Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

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A Limited Review of the Sale of the College of Eastern Utah President's Home

The Legislative Auditor's Office was asked to review the sale of the College of Eastern Utah's (CEU) president's home. In October 2008, the college sold the president's home and plans to use the money to build another home for the president on another piece of college property. A Legislator received several complaints about the sale. Specifically, complainants said that the amount of time the home was advertised was not adequate. Legislative Research and General Counsel told us that the ***Utah Code*** does not address this issue, and so there were no questions concerning the legality of the sale. However, we found that good management practices dictate more advertisement and a longer bid period.

We determined that CEU administrators mostly followed sound principles in the sale of the president's home. They conducted an evaluation of the property and obtained a fair, reasonable price for the property. However, certain aspects of the sale could have been strengthened—administrators should have done more to advertise the availability of the home for sale and should also have extended the bid period.

When a public entity sells property, there are several principles that it should follow. The following chart summarizes these principles and what the college did in relation to these principles in the sale of the president's home.

Figure 1 Principles of Surplus Property Sale[1]

Principle: Conduct evaluation of property.	**Principle:** Obtain a fair, reasonable price for the property.	**Principle:** Advertise the availability of the property for sale and give sufficient time to bid
What college did: Conducted a study.	**What college did:** Obtained an independent appraisal and sold property at full price.	**What college did:** Conducted public hearing on master plan which included sale of home, notified alumni association and advertised in local newspaper.
Evaluation of action: Good	**Evaluation of action:** Good	**Evaluation of action:** Can be Strengthened

As Figure I shows, college administrators did well in two of the three areas. As previously mentioned, they conducted an analysis of the home to determine whether it would be cost beneficial to repair the home or sell it. The analysis estimated that it would cost between $30,000 and $50,000 to repair the home. In addition, the driveway up the hill to the home was too narrow and the parking area too limited to accommodate large groups. Consequently, CEU administrators determined it would be better to sell the home and use the proceeds to build another President's home on other college property.

College conducted cost benefit analysis

In addition, college administrators obtained an appraisal from an outside firm to determine the home's value (appraised at $266,000). The appraisal was done by a firm from Sandy, Utah that, according to a real estate broker we interviewed, is well respected in the community.

We believe the appraised value is reasonable because, as noted above, the appraiser is well respected in the community and because we

1. These principles were developed through discussions with the director of real property at Utah State University, the assistant state director of surplus property, a real estate broker, a representative of State Lands Trust Administration, and a representative of the LDS Church's property division.

interviewed the two prospective buyers who went through the property. They felt the appraised price was about right or even somewhat too high. Both of them did not submit formal bids. One said that had she made an offer, she would not have offered the full $266,000 for the home because it needed a lot of repairs. The other reported that she did not want to make an offer on the home because she decided it would be better for her family to live in another part of town. However, she thought that the location and size of the lot made the property worth $266,000 although she did not consider the cost of repairs.

Through a bid process, the college obtained the full appraised value of the property. College administrators advertised the property in a local paper, requiring the appraisal price as the minimum bid, and received one formal bid. From this bid, the college received the full $266,000.

College administrators should have advertised more.

As Figure I shows, the college should have done more to advertise. College administrators used several means to advertise the sale of the home but they were, in our opinion, insufficient.

First, they included the sale in the college's July 2008 master planning meeting. College administrators held several public meetings with their Board of Trustees and the Board of Regents where the sale of the President's home was discussed and approved and included in the college's master plan document. The master plan is over 40 pages long and the sale of the home is mentioned in a paragraph on page 13, making it unlikely people would be aware of the home just from reading the master plan. The discussion at the master planning meeting focused on a new arts building and some watering issues. As a result, the newspaper account did not include the sale of the president's home but rather the discussion on the new arts building and watering issues. We do not believe that the master plan and the master planning meeting were very effective tools in advertising the president's home because discussion of the home sale at the meeting received no newspaper coverage.

Second, college administrators said that they notified the alumni association about the home sale. When we spoke with the alumni association president, he said he mentioned the sale of the home at their August 2008 meeting to about 20 people. However, he mentioned it as part of their discussion of business items and not as an advertisement for the home (such as when it would be available, minimum bid, etc.). Also, alumni lists were not used to advertise the home to alumni. As with the master planning process, we do not believe the alumni association was effectively used to advertise the home.

Third, CEU administrators advertised in the local newspapers. However, they advertised for only two days (one week—the paper is printed two times a week) in the *Sun Advocate* and one day (one week—the paper is printed one time per week) in the *Emery Progress*. They had originally planned to advertise for two weeks, but before they advertised they received a phone call from the ultimate buyer of the property who said he would pay the full appraised price. Since they had a buyer willing to pay the full price, they did not see a need to advertise for longer than one week.

We discussed the issue of how long to advertise with several experts in the field. They unanimously said that one week is not long enough. The director of properties at Utah State University told us that they advertise their sales for no less than three weeks, even if they have a buyer. He explained that if the sale is not advertised sufficiently, even if the university receives full appraised price, there will be complaints and concerns from the public that the institution did not act fairly. A real estate broker in the area felt that one week was significantly too short. Other organizations we contacted have a three week to one month minimum. In addition to advertising longer to ensure fairness, experts also said that, depending on the housing market, leaving a house on the market longer has the potential to increase the sales value. However, given the market conditions at the time, the potential for getting more than the appraised value for the President's home appears very low.

Besides contacting experts in the field, we interviewed those who had expressed interest in the property. One potential buyer, who works for the college, said that based on the number of complaints the college has received, they should have advertised more.

One other potential buyer complained that he was unaware that the property was for sale during the bid period and found out too late that the home was for sale. This buyer questioned why college administrators did not notify all college employees through email that the home was for sale, as is the usual practice for surplus property items. When we discussed this with the college administrators, they said not notifying college employees through email was an oversight on their part.

The bid period was not long enough.

Besides not advertising for a long enough period, the college also established a bid period (the time in which a potential buyer can submit a bid) that was likewise too short. College administrators began the bid period on September 9, 2008, when they first advertised, and ended the bid period on September 12, 2008, making the bid period only four days long. The director of properties at Utah State University, mentioned above, said that a potential buyer can submit a bid to the University anytime within the three-week period that the property is advertised, but the bid will only be opened at the end of the three-week period. Others also said that the bid period needs to be at least three weeks to a month long. Two potential buyers of the CEU president's home complained that the bid period was too short to see the property and arrange for financing.

Lack of more detailed policy and procedure also contributed to this weakness. CEU's policy on the sale of surplus property does not mention the above principles but only requires the department and administration to work together in the sale and prescribes how the money received is to be handled. In addition, the Board of Regents' policy regarding surplus property does not address all of these principles but focuses on approvals and other related items.

Policy is inadequate.

Because of the weaknesses mentioned in this letter, we recommend that the college and the Board of Regents strengthen their policies and procedures regarding sale of surplus property to incorporate the principles discussed in this letter.

Recommendations

1. We recommend that the College of Eastern Utah prepare policies/procedures on surplus property that incorporate the principles of surplus property sales discussed in this letter.

2. We recommend that the Commissioner's Office of the Board of Regents ensure that all schools have adequate policy.

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Agency Response

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March 12, 2009

Mr. John Schaff
Legislative Auditor General
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Mr. Schaff,

Thank you for the chance to respond to your office's report on real property transactions at the College of Eastern Utah. We are thankful to your staff for their professional demeanor and thorough effort to understand issues related to our College.

We appreciate that your audit found the College followed best practices and agree that we could strengthen our process by establishing a formal policy in regard to real property transactions. To that end our College Senate recommended a new policy on real property transactions that will be considered by the Board of Trustees at its March 17 meeting.

We are confident that this new policy will increase transparency and indicate to our community that we are committed to being good stewards of the assets entrusted to us. As you noted in your report, our staff acted in good faith and made significant attempts to ensure wide understanding of this transaction. We feel good about the fact that we received fair market value for the home as established by an independent appraisal. Our new policy will only strengthen any future transaction.

Thank you again for your staff's work.

Sincerely,

Dr. Michael King
Interim President, College of Eastern Utah