



CITY OF BEVERLY HILLS
455 North Rexford Drive
Beverly Hills, CA 90210
Virtual/Teleconference

The Beverly Hills City Council Liaison / Audit Committee

SPECIAL MEETING HIGHLIGHTS

Wednesday, July 22, 2020
2:30PM

MEETING CALLED TO ORDER

Date / Time: July 22, 2020 / 2:30 PM

IN ATTENDANCE: Vice Mayor Lester Friedman, Councilmember Robert Wunderlich, City Manager George Chavez, Deputy City Manager Gabriella Yap, City Auditor Eduardo Luna, Director of Finance Jeff Muir, Assistant Director of Finance Tatiana Szerwinski, Principal Performance Auditor Shawnee Pickney, Principal Performance Auditor Abbey Tenn, Management Analyst Logan Phillippo, and Executive Assistant Evelin Garcia.

Public in attendance: Due to the virtual nature of the meeting, there was no public in attendance.

1) PUBLIC COMMENT

Members of the public were given the opportunity to directly address the Committee on any item listed on the agenda.

None.

2) PERFORMANCE AUDIT OF THE INTERNAL CONTROLS OVER THE CITY'S REAL ESTATE PORTFOLIO AND PROPERTY MANAGEMENT

In accordance with the Fiscal Year 2019/20 Annual Audit Work Plan, a performance audit of the Policy and Management Department's Real Estate and Property Management Division was conducted. The review originally had a scheduled report release date of March 2020. A novel coronavirus –known as COVID-19 – became a pandemic and required: 1) the enactment of stay-at-home orders at state and local levels; and 2) a shift in priorities for all City staff to manage and respond to the immediate emergency.

Audit Objectives:

1. Identify the universe of City assets and determine if the City has mechanisms in place for managing its asset portfolio.
2. Determine the value of the City's assets and any potential uncollected revenue from late, missing, or unenforced escalation clauses.
3. Determine the value of the City's assets and any potential uncollected revenue from late, missing, or unenforced escalation clauses.



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Scope

- Fiscal Years 2016/17 through 2018/19, including prior and subsequent years when necessary
- The City owns and leases approximately 57 commercial-leased properties
- Lease revenue the last three Fiscal Years approximated \$17 million, \$17.8 million, and \$18.6 million respectively
- In 2017, the City reorganized its real estate operations to include the Policy and Management, Public Works, and Finance Departments after the discovery of improper activity

Methodology

- Reviewed lease documents
- Reviewed lease ledgers in Yardi and financial information in MUNIS
- Reviewed City and industry guidance
- Compared recorded City inventory to lease documents
- Conducted field observations of lease sites
- Interviewed staff

Finding 1: The City should strengthen internal controls related to its real estate operations to better safeguard its assets

- Existing real estate operations guidance does not align with current staff responsibilities
- The City has not established performance metrics
- The City does not have an Asset Management Plan, which could assist the City with real estate due to the pandemic with building modifications, changes in leases, etc.

Finding 2: The City should standardize late fee and maintenance terms and track maintenance expenditures

- There are 30 variations of late fee clauses
- 50 of the 57 leases had late fee clauses
- Yardi cannot handle so many late fee charges
- Late fees should be formalized and consistent



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- Common Area Maintenance charges are not always assessed as there is no methodology for this process from Finance
- Public Works is not tracking maintenance completed at its leased properties whether they are the City or the tenants responsibility
- There is no central repository for service requests, but Infor system is coming

Finding 3: The City should strengthen its internal controls related to the reliability of the information it generates and disseminates for its real estate assets

- The City has no record of a security deposit totaling \$22,000, and the lessee did not provide any supporting documentation to substantiate that they paid
- Differences still exist between City inventory and lease documents even after the issues identified in the 2016 audit
- Overall, entries for lease type were 95% correct
- The City's inventory was not always accurate and complete due to a lack of dedicated personnel to manage inventory and policies and procedures that standardized data entry, a management analyst has since been hired

A total of **13 recommendations** were made.

1. Designate a person accountable and responsible for management oversight.
2. Develop an Asset Management Plan (AMP).
3. Continue review and finalization of updates to City guidance.
4. Establish baseline performance metrics for maintenance service level expectations.
5. Standardize lease late fee clauses.
6. Develop and implement methodology for assessing common area maintenance fees.
7. Assess how the City will enable updated late fee & common area maintenance terms.
8. Continue developing Infor to track maintenance labor, time, & part and materials costs
9. Formalize policies and procedures for reviewing maintenance requests.
10. Update policies and procedures for improving accuracy and completeness of inventory.
11. Review and update inventory based on an established scheduling frequency.
12. Provide updates to City Council and applicable Council Committees on progress of Yardi updates for capturing vacancy information.
13. Continue researching the missing \$22,000 security deposit and review the remaining eight leases with information not currently recorded in Yardi.



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Management agreed with all the recommendations made, and several steps are already being taken to address the issues.

Although the review was completed prior to the pandemic, the findings and recommendations serve to improve real estate operations, as well as facilitate emergency reconstitution planning as it pertains to the City's commercial-leased properties.

Per Policy and Management Staff:

- A Management Analyst was added in November and has been assisting with Yardi data.
- There are staff capacity issues due to tenant needs and maintenance issues.
- Re-education of tenants as to what their responsibilities are vs what the City is responsible for.
- Reassessment of staffing is prudent to follow the guidance given.
- Property management would be helpful, but internal processes needs to be in order for about a year before onboarding a third party.
- 2015 issues discovered with the asset group led to vacancies in those positions in 2015/16.
- Checks and balances were created by dividing responsibilities of those roles between Policy and Management, Public Works, and Finance.
- Pre-lease approvals are shared with Finance, then leases are approved at Council. Management Analyst enters key terms and works with Finance Accountant to check what was entered and approve in Yardi.
- Yardi system is consistent with that of private sector commercial property management.

Per Finance:

- One accountant checks what payments are coming in, spends about half of their time on lease revenue.
- Various lease clauses along with no regulation as to when a payment is considered late (postmarked date, check date, etc.), a policy is needed.
- There is a logistical issue related to account set ups and the ability to individualize calculations.



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Per Liaisons:

- There is a need for a specific person to do oversight and manage tasks.
- CAM analysis might be helpful to do for back pay information as CAM charges can be a meaningful amount of rent.
- Late fees are not uniform as these may be negotiated terms to secure the lease.
- Emphasis on the fact that this report was pre-COVID and changes will take place in a post-COVID world.

3) TRUST AND INNOVATION PORTAL FOURTH QUARTER

During the fourth quarter of Fiscal Year 2019/20, April 1, 2020 through June 30, 2020, the Office of the City Auditor received a total of 21 TIP submissions.

- 7 TIP submissions concerning improper activity
- 14 TIP submissions concerning innovative ideas

The Office of the City Auditor closed 3 of the 7 cases regarding improper activity, and has concluded reviews on 6 of the 14 innovative idea submissions.

Starting from the second through the fourth quarter of FY 2019/20, 37 total reports of improper activity were received and only 5 remain open. During that same period, 36 total suggestions to improve City government were received, and 12 suggestions remain under review.

4) ADJOURNMENT

Date / Time: July 22, 2020 / 3:50 PM