,153	\$0.82
	Tri-County Education District	Special education classes for residents.	15,556	\$9,000	\$0.58
	Shawnee Development Council	Office space/food pantry.	834	\$918	\$1.10
	Employee Credit Union	Office space.	630	\$0	\$0.00
	The Homeless Inc.	Non-profit program to clothe the homeless.	3,121	\$0	\$0.00
Elgin MHC	City of Elgin	Sublease to the Larkin Center which provides school facilities for emotionally disturbed children; Elgin Boys & Girls Club; Recreational programming.	45,566	\$2.26	\$0.00005
Illinois School for the Deaf	The Nursery School	Nursery school.	2,830	\$3,540	\$1.25
Jacksonville DC	Pathway Services Unlimited	Developmental training program.	26,494	\$0	\$0.00
	Jacksonville Theater Guild	Theater productions.	15,385	\$1,200	\$0.08
Madden MHC	Loyola University-Foster G. McGaw Hospital	200 parking spaces.	N/A	\$32,365	N/A
Murray DC	Kaskaskia Special Education District #801	Audiology services.	14,250	\$0	\$0.00
Shapiro DC	Shapiro Credit Union	Credit Union.	2,120	\$0	\$0.00
	Daycare Center	Daycare.	3,726	\$0	\$0.00
Tinley Park MHC	Alliance for the Mentally Ill-South Suburbs of Chicago	Office space.	N/A	\$0	N/A
	University of Chicago Hospitals	University of Chicago Center for Psychiatric Rehabilitation.	5,000	\$0	\$0.00
	University of Chicago Hospitals	Office space.	13,560	\$0	\$0.00
	Cook County Nutrition Services	Day programming and nutrition services for senior citizens.	4,000	\$0	\$0.00
	Cook County Court Services	Mental health court.	20,000	\$0	\$0.00
	Easter Seals of Metropolitan Chicago	Therapeutic day school.	18,000	\$1	\$0.00006
	Trinity Services	Psychosocial rehabilitation program.	800	\$0	\$0.00
	Department of Conservation	Office space.	2,345	\$0	\$0.00
Zeller MHC	Illinois Central College	ICC North Campus.	252,623	\$1	\$0.000004
Totals			492,876	\$74,789	Avg. \$0.15
Source: OAG Summary of Information Provided by DHS.					

Alton Mental Health Center

From information obtained from DHS during the audit, there were 13 unoccupied buildings at the Alton Mental Health Center. Four of the thirteen buildings had what DHS officials described as useable space totaling 119,536 square feet. Officials also stated there was no planned future use for the four buildings.

A CMS monthly lease report dated April 3, 2003, lists five State agencies that have office space leases in the City of Alton. Three of the five reported to us excess lease space in these offices during our survey period (August 15 through September 15, 2003). The total square footage **leased** by the five agencies is less than the total square footage available in one of the unoccupied buildings at the Alton Mental Health Center. As shown in Digest Exhibit 5, the State agencies paid, on average, \$9.80 per square foot in rent for the office space when there is space in a State-owned facility that is unused in the same city. Given that the State spends \$292,000 to lease space in Alton, CMS should consider the feasibility of moving those agencies into the unoccupied space at the DHS facility.

Digest Exhibit 5			
AGENCY OFFICE LEASES IN ALTON			
Agency	Square Footage Leased	Annual Lease Rate	Annual Cost
Employment Security	15,000	\$8.48	\$127,200
Natural Resources	8,000	\$11.61	\$92,880
Children & Family Services	6,000	\$10.66	\$63,960
Veterans’ Affairs	600	\$9.55	\$5,730
Public Aid	150	\$12.73	\$1,910
Total Space Leased in Alton:	29,750	\$9.80	\$291,680
<i>Reported Useable Space at Alton MHC:</i>	119,536		
Source: OAG Summary of CMS and DHS Information.			

The Alton Mental Health Center had 119,536 square feet of reported useable excess space while the State paid \$292,000 to lease 29,750 square feet of office space in Alton.

Zeller Mental Health Center

The Zeller Mental Health Center in Peoria is comprised of 10 buildings encompassing 252,623 square feet of space. All 10 buildings are connected by an environmentally controlled walkway system – which essentially makes the facility one large building with different pods. The entire facility is leased to Illinois Central College for \$1 a year. Within the lease agreement, Illinois Central College must provide space to the Department of Human Services (DHS) and the Guardianship and Advocacy Commission for no rent. Each of those State agencies utilizes approximately 4,895 square feet in the facility. Additionally, according to a DHS official, other entities also utilize the facility including:

252,623 square feet of space at the Zeller Mental Health Center in Peoria is leased to Illinois Central College for \$1 a year.

- University of Illinois School of Medicine (5,806 square feet),
- Illinois Review Board (1,874 square feet),
- Mental Health Association of Illinois Valley (1,188 square feet),
- Donated Dental Services (108 square feet), and
- Alliance for the Mentally Ill (108 square feet).

The DHS official stated that the advantage for the State in leasing the facility was the high cost to keep the facility operating. With the lease, the State is no longer responsible for those costs.

An official of Illinois Central College stated that while the University of Illinois School of Medicine does not pay rent, as of November 2003, the college is working on a lease agreement where the University of Illinois will be required to pay rent. All subleases at Zeller by Illinois Central College would go through CMS’ Real Property Division. The official went on to explain that historically the cost to operate the facility has been \$6.80 per square foot and the anticipated subleases will be for \$7.00 per square foot. These subleases will help Illinois Central College cover its costs to run the facility.

11 State agencies pay \$2.4 million to lease 176,498 square feet of office space in Peoria.

Eleven State agencies have a total of 16 leases for office space in Peoria. As shown on Digest Exhibit 6, the State agencies lease 176,498 square feet around Peoria. Annual lease rates range from \$8.50 to \$17.61

Digest Exhibit 6 AGENCY OFFICE LEASES IN PEORIA			
Agency	Square Footage Leased	Annual Lease Rate	Annual Cost
Transportation	58,600	\$17.61	\$1,031,946
Human Services	30,300	\$11.90	\$360,570
Children & Family Services	22,000	\$10.50	\$231,000
Employment Security	17,000	\$12.24	\$208,080
Public Aid	8,500	\$10.16	\$86,360
Human Services	7,500	\$8.50	\$63,750
Public Aid	6,325	\$10.67	\$67,488
Employment Security	5,504	\$12.24	\$67,369
Human Services	4,600	\$8.75	\$40,250
Environmental Protection	4,400	\$11.80	\$51,920
Industrial Commission	3,036	\$15.69	\$47,635
State Police	2,984	\$11.58	\$34,555
Corrections	2,400	\$11.58	\$27,792
Children & Family Services	1,641	\$10.34	\$16,968
Banks & Real Estate	1,300	\$11.64	\$15,132
Veterans' Affairs	408	\$10.90	\$4,447
Total Space Leased in Peoria:	176,498	\$13.34	\$2,355,262
Total Space at Zeller MHC:	252,623		

Source: OAG Summary of CMS and DHS Information.

per square foot for the agencies.

The total square footage **leased** by the eleven agencies is less than the total square footage in the Zeller Mental Health Center. Annual lease payments for these agencies total \$2.4 million dollars. The State receives \$1 in annual revenue for the current lease arrangement at the Zeller site.

While CMS executed the current lease with Illinois Central College and assists in setting up subleases for space in the Zeller facility for the college, CMS did not declare the property surplus or excess. Additionally, no analysis was conducted to determine whether State agencies that lease office space in Peoria could be placed in the Zeller facility to save money. (pages 52-57)

CMS never declared the Zeller facility surplus or excess State space.

Monitoring by the Real Estate Leasing Division

CMS does not sufficiently monitor leased space to determine whether excess space exists. While CMS officials indicated that there is no excess space in leased facilities because agencies use their own funds to pay for the space, we found that was not always the case.

State agencies are not utilizing all of the leased space for which the taxpayers are funding for their rentals. We calculated that almost 413,000 square feet of space was considered excess by the 17 agencies that reported excess leased space in our survey. There were a total of 270 leases that agencies reported having some degree of excess space. Failure to monitor this excess space results in the inability of CMS to effectively manage the use of real property, such as examining opportunities to consolidate leases for either the same State agency or multiple agencies located within the same city, thus saving the State rental cost for unneeded space. Digest Exhibit 7 reports on the analysis of our survey results for the 17 agencies. (pages 58-59)

Digest Exhibit 7 AGENCIES REPORTING EXCESS LEASED SPACE September 15, 2003			
Agency	# Leases with Excess Space	Calculated Excess in Sq. Ft.	% of Total Leased Space Not Utilized
Human Services	144	287,205	9.89%
Children & Family Services	62	70,767	6.09%
Public Aid	15	12,969	1.54%
Corrections	13	7,866	1.14%
Commerce Commission	1	7,720	8.75%
Transportation	4	7,077	3.17%
Banks & Real Estate	3	6,193	7.99%
Professional Regulation	1	3,383	6.00%
Lottery	4	2,309	2.77%
Insurance	1	1,820	2.83%
Labor Relations Board	1	1,496	25.00%
Educ. Labor Relations Board	1	1,121	25.00%
Central Management Services	4	1,078	1.30%
Veterans’ Affairs	13	815	1.98%
Financial Institutions	1	524	3.00%
Planning Council-DD	1	289	3.00%
Employment Security	1	165	0.01%
Totals:	270	412,797	5.32%
Source: OAG Summary and Analysis of Survey Information.			

ASSET MANAGEMENT CONTRACT

On September 16, 2003, CMS issued a request for proposals (RFP) to obtain professional asset management services. Proposals were due to CMS by October 14, 2003. CMS announced the vendor selected for the award of the project on December 29, 2003, six days after CMS received our draft audit report. As of the date of our exit conference with CMS, January 15, 2004, a contract had not been executed with the vendor.

The General Statement of Work section of the RFP outlines the services to be performed for the asset management project. The section states that the ‘services shall include, but are not limited to, an assessment of the current status of the state’s properties and activities, development of a proposed statewide management structure for both asset and facilities management, review of all contracts and leases to determine their economic viability, an assessment of all budgeted dollars and current staffing levels, proposal development for consolidation of existing and future contract services, review of all existing state agencies space

utilization and its rationalization and the development of a master plan for all future space needs and facilities. The consultant/firm will also be responsible for the development of an economic plan whereby it will recommend to the State opportunities to reduce current budget levels, produce economies through proposed consolidation activity, as well as propose business practices to maximize the value of the real estate assets of the State of Illinois and minimize capital and operating costs. The State has the discretion to add or subtract facilities, as it deems appropriate.” (page 9)

SURPLUS REAL PROPERTY

Since 1998, CMS has sold or conveyed seven State properties that were declared surplus by the controlling State agency. Four of the seven were sold to cities or private buyers for \$3.2 million while the other three were conveyed or transferred to other entities. Additionally, CMS granted easements for utility work or road widening for three other properties.

Responsibility for disposal of surplus real property rests with the Real Property Division within the Bureau of Property Management at CMS. According to staff from the Division, there are no formal policies and procedures in place to dispose of surplus real property. Further, they added that because the process is so dynamic it would be difficult to develop formal policies and procedures. They reported that guidance for this process is maintained in the administrative code.

We reviewed the files of surplus property which had been conveyed by interagency transfer, intergovernmental sale or public auction since 1998. Digest Exhibit 8 summarizes the results of our review.

Timeliness

CMS was not timely in notifying State agencies of the availability of surplus property. Administrative rules require that “State agencies will generally be notified by DCMS of available surplus real property within 60 days of declaration...” For instances where notification to State agencies of the surplus property would have been appropriate, CMS met the 60-day standard only once. The length of time between declaration of surplus to CMS and CMS notification to State agencies ranged from 13 days to more than 7 years (2,687 days).

The disposal of surplus property was also not timely. 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 349 days to 7,521 days. The average time to dispose of surplus property was 2,144 days. This does

CMS staff reported there are no formal policies and procedures for disposing of surplus real property.

CMS was not timely in disposing of surplus real property. For sales where complete documentation existed, the time between surplus declaration and sale ranged from 349 days to 7,521 days.

not include property that is still surplus, one of which has been surplus since 1969.

Digest Exhibit 8					
TIMELINESS OF DISPOSITION OF SURPLUS PROPERTY					
Property Sold or Conveyed by CMS Since 1998					
Property Description	Date Declared Surplus	Notification to Other Agencies	Elapsed Days from Surplus Date	Date of Final Disposition	Elapsed Days from Surplus Date
SIU Parking Lot, Worden Avenue, Alton	1/08/96	4/01/97	449	8/28/98	963
SIU-Edwardsville Wagner Factory, Edwardsville	3/26/98	Not found in File	Unknown	3/10/99	349
Waterways Building, 201 W. Monroe, Springfield	4/27/79	Not found in File	Unknown	11/29/99	7,521
Northeastern Illinois University President’s Residence, Northfield	7/7/98	9/15/98	70	1/27/00	569
Village of Thomson, right-of-way dedication	Right-of-Way Dedication – Not Applicable				
Vandalia Correctional Center, easement to install telephone facilities	Easement – Not Applicable				
NW corner of 183 rd Street and Harlem Avenue, Tinley Park	Transferred as a formality to DHS per Public Act – Not Applicable				
Howe Developmental Center, easement to construct Metra station and parking lot	Easement – Not Applicable				
Burnham Hospital, 407 S. 4 th St., Champaign	7/24/98	7/8/99	349	8/2/02	1,470
Vacant lot, Shapiro Mental Health Center, Kankakee – FIRST TRANSFER	6/24/80	11/2/87	2,687	6/1/89	3,264
Vacant lot, Shapiro Mental Health Center, Kankakee – SECOND TRANSFER	3/13/01	3/26/01	13	7/30/03	869
Surplus Real Property as of August 2003					
Property Description	Date Declared Surplus	Notification to Other Agencies	Elapsed Days from Surplus Date	Date of Final Disposition	Elapsed Days from Surplus Date
Vacant Lot, 245 Buck Street, LaSalle	3/18/69	Not found in File	Unknown	Still Surplus	
Parking Lot, 119 E. Cook St., Springfield	Not found in File	Not found in File	Unknown	Still Surplus	
Blue Waters Ditch Tracts, Cahokia	2/22/89	9/1/89	191	Still Surplus	
Memorial Park, Chicago-Read Mental Health Center, Chicago	Not found in File	Not found in File	Unknown	Still Surplus	
Rice Cemetery, near Galesburg	3/14/89	10/27/89	227	Still Surplus	
Former Illinois State Police District 20 Headquarters, Des Plaines	4/6/94	10/24/94	201	Still Surplus	
Average			523		2,144
Median			214		963
Source: OAG Review and Analysis of Conveyed and Surplus Property Files; CMS Real Property.					

Acceptable Sale Price

If no local government bodies request the property, the property is to be offered at a public auction. The State Property Control Act requires that the sale price be no less than the fair market value of the property as determined by averaging the three appraisals and adding the cost of the appraisals. Of the three properties that were sold at public auction, two were sold for less than the fair market value of the property: the fair market value for the NEIU President's Residence was determined to be \$545,000 and it was sold for \$500,000; the fair market value of Burnham Hospital in Champaign was determined to be \$2,542,800 and it was sold for \$2,527,100.

Two surplus properties were sold by CMS at auction for \$60,700 less than the fair market value of the property.

Current Surplus Real Property

As of August 2003, CMS had six State properties listed as surplus in its records. Testing indicated that the steps for disposal were not always followed. For instance, according to CMS files, two properties have never been declared surplus. Several of the properties have never been offered at a public auction. For other properties, it was unclear why CMS listed them as surplus (such as Memorial Park at Chicago-Read Mental Health Center and Rice Cemetery in Galesburg). The Illinois Commerce Commission uses another property listed as surplus, in Des Plaines, but control of the property has not been transferred over to the Commerce Commission.

CMS currently lists only six properties as surplus. CMS files failed to show that two of the properties had ever been declared surplus.

CMS currently leases two of the six properties for a total of \$350 per month to private organizations. Documentation reviewed in files failed to show that these properties were ever offered to other State agencies for use. Additionally, the Department has not performed any cost benefit analyses to determine whether this arrangement is the most beneficial to the State. (pages 66-74)

The State lacks a single centralized system to dispose of surplus real property. CMS is not the only State agency that disposes of surplus property. We found that other State agencies dispose of real property owned by the agency without the assistance of CMS or the property ever being declared as surplus by the agency. These disposals are made pursuant to statutory authority or special legislation enacted by the General Assembly. The Illinois Department of Transportation has statutory authority to dispose of unused highways lands based on provisions of the Highway Code. Additionally, the Department of Natural Resources transfers or sells lands based on legislation enacted by the General Assembly. (pages 75-77)

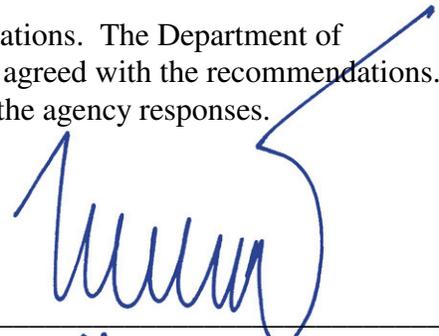
STRATEGIC PLANNING

CMS' Bureau of Property Management has not been successful in implementing goals and objectives from the 2002 CMS Strategic Plan. Of the eight goals and objectives identified as being applicable to the space utilization program, three were partially completed and five were not completed. Failure to complete the goals and corresponding objectives increases the likelihood that the space utilization program is not efficiently managed.

CMS and other large land holding agencies have reported to us that they do not perform long-term planning for space use. A coordinated approach to real property planning could help the agencies make better use of the lands and buildings they own and allow for more cost efficiencies in State government. (pages 31-34)

AUDIT RECOMMENDATIONS

The Audit contains nine recommendations. The Department of Central Management Services generally agreed with the recommendations. Appendix F to the audit report contains the agency responses.



WILLIAM G. HOLLAND
Auditor General

WGHMJM
February 2004