



OFFICE OF THE CITY AUDITOR

TO: Mayor and Members of the City Council
THRU: Margaret Krym, City Auditor *MK*
FROM: Oscar B. Claudio, Assistant City Auditor *OBC*
DATE: December 15, 2014
SUBJECT: Review of 2012 Real Property Purchase (Special Project Engagement)

On April 9, 2012, the City Council approved the payment to purchase 491 parcels of land identified at the foreclosure auction held on this same date. The size of these properties was estimated at 652.29 acres. The Council Members voted seven ayes and one nay to approve purchase of these properties. On September 23, 2013, the City Council requested the City Auditor to review these aforementioned properties to determine the current status.

In order to comply with the City Council's request, the City Auditor's Office conducted a special project engagement review of the events, transactions and other applicable activities related to these acquired properties. In performing this engagement, we obtained sufficient and appropriate evidence to provide reasonable basis for our findings and conclusions based on stated audit objectives.

The objectives of this engagement were to:

- 1) Determine whether all of the 491 properties purchased in 2012 are still owned by the City; and
- 2) Determine the sources of funding for these properties.

Our test procedures included:

- Personnel inquiries;
- Review of applicable Council meeting minutes; and
- Examination of financial transaction documents, Lee County Property Appraiser records related to the property sale and transfer of ownership and other applicable documents.

The results of this engagement are as follows:

- 1) Of the 491 parcels of land purchased on April 9, 2012, the City still owns 490 and a portion of Lot 1, Block 6400, Unit #76.
- 2) The City donated the other portion of Lot 1, Block 6400, Unit #76 to Ardell and Wanda Glasgow as evidenced by City Ordinance 9-13. In addition, the City issued a Quit-Claim Deed conveying to Ardell and Wanda Glasgow approximately 5,424 square feet of the subject parcel. The size of the other portion of this land is estimated at 4,967 square feet, which was deemed not useful because it is submerged or under water. The City decided to donate this land portion mainly due to not being useful, high costs of building a retaining wall and constructing a concrete seawall. Mr. and Mrs. Glasgow agreed to pay for the construction of the concrete seawall around the donated property to prevent further soil erosion.
- 3) The donated portion of the subject parcel has not been taken off from the City's fixed asset inventory. The donated parcel should be taken off the fixed asset inventory to reflect the appropriate inventory balance.

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- 4) The total acquisition cost for the 491 purchased properties was \$13,743,743.23 which is broken down as follows:
 - Land - \$13,367,939.70
 - Delinquent Taxes - \$284,607.19
 - Lot Mowing - \$74,621.34
 - Appraiser's Fee - \$16,575
- 5) At a meeting on April 6, 2012, the City Council authorized City management to participate in a foreclosure auction to acquire the 491 properties. The Council directed City management to purchase the properties at the best value for the City provided the amount does not exceed the value estimated by a certified appraiser.

On April 9, 2012 City Council Regular meeting, the governing body approved the purchase of the aforementioned properties for \$13,367,939.70. This amount did not include other costs of \$284,607, \$74,621, and \$16,575 associated with the acquisition of these properties. These other costs totaling \$375,803 were paid during the closing process of the transaction and were included in the booked basis for the recorded assets. The City Council was made aware of these other costs in a memorandum from the Interim City Manager and in discussions on April 6, 2012. However, these other costs were never specifically voted for approval.

The City's Procurement Policies and Procedures require City Council approval for purchases of \$50,000 or more.

- 6) The City's accounting records showed the sources of funding for the 491 purchased properties as follows:
 - Utilities Fund – contributed \$6,205,133.40 to pay for 181 parcels
 - Storm Water Fund – contributed \$6,157,817.88 to pay for 295 parcels
 - General Fund – contributed \$1,267,437.26 to pay for 15 parcels and \$113,354.69 for a building in one of the parcel.

This engagement was performed as non-audit services and constitutes as an audit in compliance with the generally accepted government auditing standards (GAGAS). Further, this engagement was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Although we exercised due professional care in the performance of this engagement, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management.

We appreciate the assistance provided by management and staff of the Department of Financial Services, particularly the Real Estate Division, for their efforts to complete this special project engagement.

We are available to respond to any questions or concerns you may have about the information contained in this document. You may contact Oscar Claudio at 242-3382.

C: John Szerlag, City Manager
Michael Ilczyszyn, Interim Assistant City Manager
Victoria Bateman, Director of Financial Services
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Audit Committee