



# County of Allegheny

## Office of the Controller

PERFORMANCE AUDIT REPORT  
ON THE EVALUATION OF  
ALLEGHENY COUNTY'S COSTS  
OF LEASING SPACE IN THE  
LEXINGTON TECHNOLOGY PARK  
FOR THE PERIOD JULY 1, 1997  
THROUGH DECEMBER 31, 2016

May 31, 2017

**Chelsa Wagner**  
Controller

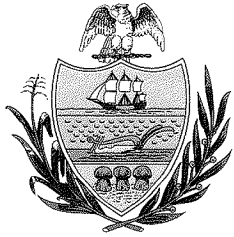
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**CHELSEA WAGNER**  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

104 COURTHOUSE • 436 GRANT STREET  
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May 9, 2017

Mr. William McKain  
County Manager  
436 Grant Street, Room 119  
Pittsburgh, PA 15219

**PERFORMANCE AUDIT REPORT ON THE EVALUATION OF  
ALLEGHENY COUNTY'S COSTS OF LEASING SPACE IN THE  
LEXINGTON TECHNOLOGY PARK FOR THE PERIOD JULY 1, 1997  
THROUGH DECEMBER 31, 2016**

Dear Mr. McKain:

We have conducted a performance audit to evaluate Allegheny County's leasing of space in the Lexington Technology Park. Our procedures were applied to the period from July 1, 1997 through December 31, 2016. Our engagement was performed in accordance with *Government Auditing Standards*.

During our audit, we determined that Allegheny County has not taken appropriate measures to ensure that its leasing arrangements are cost-effective. In addition, those charged with governance have not been fully transparent with taxpayers regarding the planned relocation of County operations currently being conducted in the Lexington Technology Park. We have offered recommendations to assist in remediating these conditions, which should lead to a greater focus on using taxpayer-provided financial resources prudently and improved transparency. The results of our procedures are included in the attached report.

Mr. William McKain  
May 9, 2017

We would like to thank the management and staff of the Urban Redevelopment Authority of Pittsburgh and the Allegheny County Law Department for their courtesy and cooperation during our engagement.

Kind regards,

A handwritten signature in cursive script, appearing to read "Chelsa Wagner".

Chelsa Wagner  
Controller

A handwritten signature in cursive script, appearing to read "Lori A. Churilla".

Lori A. Churilla  
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council  
Honorable Nicholas Futules, Vice-President, County Council  
Honorable Rich Fitzgerald, Allegheny County Executive  
Mr. William McKain, County Manager, Allegheny County  
Ms. Jennifer Liptak, Chief of Staff, County Executive  
Ms. Mary Soroka, Budget Director, Allegheny County

## **I. Introduction**

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In 1996, Rockwell International Corporation donated property located on North Lexington Street in the North Point Breeze neighborhood of the City of Pittsburgh, now referred to as the Lexington Technology Park (Lexington), to the Urban Redevelopment Authority of Pittsburgh (URA). The URA has indicated that upon its acquisition of the property, it spent \$5.2 million to refurbish the infrastructure of the main building. Shortly after the property was acquired by the URA, various Allegheny County Departments began leasing office and/or warehouse space at Lexington for their operations. Various operations of the Police Department, Department of Human Services, Department of Emergency Services, and Division of Computer Services are currently housed at Lexington. The County leases a total of 176,101 square feet of space at Lexington under 11 separate leases at an annual cost of over \$1.4 million. The Office of Property Assessment and the Penn State Cooperative Extension had also leased space at Lexington in prior years. Although other entities lease space at Lexington, Allegheny County remains the primary Lexington tenant.

In 2012, the URA offered to sell the Lexington Technology Park to Allegheny County, since Allegheny County was the primary tenant. The property was to be sold to the County, “as is”, for \$2,723,011. However, the County did not accept the URA’s offer to purchase the Lexington property.

The URA advised us that it has spent more than \$1.5 million since its initial improvements were made furthering its investment in the Lexington property. Over the years, Allegheny County has paid more than \$28 million for rent expense, utility costs, and leasehold improvements in connection with its Lexington Technology Park space leases (see Schedule I, pg. 4). Over \$4.7 million of the total amount paid by the County was to fund improvements to be made at Lexington. Despite these additional investments, a report issued to Allegheny County by a hired consultant in 2012 (in connection with the County’s contemplated acquisition of the Lexington property) identified a number of issues that require remediation. These included asbestos mitigation, structural issues, HVAC, roofing, windows, elevators, lighting, power, ADA accommodations, etc. The projected remediation cost was approximately \$2.3 million.

In recent years, Allegheny County has not been renewing its Lexington leases, and is currently occupying most of the space at Lexington on a month-to-month basis. In January 2017, the County Manager acknowledged that the County plans to move various County operations housed at Lexington to other locations. The Allegheny County Police Department has entered into a lease agreement to move to the Parkway Center Office area, and the EMS 911 Center may move to a building at the Pittsburgh International Airport formerly occupied by US Airways if a satisfactory leasing arrangement can be reached.

## Lexington Lease Agreement Analysis - 1997 - 2016

Contract #	Current (RSF)	Purpose	Lease Status	Total Rent Paid to URA	Total Electric Paid to URA	Lease Payments to URA for Capital / Tenant Improvements	Additional Payments to URA for Improvements	Total Paid to URA for Improvements	Total Rent, Electric, and Improvement Payments to URA
<b>County Police</b>									
7608	43,275	3rd Floor / Other	Month-to-Month	\$ 4,766,203.47	\$ -	\$ 865,974.24	\$ 23,856.00	\$ 889,830.24	\$ 5,656,033.71
7639	6,856	Evidence Room	Expires 12/31/19	\$ 337,997.33	\$ -	\$ -	\$ 1,347.99	\$ 1,347.99	\$ 339,345.32
18285	1,328	Exercise Room	Month-to-Month	\$ 156,525.88	\$ -	\$ -	\$ -	\$ -	\$ 156,525.88
Seneca Construction Expired Leases				\$ -	\$ -	\$ -	\$ 83,921.00	\$ 83,921.00	\$ 83,921.00 *
<b>Total Police</b>	<b>51,459</b>			<b>\$ 5,260,726.68</b>	<b>\$ -</b>	<b>\$ 865,974.24</b>	<b>\$ 276,654.67</b>	<b>\$ 1,251,753.90</b>	<b>\$ 6,512,480.58</b>
<b>Emergency Services</b>									
7584	33,030	2nd Floor 911	Month-to-Month	\$ 5,301,278.73	\$ 1,272,893.42	\$ 2,148,708.53	\$ -	\$ 2,148,708.53	\$ 8,722,880.68
7614	2,772	Basement Storage	Expires 09/30/18	\$ 118,908.06	\$ -	\$ -	\$ -	\$ -	\$ 118,908.06
29916	10,190	Building 1 Lower Level	Month-to-Month	\$ 620,509.86	\$ -	\$ -	\$ -	\$ -	\$ 620,509.86
60705	2,145	Building 1 LL Office	Month-to-Month	\$ 206,197.74	\$ -	\$ -	\$ -	\$ -	\$ 206,197.74
Seneca Construction Expired Leases				\$ -	\$ -	\$ -	\$ 154,382.00	\$ 154,382.00	\$ 154,382.00 *
<b>Total ES</b>	<b>48,137</b>			<b>\$ 6,246,894.39</b>	<b>\$ 1,272,893.42</b>	<b>\$ 2,148,708.53</b>	<b>\$ 1,183,650.26</b>	<b>\$ 3,332,358.79</b>	<b>\$ 10,852,146.60</b>
<b>Human Services</b>									
7027	5,310	Warehouse	Month-to-Month	\$ 271,115.15	\$ -	\$ -	\$ -	\$ -	\$ 271,115.15
45097	10,000	Basement Storage	Month-to-Month	\$ 326,250.00	\$ -	\$ -	\$ -	\$ -	\$ 326,250.00
92009	56,677	Various CYF Operations	Expires 07/31/18	\$ 4,227,901.65	\$ 2,566.21	\$ -	\$ -	\$ -	\$ 4,230,467.86
Expired Leases				\$ 2,794,964.16	\$ 531.27	\$ -	\$ 5,476.75	\$ 5,476.75	\$ 2,800,972.18
<b>Total DHS</b>	<b>71,987</b>			<b>\$ 7,620,230.96</b>	<b>\$ 3,097.48</b>	<b>\$ -</b>	<b>\$ 5,476.75</b>	<b>\$ 5,476.75</b>	<b>\$ 7,628,805.19</b>
<b>Computer Services</b>									
49608	4,518	Support Data Center	Month-to-Month	\$ 403,341.59	\$ 213,866.85	\$ -	\$ 63,928.88	\$ 63,928.88	\$ 681,137.32
<b>Property Assessment</b>									
Expired Leases			Lease Terminated July 2015	\$ 1,547,727.76	\$ -	\$ 42,575.34	\$ 300.42	\$ 42,875.76	\$ 1,590,603.52
<b>Penn State Cooperative Extension</b>									
Expired Leases			Lease Terminated May 2015	\$ 756,152.30	\$ -	\$ 66,964.11	\$ -	\$ 66,964.11	\$ 823,116.41
<b>176,101 Rentable Square Feet (RSF)</b>				<b>\$ 21,835,073.68</b>	<b>\$ 1,489,857.75</b>	<b>\$ 3,124,222.22</b>	<b>\$ 1,639,135.97</b>	<b>\$ 4,763,358.19</b>	<b>\$ 28,088,289.62</b>
				(A)	(B)			(C)	(A+B+C)

\* Seneca Construction - Payments made directly to Seneca Construction for Improvements at the Lexington Technology Park facility.

## **II. Objectives, Scope, and Methodology**

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### **Objectives**

Our performance audit objectives were to:

- Identify the costs incurred by Allegheny County over the years associated with the County's leasing of space at the Lexington Technology Park, including the amounts paid for capital and tenant improvements.
- Assess whether the condition of the Lexington Technology Park property makes it a viable leasing alternative for the County going forward.
- Evaluate the feasibility of relocating the various County operations currently housed at the Lexington Technology Park property to other locations, and identify the challenges that relocations may present.

### **Scope**

Our performance audit covered the period from July 1, 1997 through December 31, 2016. We conducted the performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Methodology**

The methodology used to accomplish our objectives included, but was not limited to, the following procedures:

- Reviewed lease agreements between Allegheny County and the Urban Redevelopment Authority of Pittsburgh for space in the Lexington Technology Park.
- Analyzed the County's accounting records to identify lease payments, utility costs, payments made for leasehold improvements, and other payments made associated with the County's leasing of space in the Lexington Technology Park.
- Obtained information about Lexington Technology Park property improvements paid for by the County prior to the County's adoption of its JDE accounting system from the Allegheny County Law Department.
- Conducted a site visit to view the Lexington Technology Park space currently leased by the County.

## **II. Objectives, Scope, and Methodology**

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- Interviewed management personnel of the Urban Redevelopment Authority of Pittsburgh and Baker Young (its property manager) regarding the leased space and improvements made to the property.
- Reviewed the fee sheet applicable to the URA's offer to sell the Lexington Technology Park to Allegheny County in 2012.
- Applied other procedures as deemed necessary.

We conducted our procedures from August 2016 through February of 2017. We provided a draft copy of this report to the Allegheny County Manager for comment. His response begins on page 18.



### III. Findings and Recommendations

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#### *Finding #1*

#### **Allegheny County Should Employ a Transparent, Competitive, and Open Process for Securing Leased Property**

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<b>Criteria:</b>	Allegheny County should ensure public monies are spent in an efficient, effective and transparent manner.
<b>Condition:</b>	Allegheny County (per the Administrative Code, Part 9) conducts competitive, public bidding processes when contracting for services and products, subject to specific enumerated, limited exceptions. Leased/rental property is not referenced in the Administrative Code and appears to have not been considered when Allegheny County enacted its rules governing the competitive bidding process. It is, therefore, incongruous with the spirit of the Administrative Code that, for instance, an equipment purchase for \$35,000 would need to be competitively bid while a multi-year lease of office space obligating County taxpayers to spend millions of dollars over a decade is not subject to any objective controls to guarantee a fair and open process. While many considerations certainly must enter into a decision on where to locate County facilities, services, and employees, it is likely that suitable lease opportunities may exist in the County of which the County Administration is not aware. Such facilities may meet the County's needs at a lower price than leases that have been or will be entered into, therefore reducing cost to the taxpayers, or may be more convenient to County employees or those accessing County services. Increased openness in the process would likely allow market forces to respond to County requirements with the potential for increased savings to the taxpayers.
<b>Cause:</b>	We do not know why transparent processes for the lease of facilities by the County have not been conducted.
<b>Effect:</b>	County taxpayers may be forced to bear additional costs for the lease of office space when comparable, equally suitable space may have been available at lower rates. County employees and residents accessing services may be inconvenienced by the relocation of County facilities when more easily accessible facilities may have been available at comparable rates. An open process has the added benefit of ensuring that decisions are made in the best interest of the taxpayers and not subject to undue personal or political influence.

### **III. Findings and Recommendations**

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**Recommendations:** Allegheny County Administration should devise and implement a process similar to the competitive public bidding process for other contracted services to ensure that lessors who may not be known to the County Administration have the opportunity for their premises to be considered for lease by the County, that an adequate number of possible lease locations are considered to ensure the lowest cost to the taxpayers for an adequate facility, and that leased locations remain accessible to County employees and those accessing County services.

**Management's**

**Response:** The response begins on page 18 of this report.

### III. Findings and Recommendations

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#### *Finding #2*

### **The New County Police Lease Will Cost County Taxpayers More Than Twice as Much**

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**Criteria:** Allegheny County officials should focus on using taxpayer-provided financial resources efficiently and effectively. Prior to making decisions to alter the manner in which County operations are conducted, cost increases and other potential impacts should be carefully evaluated to help ensure that the decisions will actually benefit Allegheny County taxpayers.

**Condition:** The Allegheny County Police Department headquarters is currently located in the Lexington Technology Park. The Police Department has entered into a new lease agreement for space to serve as its headquarters at Parkway Center Office area. We compared the terms of the two lease agreements, noting that the new lease is for less space, and will cost more than twice as much.

<b>Location</b>	<b>Rentable Square Feet (RSF)</b>	<b>Lease Rate per RSF</b>	<b>Annual Rent</b>	<b>Electricity, Insurance, Taxes, &amp; Other Operating Expenses</b>
Lexington Technology Park	51,459	\$6.22 Rounded	\$319,922	Included
Parkway Center Office Area	38,853	\$16.50	\$641,075 (Year 1)	Not Included

Upon further examination of the new Parkway Center Office lease agreement, we also observed:

- While the lease contains a limit of 5% on the annual increase in “controllable operating expenses”, utilities (electric, gas, water, and sewer), snow removal, insurance, real estate taxes, and costs associated with essential capital improvements are not considered “controllable operating expenses”. Consequently, Allegheny County could experience sharp cost increases associated with the lease.
- The lease agreement has a 15 year term and contains a 10-year renewal option.

### III. Findings and Recommendations

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Lease Year	Annual Minimum Rent/RSF	Annual Minimum Rent
Year 1	\$16.50	\$641,074.50
Year 15	\$20.30	\$788,715.90
Year 25	\$23.55	\$914,988.15

- As the tenant, Allegheny County is to bear the entire cost of the design, fabrication, and installation of an exterior building sign outside of the entrance to the building.
- Allegheny County is to bear the entire cost of scrubbing and/or deep cleaning of carpets, the cleaning, stripping and waxing of tile floors, and cleaning of vents and ductwork.
- Allegheny County is to bear the entire cost of the installation, maintenance, and repair of vending machines.
- The landlord will provide limited roving security whereas the URA (via its property manager) provides security at Lexington Technology Park on a 24 hours per day, 7 days per week, 365 days per year basis.

The County's Administration has not explained to County taxpayers why they believe this change was necessary or appropriate. Given the significant increase in costs, it is possible that those charged with governance have not been fully transparent about the change in leasing arrangements because it would be challenging to explain to County taxpayers how the change will be cost-effective. Further, we were advised by URA officials that the URA is willing to continue leasing space in the Lexington Technology Park to Allegheny County provided that the County would agree to long-term leases. We were advised that the County's insistence on occupying the space on a month-to-month basis has hampered the URA from obtaining financing necessary to make improvements to the property.

**Cause:** We do not know the basis for the relocation of the Police Department's headquarters and therefore whether it was necessary or appropriate, as the rationale has not been communicated.

**Effect:** Allegheny County taxpayers will pay more going forward for the same level of services, and taxpayers have not been provided an explanation as to why the increased costs are necessary or appropriate.

### **III. Findings and Recommendations**

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**Recommendations:** The County Administration should explain to County taxpayers their rationale for the relocation of the Police Department's headquarters (and the other County operations currently housed at Lexington Technology Park) to a new location since the relocation will result in a much higher cost to County taxpayers. Doing so may help to reassure County taxpayers that the trust they are placing in those charged with governance to ensure that their resources are being utilized in a cost-effective way has not been misplaced.

**Management's**

**Response:** The response begins on page 18 of this report.

### **III. Findings and Recommendations**

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#### ***Finding #3***

#### **The Relocation of County Operations Lacks Transparency and Will Likely Pose Significant Challenges**

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**Criteria:** County officials should be focused on using taxpayer-provided financial resources efficiently and effectively. Prior to making decisions to alter the manner in which County operations are conducted, cost increases and other potential impacts should be carefully evaluated to help ensure that the decisions will actually benefit Allegheny County taxpayers.

**Condition:** We requested from the County Manager copies of any cost or feasibility studies that have been conducted in connection with the planned relocation of Allegheny County operations currently conducted at the Lexington Technology Park to other locations. If any cost or feasibility studies have been conducted, they have not been provided to us. It is likely that Allegheny County's leasing costs associated with the use of space in alternative locations will be higher than the County's leasing costs at Lexington Technology Park. In addition, approximately 677 Allegheny County employees, approximately 10% of the County workforce, currently work at the Lexington Technology Park. Without feasibility or cost studies being performed, it is difficult to assess whether the relocation of County operations from the Lexington Technology Park to other locations is advisable.

We are aware that the relocation of the Emergency Medical Services Department's 911 Call Center will likely pose a number of significant challenges. We were advised by Allegheny County Airport Authority management that Allegheny County hired an architect to design a build-out of the building at the Pittsburgh International Airport formerly occupied by US Airways that is intended to serve as the new 911 Call Center. The estimated cost to complete the build-out is \$3.5 to \$4 million. We were also advised that Allegheny County intends for the Airport Authority to fund the build-out, and incorporate the cost of the build-out into the lease rate. However, the terms of such an arrangement would require the approval of the Federal Aviation Administration (FAA). If the 911 Call Center is to be relocated, a relocation plan will need to be developed and implemented to help ensure that no disruptions occur in the provision of 911 services during the relocation process. Essentially, to prevent 911 service disruptions, a complete 911 Call Center would likely need to be installed at the new location and made fully-functional prior to the dismantling of the 911 Call Center at Lexington Technology Park. Consequently, Allegheny County may need to purchase significant amounts of new equipment for the new 911 Call Center at a significant cost. It is not clear whether there would be an alternative use for the 911

### III. Findings and Recommendations

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Call Center equipment currently being utilized at the Lexington Technology Park. To the extent that equipment could be relocated, the moving costs may also be significant. Since the inception of the Emergency Medical Services Department's leases for space at the Lexington Technology Park, the County has paid over \$3.3 million for 911 Call Center improvements including a security system, fire detection system, and other mechanical/electrical improvements. Not only would a relocation of the 911 Call Center limit the benefits that County taxpayers would derive from these expenditures, it would also likely lead to a replication of these expenditures at the new location.

The Allegheny County Department of Human Services currently conducts the program activities associated with several different Children, Youth, and Family (CYF) programs at the Lexington Technology Park. These activities include intake services, adoption assistance, and foster care training. Although the County Administration has not yet provided the public with the details of plans to relocate programs currently conducted by the Department of Human Services at the Lexington Technology Park, we are concerned that the relocation of these program activities will not only adversely impact all County taxpayers from a cost standpoint, but may also significantly impact those in need of CYF program services. The Lexington Technology Park is easily accessible via public transportation, and free parking is also available. Relocating the CYF program activities to another location could make it much more challenging for those in need of services to obtain them. It is also likely that at least some of the hundreds of Department of Human Services employees that would be impacted by the relocation may not be able or not want to commute to the new job site. It would be necessary then for the Department of Human Services to consider whether knowledge, skills, and competencies could be retained that are sufficient to allow for continuity in the provision of quality services.

**Cause:** We do not know why feasibility and cost studies have not been conducted or not made available to us.

**Effect:** County taxpayers will likely be forced to bear significant additional costs associated with the relocation of the County operations currently conducted in the Lexington Technology Park, and the relocation will also likely have impacts on the provision of services. Because cost increases and other impacts (such as the potential disruption of 911 services, potential difficulties in obtaining CYF program services, or potential union issues that may arise as a substantial portion of the County's workforce will be impacted) associated with the relocation of operations have either not been fully investigated or not shared, County taxpayers have not been provided with enough information to evaluate whether the relocations of operations are warranted/appropriate.

### **III. Findings and Recommendations**

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**Recommendations:** The County Administration should:

- Ensure that appropriate measures are taken to project the costs and identify the potential impacts associated with the relocation of County operations from the Lexington Technology Park to other locations.
- Ensure that County taxpayers are made aware of the projected cost increases and other potential impacts and why the relocations are deemed necessary or appropriate.
- If the 911 Call Center will be relocated, ensure that a detailed plan for the relocation of the 911 Call Center without 911 service disruptions is developed and implemented to minimize the likelihood of 911 service disruptions.
- If CYF program activities are to be relocated, ensure that the workforce retained has the knowledge, skills, and competencies needed to continue providing an appropriate level of services, and that the new location selected is easily accessible to those in need of CYF services.

**Management's**

**Response:**

The response begins on page 18 of this report.



### III. Findings and Recommendations

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#### *Finding #4*

#### **Allegheny County Did Not Ensure Its Lease Payments Were Used Properly to Fund Improvements**

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<b>Criteria:</b>	Four lease agreements between Allegheny County and the Urban Redevelopment Authority of Pittsburgh (URA) for space in the Lexington Technology Park stipulated that portions of each monthly lease payment were to fund tenant and capital improvements to the property. To the extent that the URA did not use these funds to make improvements to the property, Allegheny County was entitled to receive a refund. Allegheny County should have been monitoring the improvements made to the property by the URA to ensure that Allegheny County taxpayers were getting the maximum benefit for their tax dollars.
<b>Condition:</b>	Since the inception of Allegheny County's leasing of space at Lexington Technology Park, Allegheny County has paid \$3,124,222 to fund capital and tenant improvements to the property. In addition, Allegheny County also paid an additional \$1,639,136 for various specific improvements made to the property. (see Schedule I, pg. 4.) When we requested a schedule of the improvements made to the property by the URA from the Allegheny County Law Department, the Law Department was unable to provide such a schedule. The Law Department advised us that we should inquire of the URA regarding the improvements made. When we inquired of the URA, we were advised that those records had been destroyed, as those records were no longer required to be retained under the URA's three-year record retention policy. A communication to the URA from its property manager was shared with us, which suggests that the URA invested \$5.2 million in the Lexington Technology Park upon acquisition and \$1.5 million thereafter, all of which funded general improvements (not tenant-specific). Given the suggested timing of the URA's investments and the assertion that no tenant-specific improvements were made, it appears that the URA may not have complied with the terms of the four lease agreements. However, because Allegheny County did not monitor the improvements made to the property by the URA and there is insufficient evidence to conclude that the URA complied or failed to comply with the terms of the four lease agreements, we cannot determine the amounts, if any, that should have been refunded to Allegheny County.
<b>Cause:</b>	The Allegheny County Law Department and the County Departments occupying the space in the Lexington Technology Park apparently did not monitor the improvements made to the property to ensure the URA's compliance with the terms of the four lease agreements. In addition, measures were not taken by the County Administration to hold the Law

### III. Findings and Recommendations

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Department accountable for monitoring compliance with the significant compliance requirements contained in the agreements.

**Effect:** It appears that Allegheny County (and therefore Allegheny County taxpayers) likely did not receive the maximum benefits that should have been derived from the taxpayer-provided financial resources used to finance the leasing of space at the Lexington Technology Park. In addition, had Allegheny County been more diligent in ensuring that the URA made all of the improvements to the property required under the four lease agreements, the property would likely be in better condition today, and may have continued to be viewed by Allegheny County as a viable leasing alternative going forward.

**Recommendation:** The County Administration should ensure that the Allegheny County Law Department take steps to help make certain that counterparties to agreements with Allegheny County are held accountable for compliance with the significant terms of the agreements. The County Administration should also ensure that the Law Department is held accountable for monitoring compliance with the significant compliance requirements contained in the agreements that have been assigned to the Law Department.

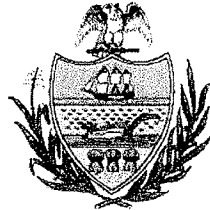
**Management's Response:** The response begins on page 18 of this report.

## **IV. Conclusion**

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The County Administration should be focused on using taxpayer-provided financial resources efficiently and effectively. To help ensure the prudent use of taxpayer-provided financial resources, decisions that may have a significant impact on the cost to County taxpayers or the provision of services should be carefully evaluated. When adequate information about changes in costs or other potential impacts is unavailable, undertaking feasibility or cost studies will likely be warranted. When seeking to enter into leases for real property, the County Administration should also ensure that a competitive process is utilized, similar to the competitive public bidding process used for other procurements. A lack of transparency is also problematic. County taxpayers should be made aware of decisions that will have a significant impact on the costs that they will need to bear. In addition, when County taxpayers will be subjected to significantly higher costs or the provision of services may be affected, those charged with governance should explain to County taxpayers how the change is beneficial or why it is necessary.

COUNTY OF



ALLEGHENY

RICH FITZGERALD  
COUNTY EXECUTIVE

May 24, 2017

Ms. Lori Churilla  
Assistant Deputy Controller - Auditing  
Allegheny County Controller's Office  
County Courthouse - Room 104  
436 Grant Street  
Pittsburgh, PA 15219-2498

Dear Ms. Churilla:

Based on our discussion the exit conference of your findings, we present the following summary response:

The operations of County government and the services it provides touch the lives of every County resident on a daily basis. Providing those services requires the utilization of office space by our hard-working and valued County employees. Each operation has office needs and requirements that, like every piece of real estate, are unique in their own way.

When considering suitable space for a department or operation, the County first looks to its own real estate assets. Exhaustive and innovative efforts are constantly made to utilize County-owned property in the manner that provide top quality services to our residents in a cost-efficient manner. The real estate owned by the County, however, is finite, for the most part centrally located and cannot meet all of the diverse demographic and geographic needs of County residents. When circumstances dictate, the County enters into lease agreements to provide services to meet the expanding needs and expectations of its citizens throughout the County. The County's leases at the Lexington Technology Park ("LTP") were no different. The LTP has housed diverse services including the County Police, the EMS 911 Center and Human Services which existing County office space could not accommodate twenty years ago.

The diversity of services also requires a diversity of office space needs. At the time the LTP was first utilized, the location, square footage, building layout, accessibility, condition and cost met the County's needs. But over the past twenty years, just as our County and its government has evolved, so have the needs of its various departments and divisions, including those housed in the LTP.

**OFFICE OF THE COUNTY MANAGER**

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*Ms. Lori Churilla*

*May 24, 2017*

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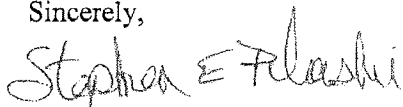
In addition, the circumstances surrounding the LTP have changed as well. Its condition has deteriorated to a point where the employees at LTP and the records stored there are better served by relocating to newer space that does not have all of the capital maintenance issues that plague LTP. In addition, the City of Pittsburgh and the URA have indicated to the County that they desire to redevelop the property and get it back on the tax rolls and therefore asked the County to begin the process of relocating all of its offices elsewhere. While the County's negotiation of rental rates averaging approximately \$8 per square foot over its twenty-year occupancy was remarkably below market rates, that rate can no longer sustain a facility that meets the County's evolving needs.

Finally, another of the factors in the decision to vacate the LTP locate was the desire to separate criminally accused, victims and witnesses from the Human Services clients and staff. The new lease arrangements will accomplish this goal.

The County administration is confident that all alternative lease arrangements will, just as the LTP once did, provide the residents of the County and its employees with high level and cost-effective accommodations that reflect the priorities of our residents.

Thank you for your continued cooperation in safeguarding the assets of our residents.

Sincerely,

A handwritten signature in dark ink, reading "Stephen E. Pilarski". The signature is written in a cursive, flowing style with a large, stylized "S" and "P".

Stephen E. Pilarski  
Deputy County Manager

