



PERFORMANCE AUDIT REPORT

State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
November 2012**

Legislative Post Audit Committee

Legislative Division of Post Audit

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November 8, 2012

To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations from our completed performance audit, *State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales*. The audit was requested by Speaker Michael O'Neal and the Legislative Post Audit Committee. We would be happy to discuss the findings, recommendations, or any other items presented in this report with any legislative committees, individual legislators, or other State officials.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Frank'. The signature is fluid and cursive, with a large, stylized 'S' and 'F'.

Scott Frank
Legislative Post Auditor

This audit was conducted by Katrin Osterhaus, Heidi Zimmerman, Matt Etzel, and Johnathan Reeves. Justin Stowe was the audit manager. If you need any additional information about the audit's findings, please contact Katrin Osterhaus at the Division's offices.

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State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales

In August 2011, Department of Administration officials directed executive branch agencies to designate 10% of all their real property as surplus. Using that information, officials assembled an inventory of state real property that potentially could be sold. The list includes approximately 92 state-owned buildings and 24,000 acres of land. As of December 2011, the department had not evaluated the feasibility of selling these assets and had not estimated how much those assets might be worth.

Legislators have expressed interest in knowing what possibilities exist for the state to sell surplus real property.

This performance audit answers the following question:

Do Kansas agencies have surplus properties that could feasibly be sold, and how much money could be generated by selling them?

The original scope statement for this audit, which is included in *Appendix A*, included two questions. However, at its July 2012 meeting, the Legislative Post Audit Committee directed us to limit our work on surplus personal property to an evaluation of the state's process for selling such property. The committee also directed us to eliminate the second question related to online auctions because of time constraints.

To answer the remaining question, we judgmentally selected 13 properties based on our review of multiple inventories of state owned real property, several surplus lists, and input from Department of Administration officials. We interviewed agency officials to determine whether the properties were surplus and what barriers might exist to selling them. We also reviewed available information and interviewed county appraisers to determine those properties' potential sale values.

To evaluate the state's surplus property process, we reviewed state law and Department of Administration policies to understand the responsibilities and requirements for identifying and selling surplus property. We also interviewed officials from 17 state agencies about their understanding and experience with the state's surplus property process. Lastly, we followed up with department officials on a number of issues we identified through the course of our work.

We conducted this performance audit in accordance with generally accepted government auditing standards with one exception. Specifically, because of time constraints, we did not test the reliability of the State Surplus Property program expenditure and revenue data provided by Department of Administration officials. The reader should consider this information as a reasonable estimate, not as absolute fact.

The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Except for the limitation described above, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our findings begin on page 7, following a brief overview of the state's surplus process.

Overview of the State's Processes for Selling Surplus Property

State Agencies Own Two Basic Types of Property—Real Property and Personal Property

State agencies own a variety of property such as computers, vehicles, office furniture, buildings, and land. This property falls into two categories:

- Real property includes fixed or immovable assets such as land and buildings. Based on federal guidelines, real property is considered surplus when the property is inactive, its use is not mission related, and legal, environmental, or other restrictions for disposing it are minimal. State law defines real property as surplus when it is no longer needed by the agency that owns it.
- Personal property includes movable tangible assets such as cars, office furniture, and printers, as well as intangible assets such as computer software. State agencies generally identify personal property as surplus when it becomes outdated, is no longer used, or is broken.

According to the fiscal year 2011 comprehensive annual financial report, the state owned about \$12.3 billion in real property (roads and highways owned by KDOT are a large part of that total) and about \$265 million in personal tangible property.

The Department of Administration Has Primary Responsibility for Identifying and Facilitating the Sale of the State's Surplus Real Property

Although individual state agency officials can identify surplus real property on their own, state law places unique review and oversight responsibilities with the Department of Administration, as described in the following sections.

State law requires the Department of Administration to identify surplus real property. State law requires the department's involvement in this process in two ways:

- **The department is supposed to proactively look on its own for property that could be surplus.** Aside from the department's responsibility to keep an up-to-date inventory of all real property, it also is required to periodically and independently review state real property to identify potentially surplus land and buildings.
- **The department is also supposed to assist state agencies in identifying and selling surplus real property.** By law, the department must create criteria for identifying surplus real property to help agencies independently identify potentially surplus properties. State law also mandates the department provide assistance to agencies in identifying such land. Lastly, the department must develop guidelines for the sale of surplus land. Although not defined in statute, those guidelines could address legal assistance, appraisal work, marketing contract assistance, or evaluation of sale offers.

The department can play a key role in guiding agencies through the sale approval process. This is in part due to the department's statutory responsibilities to assist agencies, as well

as its familiarity with the sale process itself. Once real property has been identified as surplus by either the department or other state agencies, state law requires that:

- The Secretary of the Department of Administration must recommend to the Governor that the property is surplus.
- The Governor must approve the property as surplus.
- The property must have at least one appraisal.
- The Joint Committee on Building Construction must be consulted.
- The State Finance Council must approve the sale.

These steps help prevent the premature sale of real property and help ensure the sale price is appropriate.

***Individual State Agencies
are Responsible for
Identifying and Selling
Surplus Personal Property***

In contrast to real property, the Department of Administration is not involved in identifying surplus personal property for individual state agencies. Rather, agencies have complete discretion to determine which items are surplus and decide when to sell them.

State statute provides agencies several options for selling surplus personal property. As described earlier, agencies generally surplus personal property items that are outdated, broken, or no longer used. State law allows agencies to sell surplus items in several ways:

- sell the item at a fixed or negotiated price
- auction the item
- take sealed bids for the item

In addition, certain agencies have been given “local disposition authority” by the Department of Administration. These agencies are allowed to dispose of surplus items that are worth less than \$500 by sending them to a junkyard or to a not-for-profit agency.

The Department of Administration’s State Surplus Property program is designed to help dispose of agencies’ surplus personal property. The program employs about five full-time equivalent staff. These staff pick up personal property that state agencies have identified as surplus and then price, inventory, and sell those items. Most items are brought to a warehouse on the former Topeka State Hospital grounds while items unfit for sale are thrown away. State agencies and other eligible recipients (e.g. local government, school districts, and non-profit agencies) are given 30 days to purchase items at a fixed cost. After that, the items are made available to the general public.

The department requires executive branch agencies located in Shawnee County to send all surplus items to its State Surplus Property program. Agencies in the rest of the state can use any of the means allowed by state law to sell surplus personal property, including the State Surplus Property program.

To pay for the program, the department charges a fee for every item it sells. The fees depend on the size of the sale proceeds:

- State Surplus Property keeps all proceeds from any item less than \$500.
- State Surplus Property keeps 20% of the proceeds from any item greater than \$500; the other 80% goes to the agency that owned the property.

The state has a contract with Purple Wave, an online auction company, which allows some agencies to sell surplus personal property. The three-year statewide contract signed in November 2011 allows Purple Wave to sell personal property items for political subdivisions within the state. The contractor auctions anything from adding machines to filing cabinets, vehicles, and heavy construction equipment. Several features make this contract agreement attractive:

- Online auctions are held every month, allowing timely sale of surplus items.
- Items are allowed to reach their highest value because auctions remain open as long as there is bid activity.
- Purple Wave assesses a 10% fee against the buyer for items sold on behalf of State agencies.
- Items remain at the agency until they are sold. Purple Wave designates a representative to coordinate with agencies to get descriptions and pictures to advertise items.
- Shipping costs and arrangements fall on the buyer.

Do Kansas Agencies Have Surplus Properties that Could Feasibly be Sold, and How Much Money Could be Generated by Selling Them?

Answer in Brief:

Our targeted review identified eight surplus properties that could be sold for an estimated \$1.5 million to \$2.2 million (p. 7). Identifying surplus real property is a subjective, lengthy, and sometimes difficult process (p. 10). That is because property use must be periodically evaluated, the owner and boundaries of land are not always clear, and lease agreements can make it more difficult for agencies to determine whether land or buildings are surplus (p. 10). The Department of Administration has not proactively identified surplus real property as required by law (p. 11) and lacks the authority to independently designate what properties are surplus (p. 12). Moreover, the process for selling surplus real property includes several disincentives for state agencies (p. 13). Finally, delays in selling the Atchison Juvenile Correctional Facility highlight problems with the surplus real property disposal process (p. 14).

We also found that the State Surplus Property program is not an efficient way of disposing of surplus personal property (p. 15). In each of the past two years, the program operated at a net loss of approximately \$50,000 (p. 15). Further, the state's contractor for online auctions is better equipped to maximize agencies' revenues from selling surplus items (p. 17) and several state agencies prefer to use the state's contractor instead of the state's program (p. 19). Finally, agencies do not want to sell surplus vehicles because they are hard to replace once sold, and agencies have few negative consequences for holding onto surplus property (p. 20).

We also noted the state's central asset inventory of real property is inaccurate and incomplete (p. 20) and that the Department of Administration's recent reorganization has eliminated some statutorily created positions (p. 21).

These and other findings are presented in the sections that follow.

FINDINGS RELATED TO SURPLUS REAL PROPERTY

Our Targeted Review Identified Eight Surplus Properties That Could Be Sold for an Estimated \$1.5 Million to \$2.2 Million

To identify land or buildings that might be surplus, we reviewed available inventories of real property that were provided by the Department of Administration. Based on our own preliminary review of those properties, as well as discussions with department officials, we ultimately selected 13 properties for an in-depth review. Our results in this section cannot be projected statewide because we did not randomly select the properties.

We identified eight properties that were either not being used or were not critical to the agencies' missions. For each of the 13 properties we selected, we interviewed agency officials about how those properties are currently used and their future plans for the property. We concluded that eight of those properties were surplus. That is because:

- **Three of the properties were not being used.** For example, the Atchison Juvenile Correctional Facility has been closed and vacant for about three years.
- **None of the properties were mission critical for the agencies that owned them.** For example, the Osawatomie State Hospital leased about 160 acres of its land holdings to a local farmer, but the land is not necessary for the hospitals' operations.

Detailed information about each property may be found in *Figure 1-1* and *Appendix B*. *Figure 1-1* includes a short description and location of each property we identified as surplus. As the figure shows, we identified 928 acres of surplus real property across five agencies. In addition, *Appendix B* provides aerial photographs of each of the surplus properties we identified, whether agency officials agreed with our surplus determination, the reasons we thought they were surplus, and potential barriers to selling them. In several cases, agency officials we talked to agreed with our categorization of these items as surplus.

If the eight properties could be sold at current market value, they would generate an estimated \$1.5 million to \$2.2 million in one-time revenues for the state. We interviewed county appraisers or realtors to determine a potential sale price for each surplus property. As *Figure 1-1* shows, only one property was valued at less than \$100,000 and several properties had estimated sale values of more than \$250,000. These prices are only estimates and reflect the market value at the time we did the work. Most properties would require up-front expenditures such as title searches and appraisals, which we did not include in our estimate. We did not estimate ongoing savings that could be achieved by eliminating maintenance costs for surplus properties (such as mowing), but think those savings are likely minimal.

Although all eight properties can feasibly be sold, a few properties have obstacles that could lower the sale price or make the property more difficult to sell. For example, the Department for Children and Families owns a residential lot that is surplus, but the parcel is not connected to city sewer or water lines. Additionally, the Juvenile Justice Authority owns two agricultural properties that have cemeteries on the grounds, and one of the properties is partially located in a flood zone.

Despite these potential obstacles, this could be an optimal time to sell many of these properties. Half of the surplus properties we identified include agricultural land, and agricultural research shows that the price for agricultural land has been increasing recently.

**Figure 1-1
Surplus Real Property Descriptions and Estimated Net Market Values (a)**

Agency	Land Description	Size (acres)	Estimated Market Value (b)	
			Low	High
Department for Children and Families	A vacant residential lot with no utility connections in Pueblo, Colorado.	0.2	\$1,300	\$1,300
Juvenile Justice Authority	Approximately 25 acres of land associated with the Atchison Juvenile Correctional Facility's campus. Another 125 acres of vacant agricultural and wooded land. (Atchison County) (c)	151	\$155,300	\$246,100
	One tract owned by Kansas Juvenile Correctional Complex, just west of the main perimeter fence inside the older perimeter fence with old facility buildings and vacant land, including some agricultural land. (Shawnee County)	31	\$184,100	\$184,100
	Nine tracts with a mix of wooded and agricultural land owned by KJCC, North of Soldier Creek. (Shawnee County)	100	\$160,300	\$330,900
Kansas Commission on Veterans' Affairs	Four tracts of agricultural land, including a mix of crop land and pastures near the Kansas Soldiers Home in Ft. Dodge. (Ford County) (d)	449	\$196,600	\$515,900
Kansas Neurological Institute	Three separate tracts of undeveloped land on the KNI campus, near Washburn University. (Shawnee County)	41	\$416,000	\$416,000
	The superintendent's house located on KNI's grounds. The house and garage total 3,678 sq. ft. (Shawnee County)	0.1	\$117,000	\$117,000
Osawatomie State Hospital	One tract of agricultural land located four miles north of Osawatomie State Hospital. (Miami County)	156	\$318,700	\$388,000
Total		928	\$1,549,300	\$2,199,300

(a) Net values reflect the market values less a 7% realtor fee we subtracted.

(b) Value ranges primarily are a result of differing appraisal estimates for agricultural land holdings.

(c) Our estimate excludes the 23 campus buildings and roughly 25 acres of land they are located on.

(d) Agency officials told us they think that some of this land potentially includes oil deposits. If true, the value of this land would likely exceed our current estimates.

Source: LPA analysis of selected state agency surplus land and buildings.

Under current law, none of the revenues generated from selling surplus properties would go to the State's General Fund. Beginning in July 2012, the Legislature required 80% of the proceeds from real property sales go to fund the Kansas Public Employee Retirement System (KPERs) rather than the State General Fund. This change was intended to provide KPERs with an additional revenue source to help reduce the state's unfunded pension liability. The remaining 20% of the proceeds go to the selling agency. In other words, even if all state agencies sold their surplus properties, the resulting revenues would not help fund the state's budget

Identifying Surplus Real Property is a Subjective, Lengthy, and Sometimes Difficult Process

In the previous section we identified a number of pieces of surplus real property that could be sold. In the following sections, we examine the process for identifying and selling real property.

Identifying surplus land and buildings requires periodically evaluating the use of property and involves a number of subjective judgments. For many agencies, evolving plans and goals can significantly change how resources are used. These changes can mean that buildings or lands that are currently in use may be unused in the future, and vice versa. As a result, properties should be evaluated periodically to determine whether current or potential future use justifies continued ownership.

Additionally, the extent to which a property is being used or how relevant it is to an agency's mission requires subjective judgment. Consequently, it is not always easy to develop consensus on what is surplus and what is not. For example, the superintendent's house on the Kansas Neurological Institute campus has been repurposed as a place for family members and guardians to stay for free while visiting the institute's residents. Although officials told us this practice has increased visits for some residents, we did not think it was a part of the institute's core mission to offer this service.

The state has several safeguards to help prevent selling property that could be used by other agencies, but this also lengthens the sale process. As noted in the overview, an agency must get the property appraised, consult with the Joint Committee on Building Construction, and get approvals from the Governor and the State Finance Committee before it can sell the property. These various steps are intended to ensure that no state property is sold that could be used by another state agency. Getting the necessary approvals requires a considerable amount of time, which could lead to delays. This can be problematic if the agency has invested significant time and money into the process.

The owners and boundaries of potentially surplus land are not always clear. Even after a property has been determined to be surplus, identifying the exact legal boundaries or ensuring state ownership can be difficult. For example, several tracts of land at the Kansas Juvenile Correctional Facility do not have deeds. According to state officials, this land had never been surveyed, contributing to the missing deeds and unavailable legal descriptions. In such instances, title insurance companies or land surveys would need to confirm ownership and boundaries.

Lease agreements can make it more difficult for agencies to determine whether land or buildings are surplus. Agencies sometimes lease idle property to private individuals or to other state agencies. While this allows them to generate income on the property, it also creates some issues. First, state agencies are not typically in the business of leasing out property and their staff may not have the expertise or resources to effectively manage rental properties. Furthermore, these lease arrangements can make it more difficult to determine whether idle property is surplus and could be sold.

- **Although leased land is not needed for an agency's primary mission, agency officials may consider such land to be in use and therefore not surplus.** For example, Osawatomie State Hospital leases almost 160 acres to a local farmer. Officials told us they did not have future plans for this land, but did not think it was surplus because it was used as a revenue source for the agency. However, the \$20,200 in annual lease revenue represented less than 0.1% of the agency's \$29 million operating budget.
- **In some cases, land may not be needed by the agency that owns it, but it is mission critical to the agency that leases it.** For example, the Parsons State Hospital and Training Center has a 99-year lease agreement with Kansas State University for a building and adjacent parking lot to be used to support the university's agricultural research program. As part of the agreement, the university reimburses the hospital for annual utility costs. Rather than having a lease agreement, agencies should consider transferring or selling such properties to avoid confusion.

The Department of Administration Has Not Proactively Identified Surplus Real Property as Required by State Law

As described in the overview, state law (K.S.A. 75-6609) makes the Department of Administration largely responsible for a number of tasks related to surplus real property, including:

- developing criteria for identifying surplus real property
- assisting state agencies in identifying such property
- developing guidelines for the sale of surplus property
- reviewing all agencies' real property periodically to determine if any property could be surplus

The department has not developed guidance to help agencies identify and sell surplus property, as required by law. Department officials told us they may have developed criteria to

identify surplus property a number of years ago, but were unable to find them. Without criteria to identify property as surplus, department officials can neither assist agencies, nor consistently evaluate properties on their own. Further, the department's lack of guidelines on selling real property means agencies may spend unnecessary time trying to understand the process (such as marketing and appraisal options), and increases the risk that statutory requirements are not followed.

Two state agency officials told us they would like more guidance and clear direction from the department. For example, one official said most agencies think of themselves as custodians of state property and do not know that they can sell real property.

The department has not conducted periodic reviews to identify surplus real property as required by law. In 2000, the Legislature passed a law requiring the department to periodically review the state's real property to determine if any of it was potentially surplus. According to officials, the department has not performed reviews in the past nine years, in large part because it has had more pressing concerns. We think this is too infrequent.

The department did conduct a review in 2011 at the direction of the Legislature, which is described in detail in *Figure 1-2*. In conducting that review, department officials sent a survey to agencies to report back potential surplus properties they owned. However, because the department relied on agencies to review their own properties, its work did not fulfill the intent of the law which requires the department to provide an independent assessment.

The Department of Administration Lacks the Authority to Independently Designate Real Property as Surplus

As has been discussed throughout this report, the Department of Administration plays a key role in identifying and selling surplus real property. Although state law requires the department to periodically review and assist agencies in identifying potential surplus properties, it does not give the department the authority to declare real property as surplus unless agency officials agree. Department officials told us this is one of the reasons they have not been more proactive in their reviews of potentially surplus property.

Giving the department the authority to declare properties surplus has two potential benefits, as described below.

- **It could provide an objective opinion on what properties are potentially surplus.** As mentioned earlier, defining whether a property is surplus requires subjective judgment. Because agency officials have a vested interest in the properties they own, their evaluation of surplus properties is subject to bias.

Figure 1-2
The Department of Administration Has Only Reviewed the State's Real Property for Potential Surplus Items Once in More Than Ten Years

The 2011 Legislature passed Senate Substitute for HB 2014, which expanded on the 2010 Session Laws requiring a full inventory of state owned real property, and mandated the Department of Administration to specifically identify 10% of state real property as surplus by September 1, 2011. To comply with this mandate, department officials:

- sent out a survey to agencies with real property that asked officials to identify 10% of the real property they owned that they needed the least.
- followed up with agencies that did not respond to collect additional information about potentially surplus properties.

In all, the department collected information from 37 agencies. The result became known as the "10% surplus list." Several department officials evaluated the results to determine whether any of the agency information represented valid potential surplus properties (a number of properties that had been reported as potential surplus were not realistically sellable, such as the Insurance Department Building). The department's director for facilities and property management was not involved in those evaluations and no formal documentation was retained on that work.

- **It could establish clear responsibility for identifying surplus property.** Under the current system, that responsibility is shared by both the Department of Administration and individual state agencies. As a result, it is much harder to hold either party accountable when surplus property is not sold in a timely manner.

Unless the department receives adequate authority to make a surplus determination independently, it is unlikely that much real property will ever be considered surplus, much less be sold. That is because in many cases agencies have little incentive to sell their property, which is discussed in more detail in the following section. Our 2001 audit highlighted the same problem.

The Process for Selling Surplus Real Property Includes Disincentives for State Agencies

As mentioned above, agency officials often hesitate to identify their land as surplus. However, even after this occurs, they have few incentives to actually sell the property because:

- **State agencies only get to keep 20% of the proceeds from selling surplus real property.** As mentioned previously, the other 80% goes to KPERS.
- **In some cases, state agencies may be able to generate ongoing revenues from leasing real property.** Agencies typically avoid maintenance costs and, more importantly, they generally get to keep 100% of the rental fees when leasing out land. However, this income generally is relatively small compared to agency operations.

- **The process of selling property consumes staff time and money.** As a result, agencies may prefer to keep their property, even if they are not currently using it simply as a matter of convenience.
- **Agencies may not be able to easily replace the land or buildings they sell.** One agency official told us agencies have concerns that they may not be able to get approval to acquire needed land in the future if they get rid of excess property now.

Cumulatively, these issues provide agencies with enough disincentives to discourage them from aggressively identifying and selling surplus property.

Delays in Selling the Atchison Juvenile Correctional Facility Highlight Problems with the Surplus Real Property Process

When the Atchison Juvenile Correctional Facility closed in December 2008 to consolidate the state's juvenile correctional facilities, its remaining juvenile offenders were moved to the Kansas Juvenile Correctional Complex. This section describes several shortcomings in how the Atchison facility was managed as a surplus property during and after the transition.

It took a significant amount of time for the Atchison facility to be declared surplus. After its closure in 2008, the facility was used as a youth residential center for a short time. However, budget cuts forced the closure of the residential center and by March 2010, the facility was completely vacant. At that point, JJA had no further plans for the facility and asked for a surplus designation by the Department of Administration and Governor Parkinson in the summer of 2010. Because his term was almost up, Governor Parkinson deferred a decision to the next governor.

In January 2011, JJA officials asked the department to have Governor Brownback declare the property surplus. However, Department Administration officials waited until August 2011 to ask the Governor to declare the property surplus, which he did that same month.

Despite several requests by JJA, the Department of Administration did not order an appraisal for this property until October 2012. JJA officials told us they first asked department officials to get the facility appraised in September 2011, shortly after the property was declared surplus. Over the next 12 months, JJA officials requested assistance or updates on the necessary appraisal on several occasions. During that time, both agencies were involved with identifying potential buyers for the property. Department officials told us the appraisals did not occur for a number of reasons, including a statutory change which ultimately lowered the number of required appraisals from three

to one, miscommunication between JJA and the department, and the question of the sale method (auction, sealed bid, real estate broker) taking precedence over getting the appraisal ordered. Unless the property is auctioned, the statute requires the appraisal to get done before a property can be offered for sale.

JJA officials told us a party expressed renewed interest in purchasing the Atchison facility in September 2012. Since then, Department of Administration officials told us that the appraisal has been ordered and that the property will be sold through sealed bid. Before it can be sold, the property still needs to be reviewed by the State Finance Council and Joint Committee on Building Construction.

The facility has likely lost much of its estimated value because it has been vandalized and has deteriorated since it was closed. We were unable to obtain a specific estimate of the facility's value. However, according to a state-owned building inventory report, the 23 campus buildings had a value of \$20 million when they were first constructed. For tax purposes, the buildings had a property tax value of nearly \$4 million. Regardless of how much the facility was worth in the past, it has lost much of its value over the past few years. Since the facility was closed in March 2010, the buildings have been vandalized, the copper stolen, and problems with mold have developed. According to a local appraiser, these damages likely reduced the value of the buildings significantly. Because no formal appraisal has been completed yet, we limited our estimates of the current potential sale value to the remaining land only.

FINDINGS RELATED TO SURPLUS PERSONAL PROPERTY

The State Surplus Property Program is Not an Efficient Way of Disposing of Surplus Personal Property

As mentioned in the overview, the Department of Administration requires all state agencies in Shawnee County to use the State Surplus Property program to dispose of personal property. The program has three primary functions:

- redistribute surplus items across state agencies
- help state agencies dispose of items with little or no value
- sell surplus items to the general public

Agencies outside Shawnee County can also use the program, but are also able to use the state's contracted auction vendor or any other means allowed by law.

In each of the past two years, the State Surplus Property program operated at a net loss of about \$50,000. The department charges a fee for every item sold through the program. Those proceeds are supposed to cover the cost of the program for transporting, storing, pricing, and marketing surplus items.

Figure 1-3 below compares the program's unaudited revenue and expenditure data we received from department officials for fiscal years 2011 and 2012. As the figure shows, expenditures exceeded revenues by approximately \$50,000 in both years.

Figure 1-3 State Surplus Property Budget Analysis (a) Fiscal Year 2011 and 2012		
	FY 2011	FY 2012
State Surplus Property program		
Revenues	\$581,321	\$441,067
Expenditures		
--Salaries & Wages	\$271,983	\$273,809
--Payments to Agencies for Items Sold	\$270,557	\$257,495
--Contractual	\$30,377	\$42,251
--Commodities	\$10,188	\$24,783
Total Expenditures	\$583,105	\$598,339
Net Difference	(\$1,784)	(\$157,272)
Federal Vehicle Resale		
Vehicle Revenues	\$1,849,662	\$1,588,800
Vehicles Expenditures	\$1,904,051	\$1,479,883
Net Difference	(\$54,389)	\$108,917
TOTAL NET Difference	(\$56,172)	(\$48,355)
(a) The State Surplus Property program is only one of three programs operated through the department's surplus property budget. Even when the Federal Surplus Property program and the Law Enforcement Support Office program is included, the program operated at a loss in both years. Source: LPA analysis of unaudited State Surplus Property budget data for Fiscal Years 2011 and 2012.		

The State Surplus Property program is not designed to maximize revenues. Rather, the program is primarily designed to redistribute items among state agencies and other eligible recipients. The goal is to make items from one agency available to other eligible recipients at affordable prices before they are made available to the general public. As a result, surplus items are offered at fixed prices which could limit the program's ability to maximize revenues. Because of time constraints, we were unable to determine whether the fixed sale prices were more affordable than the final sale amounts for similar items through online auctions.

The State Surplus Property program is designed to provide disposal services for items with little or no value. As part of the program, staff pick up and dispose of all personal property (including broken items) from agencies in Shawnee County. This service shifts disposal costs for the individual agencies to the surplus property program. Officials told us this service is offered

to encourage agencies to dispose of items that would otherwise be stored away. However, this service also increases the cost of the program.

The State Surplus Property program operates inefficiently.

We did not conduct a formal review of the operations of the program as part of this audit. However, through our work we identified the following areas of concern:

- **The program does not sell surplus property in a timely manner.** State law requires items to be sold within one year. Moreover, the department's policy is to auction any items that have been made available to the public for 60 days. In our discussions with officials, we learned no controls are in place to ensure items are sold within a year, and program employees have not held an auction for at least two years. Officials explained that the current warehouse space does not require items to be sold quickly.
- **The Department of Administration has not taken steps to minimize its lease costs.** The State Surplus Property program currently operates out of two buildings. If the program performed periodic auctions, operations could likely be consolidated to one building, saving almost \$19,000 a year.

Further, the department previously owned the two buildings it now leases from the Topeka school district. That is because the department sold the school district about 209 acres of the Topeka State Hospital grounds, including the buildings that housed the surplus program. Beginning in February 2012, that lease agreement has increased from \$1 to \$96,500 a year. Agency officials told us they have considered other locations but have not found anything more suitable.

- **The program has recently made it more difficult for individuals to buy computers.** In the past, computers were sold on a first-come, first-serve basis. However, that practice resulted in people showing up before the warehouse opened in order to purchase computers. Consequently, program staff started requiring individuals interested in laptops to join a waiting list. When such items become available, employees call individuals on the list to find potential buyers, and they continue calling until they have a confirmed sale. This makes it more difficult for buyers, increases the amount of time it takes to sell items, and potentially lowers the final sale price.

Although we did not evaluate how each of these factors affected the program's finances, we think they cumulatively represent areas for potential improvement.

The State's Contractor for Online Auctions is Better Equipped to Maximize Agencies' Revenues from Selling Surplus Items

As mentioned previously, state agencies located outside Shawnee County or those given an exemption by the Department of Administration can sell surplus personal property independently or through Purple Wave, the state's contractor for online auctions.

In fiscal year 2012, it was almost seven times more costly to sell surplus items through the State Surplus Property program as through Purple Wave. *Figure 1-4* below compares the fiscal year 2012 revenues and sales costs for the State Surplus Property program and Purple Wave. As the figure shows, it cost the state program about \$340,000 to generate about \$440,000 in revenues (77%). These costs generally are paid for through fees collected when items are sold. In contrast, Purple Wave imposed only \$250,000 in fees on the \$2.5 million of personal property sales it generated (10%). Of the \$2.5 million generated by Purple Wave for 12 agencies, KDOT made up more than two-thirds of the total (\$1.7 million).

Figure 1-4 State Surplus Property and Purple Wave Revenue and Cost Comparison (Fiscal Year 2012)				
	Entity	Revenue Generated	Sale Costs	Sale Costs as a % of Revenue
A	State Surplus Property	\$440,000	\$340,000	77%
B	Purple Wave (a)	\$2,500,000	\$250,000	10%

(a) These figures only represent 8 months of sales data from 11/01/2011 to 06/30/2012. In reality, Purple Wave assesses its 10% fee against the buyer of the items it sells. For the purpose of our comparison, we assumed that the fee would reduce the sale price of all items sold, representing an indirect cost to the state.

Source: LPA analysis of FY 2012 revenues and expenditures for State Surplus Property and Purple Wave contract information.

Purple Wave has greater market visibility, which results in better prices. Compared to the state's brick-and-mortar program, which limits the marketability for surplus items, online auction services allow the contractor to access a global market of potential buyers. That has two benefits:

- **A larger market provides more opportunities to sell unique items.** For example, officials from the Kansas Historical Society told us they received permission to use Purple Wave to auction an old wagon wheel—an item not easily sold through the state's program.
- **A larger market increases competition among buyers.** Increased competition generally results in higher sale prices for the items being sold.

Purple Wave can more effectively sell low-cost items in bulk by bundling them. Both the State Surplus Property program and Purple Wave try to sell low-cost items for state agencies, including file cabinets, desks, and computers. However, the state's program has been less successful in finding local buyers

interested in purchasing items with little resale value, as a number of such items remain on sale for months. By contrast, Purple Wave officials told us and agency officials confirmed that the contractor is successful in selling low-cost items. The contractor sells similar items by bundling and selling them in bulk.

Several State Agencies Prefer to Use the State's Contractor Instead of the State Surplus Property Program

As part of our work, we talked with 17 agencies that own a significant amount of the state's personal property about their understanding and experience with the state's surplus property process. We have summarized the results of those interviews below.

Several officials from agencies in Shawnee County told us they want to maximize their revenues by using Purple Wave.

As mentioned above, Purple Wave is better equipped to maximize agencies' revenues on surplus items for a variety of reasons, including its lower fees, market visibility, and ability to sell low cost items in bulk. While we did not specifically ask during our interviews, several agency officials told us they would prefer to use Purple Wave to generate more revenue from the items they sell.

Department of Transportation officials told us they sell more items than the State Surplus Property program can reasonably handle.

KDOT has been exempted from selling its surplus property through the state's program even though the agency is located in Shawnee County. Officials told us they received the waiver in 2005 because the state's program was not equipped to handle the high volume of surplus items KDOT has including a large number of vehicles, dump trucks, tractors and backhoes.

Purple Wave provided information for recent KDOT auctions. That information showed 561 items sold with more than 1,000 unique bidders placing a total of 9,609 bids. Despite KDOT's success using Purple Wave to sell its surplus items, State Surplus Property program officials stated they are in the process of incorporating KDOT back into the state's program.

Agencies using Purple Wave are better able to track revenues for potential reimbursement to federal programs.

KDOT officials mentioned they have had issues with the poor record keeping at the State Surplus Property program which created accountability issues for them. That is because revenues from items purchased with federal dollars may need to be returned to the federal government. The Department of Wildlife, Parks, and Tourism also told us that documentation from Purple Wave allows them to track revenues for surplus items for the same purposes.

Two Barriers Discourage Agencies from Selling Surplus Personal Property, Regardless of Which Sale Method is Used

Our interviews with 17 agencies brought to light two additional issues that could curtail selling surplus personal property, as described below.

Some agencies do not want to sell surplus vehicles because they are hard to replace once sold. Agency officials told us that due to the state's moratorium on buying new vehicles, they prefer to hold on to their vehicles until they have the funding necessary to replace them. For example, the Topeka Correctional Facility currently has nine vehicles that could be sold as surplus. Until the agency receives funding to replace them, those vehicles remain at the agency. This also means vehicles are becoming costly to maintain and may become unsafe.

Agencies have few negative consequences for holding onto surplus property. Currently, oversight over agencies personal property use (including what and when items should be sent to surplus) does not exist. As a result, agencies may hold onto surplus items simply out of convenience. For instance, we learned the Department of Labor and the Juvenile Justice Authority stored several hundred unused computers away in storage instead of selling them or sending them to State Surplus Property. As a result, the resale value on these computers is likely to be very small because of the agencies' unwillingness to send them to surplus property quickly. As expected, this issue was more prevalent for agencies that had ample storage space.

OTHER FINDINGS

The State's Central Asset Inventory for Real Property Is Inaccurate and Incomplete

The state's inventory of real and personal property generally is maintained in the state's accounting system called SMART. Currently, department policies require most agencies to inventory real and personal property using this system, which feeds into the state's annual financial report. During our work we found the following issues involving the state's real property inventory process.

Because the Department of Administration has not verified the real property inventory as required by law, its inventory information is inaccurate. During our review of the data we found that a number of statutorily required fields, such as legal descriptions or land use, were left blank for numerous properties. Furthermore, we noted a number of significant inaccuracies in the data including:

- A 0.2 acre parcel owned by the Department for Children and Families in Colorado was listed as 6,793 acres.

- Parsons State Hospital and Training Center was listed as 163,860 acres instead of 163.9 acres.
- Several Department of Labor properties' square footage information had been entered as acres, resulting in its real property ownership erroneously being reflected at almost 167,000 acres.

K.S.A. 75-3729 requires the department to update and periodically verify inventory records. However, agency officials confirmed that no staff currently are responsible for that work.

The real property inventory is incomplete because it excludes properties under certain cost thresholds. Per policy, state agencies only have to inventory real property valued greater than \$100,000. Although a property valued less than \$100,000 may not represent a significant value for financial reporting purposes, it is important for the state to have a complete list of all real property it owns. Department officials agreed, and told us they will begin revising their policy to fix this problem.

The Department of Administration's Recent Reorganization has Eliminated Some Positions That are Specifically Referenced in Statute

In January 2012, the Department of Administration went through a significant reorganization. That reorganization dissolved a number of existing divisions and also regrouped certain functions into newly created offices. For example, the surplus property management function within the former Division of Printing and Surplus Property is now performed under the asset management function within the Office of Facilities and Property Management.

One consequence of this reorganization is that some positions that are specifically referenced in statute no longer exist. For example, the Director of Accounts and Reports and the Director of Purchasing are still referenced in numerous state statutes. Because internal reorganizations such as this do not have to be approved by the Legislature, there does not appear to have been any trigger for a clean-up bill to update the language in statute. Consequently, a number of current state statutes assign specific responsibilities to several department positions that no longer exist.

Conclusion

There are a number of systemic problems that make it difficult for the state to identify and sell real or personal property that is no longer needed. Although the Department of Administration needs to increase its efforts to identify surplus real property, it also needs the authority to independently designate real property as surplus. In addition, state agencies need stronger incentives to identify and sell their own surplus properties. Without these improvements, it is unlikely that very much surplus real property will be sold.

For surplus personal property, the Department of Administration's management of the State Surplus Property program should be modernized to redistribute, sell, or dispose of surplus items in a more efficient manner. Incorporating modern technologies or using private sector alternatives could allow the department to balance the need to transfer surplus items between state agencies with the ability to achieve the best financial return possible.

***Recommendations for
Executive Action***

1. To act on the surplus properties we identified starting on page 7, the Department of Administration should collaborate with the respective agencies, request the Governor to declare the properties surplus, and promptly start the sale process in part to benefit from favorable agricultural land values.
2. To address the issues with identifying and selling surplus real property identified on pages 11 and 12, the Department of Administration should:
 - a. establish and disseminate clear criteria for identifying surplus real property.
 - b. create and disseminate guidelines on the sale of surplus real property readily available to all state agencies.
 - c. periodically review state land to identify potential surplus real property.
3. To address the issues with the accuracy and completeness of the state's real property inventory identified on pages 20 and 21, the Department of Administration should:
 - a. revise its policies to remove the \$100,000 minimum threshold necessary for state land and buildings to be included in the real property inventory.
 - b. periodically review the real property inventory information to verify the completeness and accuracy of the data, and follow up with agencies to fix any issues discovered through those reviews.
4. The Department of Administration should report back to the Post Audit Committee on its progress of implementing these recommendations by April 1, 2013.

***Recommendations for
Executive Consideration***

1. To address the issues regarding the viability and efficiency of the State Surplus Property program we identified starting on page 15, the Department of Administration should study the program's ongoing viability. Such a study should include:
 - a. a thorough evaluation of the program's detailed expenditures and revenues to determine which entities (state agencies, other eligible stakeholders, the public) benefit most from the program.
 - b. input from state agencies about how the program could be improved.
 - c. a review of alternative methods to the current brick-and-mortar surplus property center, such as a website that would facilitate the transfer of items from one entity to another.
 - d. a review of alternative methods for disposing of surplus items that have no value.
2. The Department of Administration should report back to the Post Audit Committee on its intended course of action on changes to the State Surplus Property program by April 1, 2013.

***Recommendations for
Legislative Consideration***

1. To address the issues of identifying and selling surplus real property identified on pages 11 and 12, the Legislative Post Audit Committee should consider introducing a bill to amend K.S.A. 75-6609 in order to:
 - a. specify how often the Department of Administration is to review state-owned real property to identify potentially surplus land and buildings.
 - b. provide the Department of Administration with independent authority to designate state land as surplus.
 - c. enhance the financial incentives for state agencies to periodically evaluate their own land to identify possible surplus real property.
2. To address the issue with agencies keeping all lease revenues identified on page 13, the Legislature should consider introducing a bill to extend the requirements on revenue generated from selling state land to revenues generated from leasing state land.

3. To address the issue with the outdated statutory language identified on page 21, the Legislature should consider introducing a bill requiring the Revisor of Statutes to identify and amend any references to statutorily created Department of Administration positions that no longer exist.

APPENDIX A

Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on January 18, 2012. The audit was requested by Speaker Michael O’Neal and the Legislative Post Audit Committee.

At its July 10, 2012 meeting, the Legislative Post Audit Committee directed us to limit our work on surplus personal property. Specifically, the committee asked us to review the state’s process for selling surplus personal property instead of identifying surplus items that could potentially be sold. The committee also directed us to eliminate question two related to online auctions because of time constraints.

SCOPE STATEMENT

State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Asset Sales and Online Auctions

K.S.A. 75-6609 specifies how the surplus assets of most state agencies can be sold (the Department of Transportation and Board of Regents institutions are exempt). That law also specifies how moneys generated through the sale of surplus assets should be distributed (20% to the selling agency and 80% to the State General Fund).

In August 2011, Department of Administration officials directed executive branch agency officials to designate 10% of all their real estate as surplus. Using that information, officials assembled an inventory of state real property assets that potentially could be sold. The list includes approximately 92 state-owned buildings and 24,000 acres of land. As of December 2011, the Department had not evaluated the feasibility of selling these assets and had not estimated how much those assets might be worth. Additionally, the list didn't include other surplus state assets, such as machinery or equipment, because a comprehensive list of these items wasn't centrally available.

Online auctions provide an alternative way of selling surplus state assets or procuring assets at a lower price. For example, Minnesota reported \$1.5 million in additional revenue over two years through use of online surplus auctions. Conversely, reverse online auctions are an increasingly common technology states use to lower procurement costs. A reverse auction allows pre-qualified vendors to compete in a real-time online auction for contracts awarded based on the lowest bid price. Minnesota reported that using this process has achieved estimated savings of \$5 million over four years. In 2002, Kansas' Division of Purchases held two reverse online auctions as a pilot program. The results were mixed. The purchase of law enforcement vehicles resulted in little savings whereas the purchase of paint strippers achieved an estimated savings of 14%.

Legislators have expressed interest in knowing what possibilities exist for cost savings and revenue enhancements through asset sales and online auctions.

A performance audit in this area would address the following questions:

- 1. Do Kansas agencies have surplus or underused real property and equipment that could feasibly be sold, and how much money could be generated by selling it?** To answer this question, we would select a sample of assets from the Department of Administration's inventory to evaluate in more detail. That sample would likely be based on the type of asset, its use, the feasibility of selling it, and other factors. For that sample we would identify why the property was purchased and how it is being used. We would also work with agency staff to develop a list of state machinery and equipment. From that list, we would try to identify a sample of surplus or underused machinery and equipment based on its age, and how often it's used. Finally, for both samples, we would develop estimates for how much each asset might be worth and what the impact of selling it might be. We would develop these estimates by working with local appraisers and others who have expertise in valuing assets. We would perform additional work in this area as needed.

2. **Could online reverse and surplus auctions be used to significantly reduce state procurement costs or increase the revenues from asset sales?** To answer this question, we would review state law to determine whether any current requirements exist related to the use of online surplus or reverse auctions. We would further identify other states using these auction processes and would contact them to determine how those processes work, and to identify the benefits and barriers specific to use of online reverse and surplus auctions. We would also determine whether any of those states have estimated how much those auctions have saved. We would talk with Division of Purchase officials and other industry experts about this process, and try to determine how much it would cost Kansas to implement similar auction processes. We would include any relevant off-setting costs we identified into our cost savings estimates. Finally, we would explore the non-monetary benefits of these auction processes, as well as any significant caveats or negative aspects related to their implementation.

Estimated resources: 3 staff for 18-20 weeks (plus review)

APPENDIX B

Photographs and Detailed Descriptions of Surplus Properties

This appendix contains aerial photographs and detailed information about the eight pieces of surplus properties we identified. Those properties represent 928 acres of land and several buildings that we estimated could be sold for one-time revenues between \$1.5 million to \$2.2 million.

Appendix B
Department for Children and Families



ID	Why Surplus	Size	Value (Est.)	Potential Barriers
1	<p>Not mission critical and unused- This is a vacant residential lot located in Pueblo, Colorado.</p> <p>Agency officials <u>agree</u>d this tract is surplus and are actively trying to sell this land.</p>	0.2 acres	\$1,300	<ul style="list-style-type: none"> ● There are no utility connection for this lot.

Source: LPA analysis of selected state agency surplus land and buildings.

Appendix B
Juvenile Justice Authority- Kansas Juvenile Correctional Complex



ID	Why Surplus	Size	Value (Est.) (a)	Potential Barriers
1	<p>Not mission critical - The agency currently has three greenhouses and a storage building located on this property.</p> <p>Agency officials <u>agreed</u> the property was surplus and told us they can make adjustments on its current use.</p>	31 acres	\$184,100	<ul style="list-style-type: none"> ● The facility's outer perimeter fence runs across this property and would need to be moved ● Limited commercial access and visibility.
2	<p>Not mission critical and unused- A variety of undeveloped land North of Soldier Creek.</p> <p>Agency officials <u>agreed</u> these tracts were surplus.</p>	100 acres	\$160,300 - \$330,900	<ul style="list-style-type: none"> ● Cemetery on Tract I ● Missing deeds for three of the eight parcels and one parcel is landlocked. ● Some of the land is in a flood zone.

(a) Value ranges are based on differing appraisal estimates for agricultural land holdings.
Source: LPA analysis of selected state agency surplus land and buildings.

Appendix B
Juvenile Justice Authority- Atchison Juvenile Correction



ID	Why Surplus	Size	Value (Est.) (a)	Potential Barriers
1	<p>Not mission critical and unused- The facility closed in December 2008, and the land/campus was declared surplus by Governor Brownback in August 2011.</p> <p>Agency officials <u>agreed</u> and the Governor has declared the land surplus.</p>	151 acres	\$155,300 - \$246,100	<ul style="list-style-type: none"> ● Buildings have been vandalized and have deteriorated. ● A small cemetery exists on the land that may need special attention. ● Access to the water tower must be maintained for the city.

(a) Value ranges are based on differing appraisal estimates for agricultural land holdings, and excludes the value for the campus buildings and approximately 25 acres of land those buildings sit on.

Source: LPA analysis of selected state agency surplus land and buildings.

Appendix B
Kansas Commission on Veterans' Affairs- Kansas Soldiers Home



ID	Why Surplus	Size	Value (Est.) (a)	Potential Barriers
1	<p>Not mission critical- These are leased agriculture lands that are not essential to the function of the Kansas Soldiers Home.</p> <p>Agency officials <u>disagreed</u> about our designation based on the barriers outlined to the right.</p>	449 acres	\$196,600 - \$515,900	<ul style="list-style-type: none"> ● Land is mission-critical as it serves as buffer for residents against noise, development, pollution, or increased traffic. ● If a geological survey confirms oil deposits under tract A and B, selling the land may not be in the interest of the state. ● The Soldiers Home is using the two sewage ponds on the other side of tract C. ● Loss of access to fresh water wells and the possibility of further contamination of fresh water.

(a) Value ranges are based on differing appraisal estimates for agricultural land holdings.

(b) Agency officials told us they think that tracts A and B potentially include oil deposits. If true, the value of this land would likely exceed our current estimates.

Source: LPA analysis of selected state agency surplus land and buildings.

Appendix B
Kansas Neurological Institute (a)



ID	Why Surplus	Size	Value (Est.)	Potential Barriers
1	<p>Not mission critical - The superintendent's house is used to occasionally provide free housing for visiting parents.</p> <p>Agency officials <u>disagreed</u> because selling this house could potentially reduce family visits for some residents.</p>	3,678 ft ²	\$117,000	<ul style="list-style-type: none"> ● Possibly reduce family visits for some residents.
2	<p>Not mission critical and unused - The vacant grounds are unused by KNI residents.</p> <p>Agency officials <u>disagreed</u> about our designation based on the barriers outlined to the right.</p>	41 acres	\$416,000	<ul style="list-style-type: none"> ● Elimination of parking lot space would create hardship on employees ● Drainage issues would have to be addressed ● Buried debris would have to be removed ● Potential safety risks to KNI residents

(a) For more information on KNI land holdings refer to LPA audit R-11-015, pages 17-20.
Source: LPA analysis of selected state agency surplus land and buildings.

Appendix B Osawatomi State Hospital



ID	Why Surplus	Size	Value (Est.) (a)	Potential Barriers
1	<p>Not mission critical- The agency currently leases the land. However, the original purpose of this land was to support hospital operations, not to generate additional revenues for the agency.</p> <p>Agency officials <u>disagree</u> this tract is surplus because they currently lease the land to generate about \$20,200 in annual revenue.</p>	156 acres	\$318,700 - \$388,000	<ul style="list-style-type: none"> ● Currently, a 5-year lease exists that would have to be terminated by November 30th of the proceeding lease year.

(a) Value ranges are based and differing appraisal estimates for agricultural land holdings.
Source: LPA analysis of selected state agency surplus land and buildings.

APPENDIX C

Agency Responses

On September 14, 2012, we provided copies of the draft audit report to the Department of Administration. Its response is included in this appendix.

We also provided relevant sections of the draft report to the Juvenile Justice Authority, the Department for Children and Families, the Kansas Commission on Veterans' Affairs, the Kansas Neurological Institute, and the Osawatomie State Hospital. These five agencies were given the option to submit a formal response regarding their section of the draft report. We made minor changes to the final report as a result of agencies' feedback and two agencies submitted formal responses, which we included in this appendix.

KCVA officials expressed a number of concerns regarding the land tracts we have identified as surplus. While we understand these concerns, we remain convinced that these properties deserve further evaluation as potentially surplus properties for the reasons described below.

- **KCVA does not necessarily need to maintain ownership of the identified land tracts to ensure a safe buffer zone for residents of the Kansas Soldiers Home (Concern #1).** We talked with Kansas Department of Health and Environment officials and learned that several regulated industries are required to have buffer zones from habitable structures such as the Soldiers Home. For example, large confined feeding facilities for cattle have a buffer zone up to 4,000 feet and large swine facilities have a buffer of 5,000 feet.

Moreover, we talked with an official from the Topeka zoning department and confirmed that any changes to the land's current agricultural zoning would have to go through the local re-zoning process. That process would require that the potential effect of industrial and commercial activities on the Soldiers Home residents to be considered.

- **Other safeguards are available to help ensure that noise, air, and ground water pollution around the Soldiers Home is mitigated (Concern #2).** Generally, the Kansas Department of Health and Environment is responsible for monitoring and enforcing environmental issues including air quality, water pollution, and waste management.
- **The protection of fresh water resources and subsurface mineral rights can be achieved in several ways (Concern #3).** If KCVA's existing two water wells are the only practical means of supplying fresh water to the Soldier's Home, the land those wells sit on could be excluded from the sale of the remaining surplus land. To protect the state's financial interest based on potential oil deposits, the state could do a geological survey to confirm the possibility and either adjust the sale price or retain mineral rights for a continuous stream of revenues after the initial sale.
- **The state could potentially add stipulations to the sale of the land to address all of the concerns KCVA has cited.** By including specific real covenants in its sale agreement, KCVA could potentially restrict a buyer from violating any requirement it considered important to the safety and well-being of its Soldiers Home residents.

October 15, 2012

Mr. Scott Frank
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212



Re: Draft Performance Audit Report: *State Asset Management: Evaluating the Possibility of cost Savings and Revenue Enhancements through Property Sales*

Dear Mr. Frank,

Thank you for providing an opportunity to respond to the draft audit report referenced above. The Department of Administration appreciates the Legislative Division of Post Audit's coordination of the many activities that were necessary to evaluate the cost savings and revenue enhancements through property sales for the State of Kansas.

The recommendations for Executive Action and Executive Consideration will be discussed both internally at the Department of Administration and externally with state agencies. The Department offers the following comments:

The Department offers the following comments:

Recommendations for Executive Action:

1. To act on the surplus properties we identified, the Department of Administration should collaborate with the respective agencies, request the Governor to declare the properties surplus, and promptly start the sale process in part to benefit from favorable agricultural land values.
2. To address the issues with identifying and selling surplus real property identified, the Department of Administration should:
 - a. Establish and disseminate clear criteria for identifying surplus real property.
 - b. Create and disseminate guidelines on the sale of surplus real property readily available to all state agencies.
 - c. Periodically review state land to identify potential surplus real property.
3. To address the issues with the accuracy and completeness of the state's real property identified, the Department of Administration should:
 - a. Revise its policies to remove the \$100,000 minimum threshold necessary for state land and buildings to be included in the real property inventory.

- b. Periodically review the real property inventory information to verify the completeness and accuracy of the data, and follow up with agencies to fix any issues discovered through those reviews.
4. The Department of Administration should report back to the Post Audit Committee on its progress of implementing these recommendations by April 1, 2013.

Management Response:

The Department of Administration (DOA) will collaborate with agencies and begin the procedures for sale of surplus property, which may include a request to the Governor to declare the property surplus.

The DOA will develop criteria for identifying surplus real property and the guidelines for selling surplus real property. The DOA will make the criteria and guidelines available to all state agencies.

The DOA will establish procedures for periodic review of state land for the purpose identifying surplus property.

The DOA will review and update as necessary the policies regarding the minimum threshold for recording state land and buildings in the real property inventory.

The DOA will develop a methodology for validating the completeness and accuracy of the real property inventory data and follow up with agencies as necessary to correct errors in the data.

The Department of Administration will report back to the Post Audit Committee on these recommendations by April 1, 2013.

Recommendations for Executive Consideration:

1. To address the issues regarding the viability and efficiency of the State Surplus Property program, the Department of Administration should study the program's ongoing viability. Such a study should include:
 - a. A thorough evaluation of the program's detailed expenditures and revenues to determine which entities (state agencies, other eligible stakeholders, the public) benefit most from the program.
 - b. Input from state agencies about how the program could be improved.
 - c. A review of alternative methods to current brick-and-mortar surplus property center, such as a website that would facilitate the transfer of items from one entity to another.
 - d. A review of alternative methods for disposing of surplus items that have no value.
2. The Department of Administration should report back to the Post Audit Committee on its intended course of action on changes to the State Surplus Property Program by April 1, 2013.

Management Response:

The DOA will study and evaluate the policies and procedures for operating the State Surplus Property Program and viable alternatives. As part of this study the DOA will also gather and consider input from

state agencies about how the program can be improved. The Department of Administration will report back to the Post Audit Committee on these recommendations by April 1, 2013.

If you have any questions about this response please know that I am glad to be of assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Pam Fink". The signature is fluid and cursive, with a large loop at the end.

Pam Fink, Director
Office of Research and Development

cc: Dennis Taylor, Secretary of Administration

Operations
915 SW Harrison St., 6th Floor
Topeka, KS 66612-1354



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Phyllis Gilmore, Secretary

Sam Brownback, Governor

October 9, 2012

Mr. Scott Frank, Legislative Post Auditor
Legislative Division of Post Audit
800 Southwest Jackson Street, Suite 1200
Topeka, Kansas 66612-2212



Dear Mr. Frank:

We received a copy of the information related to the Department for Children and Families (DCF) that will be presented in your audit report, *State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales*. This audit report shows that DCF currently owns .2 acres of property in Pueblo, Colorado valued at \$1,300. We concur that we do currently own this property and we obtained a quitclaim deed that enabled DCF to turn this property over to the Department of Administration for disposal. Should you have any further questions, please do not hesitate to contact me.

Best regards,

A handwritten signature in cursive script, appearing to read "Greg Harris".

Greg Harris, Deputy Secretary of Operations, DCF

Cc. Bob Corkins, General Counsel, DCF

Strong Families Make A Strong Kansas

October 23, 2012

Scott Frank, Administrative Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, KS 66612-2212



Dear Mr. Frank:

Re: Performance Audit: *State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales*

The Kansas Commission on Veterans' Affairs (KCVA) thanks you for the opportunity to respond to the Legislative Division Post Audit's draft report of the performance audit.

Background:

On September 18, 2012, the KCVA received the Legislative Division of Post Audit (LDPA) draft copy of the report concerning potential surplus property at the Kansas Soldiers' Home (KSH), Ft. Dodge, Kansas. After the staff reviewed the draft, it was presented to the KCVA Commission (executive session) at its monthly meeting on September 21, 2012. The Commission expressed their concern about designating any of the proposed tracts of land surrounding Ft. Dodge as surplus. The Commission expressed their desire that the land be retained in order to protect against present or future encroachment, which could adversely impact the health and the quality of life of those residing in this nursing home community.

Concerns:

1. Loss of Kansas Soldiers' Home control of surface area "buffer zone". In the event that the state-owned lands comprising the KSH (Tract A, B, C, and D) were sold, the organization would immediately lose the benefit in perpetuity of the "buffer zone" provided by these lands between the current KSH facility and all other adjacent land uses to the west, north, and east of the Home. If these state-owned lands were sold to any party, that purchaser would have perpetual and virtually unfettered use of such lands for any and all lawful purposes – whether or not such purposes were also consistent with the health and welfare demands and needs of our KSH residents and staff. By selling this land, the state would relinquish all control over future development of these properties. Based upon current development in the local area (cattle industry and power plant), it is not difficult to anticipate how such future unknown

but probable uses would conflict with the requirements imposed by state law and the regulations governing the location of nursing facilities.

For example, Kansas Department for Aging and Disability Services, Nursing Facilities K.A.R. 26-40-301 pertains to nursing facility physical environments and construction site requirements. Without question, the KSH is a nursing facility subject to this KDADS regulation and, more specifically, part (b) (5) and (6) states:

(b) Site requirements. The site of each nursing facility shall meet the following requirements:

(5) Be at least 4,000 feet from concentrated livestock operations, including shipping areas and holding pens;

(6) Be located above the 100-year flood zone if the property is located in a flood hazard area;

2. Potential increases in noise, air, and ground water pollution or contamination in close proximity to the Kansas Soldiers' Home. In the event that the state-owned lands comprising the KSH (Tract A, B, C, and D) were sold, we are extremely concerned about the potential noise, air, and ground water pollution or contamination hazards associated with other industries already in close proximity to the KSH. Recent history shows that the Power Company adjacent to the KSH property to the west tried to purchase Tract C in 2002, and growth of the cattle industry in the local area could put our resources at risk. We are concerned that the potential development of surrounding property could create constant and excessive noise that would not be conducive to the health, welfare, and morale of our KSH residents and staff. In addition, we have a significant concern about possible contamination of the ground water aquifer and air pollution from potential development. Potable water and clean air are obviously critical to the viability of the Kansas Soldiers' Home. Again, Kansas Department for Aging and Disability Services, Nursing Facilities K.A.R. 26-40-301 pertains to nursing facility physical environments and construction site requirements. Without question, the KSH is a nursing facility subject to this KDADS regulation and more specifically part (b) (3) and (4) states:

(b) Site requirements. The site of each nursing facility shall meet the following requirements:

(3) Be located in an area sufficiently remote from noise sources that would cause the day or night average sound levels to exceed 65 decibels;

(4) Be free from noxious and hazardous fumes;

3. Loss of KCVA/KSH control over the protection and development of fresh water resources and/or other subsurface mineral rights. The result of any sale of KSH lands is a complete and permanent divestiture of all rights to control or benefit from the protection and/or development of the fresh water resources or other mineral rights associated with these lands. In this arid western Kansas location, these rights are extremely valuable and, in all probability, will become more valuable in the future. Currently, the KSH utilizes two of its own wells to supply its water needs. Due to the nitrite levels in one of these wells, the KSH must appropriately mix the water from two of its wells to provide safe, potable water to its residents. One of the wells that provide essential water resources to the KSH is located in Tract B and is mixed with water from another well just south of Tract B. There is an additional well located in

Tract C that the KSH owns water rights. Water supplied by these wells is critical to the needs and requirements of the KSH and Ft. Dodge Cemetery. Clean, potable water is crucial to the future of the KSH and should be of paramount importance in any future expansion or development on and around the facility. There has also been increased interest in possible oil deposits that may be located on the KSH property and the potential revenues that this resource could bring to the state in the future.

Conclusion:

The safety and health of our residents is paramount and a vital priority and concern to this Commission. After thorough deliberation and consideration of the audit proposal to list the four tracts of land (Tracts A, B, C, and D) surrounding the Kansas Soldiers' Home as surplus, the Kansas Commission on Veterans' Affairs recommends against listing the four tracts of land as surplus. In our opinion, the long-term costs associated with this proposed surplus/sale of land significantly outweigh any prospective short-term cash flow benefits to the State of Kansas. This Commission believes that the land in question should not be listed as surplus and sold when potentially serious consequences could adversely impact the health, welfare, and environment of those residing and working at the KSH. We appreciate the courtesy and cooperation the Legislative Division of Post Audit has extended to us through this process; however, we earnestly believe that our recommendation is in the best long-term interests of the Kansas veterans, KSH residents and staff, and the State of Kansas.

If I can be of further service, please let me know.

Sincerely,



Gregg Burden
Executive Director
Kansas commission on Veterans' Affairs