



County of Allegheny

Office of the Controller

PERFORMANCE AUDIT REPORT
ON ALLEGHENY COUNTY
REAL ESTATE LEASES
FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2019

May 10, 2021

Chelsa Wagner
Controller

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CHELSA WAGNER
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May 7, 2021

Mr. Andrew F. Szefi, Esq.
County Solicitor
Allegheny County Law Department
Fort Pitt Commons, Suite 300
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Performance Audit Report on
Allegheny County Real Estate Leases
For the Period January 1, 2017 through December 31, 2019

Dear Mr. Szefi:

We conducted a performance audit to review the commercial real estate leases paid by Allegheny County. Parking leases, leases for temporary election locations, and leases where the payments were less than \$20,000 for the three-year period were not included in our population. Our procedures were applied to the period from January 1, 2017 through December 31, 2019. Our performance audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The results of our procedures revealed that lease contracts are incomplete, improvements and services in the contracts' construction plans were not fully completed, there are no written policies and procedures surrounding the leasing of commercial space, and County real estate taxes on certain leased spaces have not been paid by the landlord.

We offer recommendations so the Law Department can improve and strengthen its internal controls surrounding the leasing process. The detailed results of our performance audit are included in the attached report.

Mr. Andrew F. Szefi
May 7, 2021

We would like to thank the management and staff of the Allegheny County Law Department and the County departments who were involved in our testing for their courtesy and cooperation during the performance of our procedures.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable Patrick Catena, President, County Council
Honorable Robert J. Macey, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Mary C. Soroka, Director, Office of Budget and Finance
Mr. Ken Varhola, Chief of Staff, County Council
Ms. Sarah Roka, Budget Manager, County Council
Mr. Christopher H. Connors, District Court Administrator
Mr. Brian D. Dunbar, Esq., Legal Administrator, Allegheny County Law Department

I. Introduction

Although Allegheny County owns property and buildings used for County operations, the need arises to lease commercial space for various departments throughout the County to support County operations. We calculated the real estate lease payments for 2017, 2018, and 2019 using the County's accounting system. Parking leases, leases for temporary election locations, and leases where the payments were less than \$20,000 for the three-year period were not included in our population or in the payment totals. Allegheny County paid \$12,955,834, \$13,867,113, and \$15,098,591 in lease payments for 2017, 2018, and 2019 respectively for a total of \$41,921,538. See the chart on pages 7-8 for a breakdown of rent paid by department. The chart shows a separate line if the rent for the three-year period totaled \$300,000 or more for a department location.

Even though a department can occupy the same location for decades, the need to secure a new location does occur. The Allegheny County Law Department works with these various departments to locate a new space and negotiate the lease terms. The current manager responsible for lease contracts assumed this position in early 2019. Therefore, most of the contracts in our engagement period, in particular those where a new space was obtained, were negotiated by his predecessor. Under current procedures, the manager searches for space based on the department's major requirements such as size (square footage), number of people, location etc., and will find several locations for site visits. Typically, the County requires that leases be "full-service", meaning the landlords are to provide janitorial service, snow removal, trash pickup, replacement of lights, etc. Once a location has been identified, an initial proposed lease is drafted. While terms such as rent, square footage and lease length are included, they can be further negotiated before the lease is finalized.

Significant improvements frequently need to be completed before a department can move into the new location. The process of identifying these improvements varies from lease to lease. Some properties are owned by large companies that have an agent/management company for the negotiations and an architect on staff that submits detailed plans to the County, while others are small owner-run businesses with less experience in renovations. For the latter, the County architect can assist in the process and have the owner solicit pricing for the plans. Regardless of how the details are determined, the pricing for the improvements is obtained by the landlord, and the landlord contracts with the contractor to perform the work. Although the law department currently reviews the pricing for reasonableness and discusses any issues with the landlord, there are no County requirements regarding the bid process for improvements to leased buildings (there is not a minimum number of bids that the Landlord must obtain). The County historically did not maintain documentation on the process, but the current manager indicated that he does include information in the file under his current process. However, the required improvements are detailed in the lease contract between Allegheny County and the landlord.

We selected a sample of six contracts that were for a lease at a new location. Five leases were selected from the population of general County leases and one lease was selected from the population of District Court leases. A summary of the key lease terms is presented below for each sampled property.

I. Introduction

Property #1 – 10700 Frankstown Road, Penn Hills, PA

Department of Human Services Children Youth and Families (CYF)

- CYF leases the property as one of their regional offices.
- The initial term of the lease is for ten years with a 10-year optional renewal term.
- CYF leases 53,563 square feet (sf) of space at \$60,731 per month for years one through five and \$64,722 per month for years six through ten.
- The County amended the contract to lease an additional 1,824 sf of warehouse space at \$1,500 per month for the current and renewal terms.
- This is a full-service lease where the landlord is to provide all utilities, heat, ventilation, and air conditioning (HVAC) services, janitorial services, snow and ice removal, maintenance, repairs, etc. for the property.
- The landlord completed the initial improvements at its cost. However, if the County must exercise the early termination option, the County shall pay the unamortized balance of the landlord's cost for the improvements. The County also amended the contract to add additional work, at a cost to the County not to exceed \$400,000.

Property #2 – 875 Greentree Road, Pittsburgh, PA (Building 10 Parkway Center)

Allegheny County Police

- This property is the location of the County Police headquarters.
- The initial term of the lease is for 15 years with a 10-year optional renewal term.
- The Police lease 38,853 sf of space. For years one and two rent started at \$53,423 per month and increases every other year up to \$65,726 per month for year 15.
- This is a full-service lease where the landlord is to provide all utilities, HVAC services, janitorial services, snow and ice removal, maintenance, repairs, etc. for the property. The cost of HVAC, electricity, and natural gas are paid by the landlord during 'standard' hours, the County pays the cost outside this time frame.
- The landlord completed the improvements at its cost with the exception that the County agreed to pay up to \$80,000 of the cost of the plans (plans, specifications, and construction/ architectural drawings). If the County does not renew the lease or terminates the lease, the County shall pay the unamortized balance of the landlord's cost for the improvements. The County also amended the contract to add additional work at a cost to the County not to exceed \$95,000.

Property #3 – 150 Hookstown Grade Road, Coraopolis, PA

Emergency Services

- Emergency Services leases the property for the County's 9-1-1 Communication Center and the Emergency Management, Fire Marshal, and Fire Academy offices.
- The term of the lease is for 20 years. The lease could continue on a month to month basis after that time.
- Emergency service leases 67,390 sf of space at \$87,831 per month (after credits totaling \$16,623, which are explained below).
- This is a modified full-service lease. The landlord is to provides all utilities, HVAC services, janitorial services, maintenance, repairs, etc. for the property.

I. Introduction

The County pays for certain services such as security, generator maintenance, snow and ice removal, but receives a \$6,402 credit off the monthly rent.

- The landlord completed the initial improvements estimated at \$4,000,000 at its cost. However, the County paid \$2,450,000 of this cost up front and receives a credit off the monthly rent of \$10,221. The County is to pay any costs in excess of the \$4,000,000.

Property #4 – 1908 Wylie Avenue, Pittsburgh, PA (Blakey Center)

Health Department

- The Health Department leases the property for their Sexually Transmitted Disease (STD) clinic.
- The term of the lease is for 15 years and can continue on a month to month basis after that time.
- The Health Department leases 8,398 sf of space. For years one and two rent started at \$9,973 per month and increases every other year up to \$12,100 per month for year 15.
- This is a full-service lease where the landlord is to provide all utilities, HVAC services, janitorial services, snow and ice removal, maintenance, repairs, etc. for the property. The County provides a security guard at its expense.
- The landlord completed the improvements at its cost.

Property #5 – 1970-1972 Clayton Avenue, Pittsburgh, PA

Fifth Judicial District of Pennsylvania

- The Courts lease the property for an adult probation office.
- The initial term of the lease is for ten years with two 5-year optional renewal periods.
- The Courts lease 8,470 sf of space. Rent for the first year is \$10,411 per month, which increases every year to \$11,470 per month for year five. Rent for years six through ten is \$11,675 per month.
- This is a full-service lease where the landlord is to provide all utilities, HVAC services, janitorial services, snow and ice removal, maintenance, repairs, etc. for the property.
- The landlord completed the improvements. The rent payment includes an amortized monthly repayment to the landlord for the improvements. If the County must terminate the lease early, the County shall pay the unamortized balance of the landlord's cost for the improvements.

Property #6 – 461 Miller Avenue, Clairton, PA

Fifth Judicial District of Pennsylvania Office of Minor Judiciary

- The Courts lease the property for Minor Judiciary Court 05-3-09.
- The initial term of the lease is for ten years with two 5-year optional renewal periods.
- The Court leases 3,264 sf of space at \$2,992 per month for years one through five and \$3,264 per month for years six through ten.

I. Introduction

- This is a full-service lease where the landlord is to provide all utilities, HVAC services, janitorial services, snow and ice removal, maintenance, repairs, etc. for the property.
- This is a new building built by the landlord for the County. The rent payment includes an amortized monthly repayment of \$1,389 for 15 years. If the County terminates the lease early, the County shall pay the unamortized balance of the landlord's cost for the improvements.

I. Introduction

Rent Paid by County Department by Year				
<u>Department / Location</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Administrative Services				
1441 Metropolitan St. Pittsburgh 15233	\$ 501,020	\$ 601,222	\$ 601,222	\$ 1,703,464
All Other Locations	\$ 75,342	\$ 69,935	\$ 45,317	\$ 190,594
Allegheny County Police				
Parkway Center Pittsburgh 15220	\$ 364,431	\$ 645,127	\$ 651,923	\$ 1,661,481
400 N. Lexington St., Pittsburgh. 15208	\$ 176,239	\$ 0	\$ 0	\$ 176,239
County Solicitor				
Fort Pitt Commons Pittsburgh 15219	\$ 200,730	\$ 200,730	\$ 203,582	\$ 605,042
Court of Common Pleas				
Frick Building Pittsburgh 15219	\$ 791,608	\$ 781,567	\$ 778,706	\$ 2,351,881
Manor Building Pittsburgh 15219	\$ 315,783	\$ 328,154	\$ 360,469	\$ 1,004,406
429 Forbes Ave. Pittsburgh 15219	\$ 267,005	\$ 270,767	\$ 230,951	\$ 768,723
5750 Baum Blvd. Pittsburgh 15206	\$ 242,119	\$ 242,119	\$ 242,119	\$ 726,357
1200 Frankstown Rd. Pittsburgh 15235	\$ 223,752	\$ 235,012	\$ 237,264	\$ 696,028
Maul Building Pittsburgh 15203	\$ 221,674	\$ 150,475	\$ 3,115	\$ 375,264
2320 Arlington Ave. Pittsburgh 15210	\$ 108,174	\$ 111,804	\$ 111,804	\$ 331,782
1191-1197 Jacks Run Rd. N. Versailles 15137	\$ 63,216	\$ 126,432	\$ 126,432	\$ 316,080
519-521 Penn Ave. Wilkinsburg 15221	\$ 100,199	\$ 102,275	\$ 105,179	\$ 307,653
All Other Locations	\$ 584,529	\$ 622,179	\$ 793,472	\$ 2,000,180
Department of Human Services				
One Smithfield Pittsburgh 15222	\$ 2,538,304	\$ 2,564,254	\$ 2,648,695	\$ 7,751,253
2100 Wharton St., Pittsburgh 15203	\$ 961,152	\$ 975,595	\$ 993,749	\$ 2,930,496
1401 Forbes Ave. Pittsburgh 15219	\$ 470,608	\$ 466,004	\$ 471,837	\$ 1,408,449
10700 Frankstown Rd. Penn Hills 15235	\$ 0	\$ 567,008	\$ 798,276	\$ 1,365,284

I. Introduction

<u>Department / Location</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Department of Human Services Cont.				
901 Pennsylvania Ave. Pittsburgh 15233	\$ 317,811	\$ 442,410	\$ 458,497	\$ 1,218,718
400 N. Lexington St. Pittsburgh. 15208	\$ 575,716	\$ 234,769	\$ 0	\$ 810,485
355 Lincoln Highway North Versailles 15137	\$ 100,045	\$ 334,180	\$ 306,332	\$ 740,557
10 Duff Rd. Penn Hills 15235	\$ 0	\$ 51,134	\$ 306,803	\$ 357,937
332 Fifth Ave. McKeesport 15132	\$ 153,407	\$ 0	\$ 0	\$ 153,407
District Attorney				
1444 Hillsdale Ave. Pittsburgh 15216	\$ 180,000	\$ 180,000	\$ 135,000	\$ 495,000
All Other Locations	\$ 33,657	\$ 33,657	\$ 47,633	\$ 114,947
Economic Development				
112 Washington Place Pittsburgh 15219	\$ 491,899	\$ 414,867	\$ 459,173	\$ 1,365,939
Emergency Services				
400 N. Lexington St. Pittsburgh. 15208	\$ 402,827	\$ 407,236	\$ 348,628	\$ 1,158,691
150 Hookstown Grade Rd. Pittsburgh 15231	\$ 0	\$ 0	\$ 878,316	\$ 878,316
Health Department				
239 Fourth Ave. Pittsburgh 15219	\$ 134,800	\$ 142,800	\$ 142,800	\$ 420,400
807 Wallace Ave. Pittsburgh 15221	\$ 112,689	\$ 114,617	\$ 122,340	\$ 349,646
Commerce Center Building Pittsburgh 15222	\$ 106,479	\$ 111,509	\$ 105,949	\$ 323,937
All Other Locations	\$ 277,508	\$ 381,061	\$ 404,103	\$ 1,062,672
Magisterial District Courts				
All Locations	\$ 1,389,755	\$ 1,452,143	\$ 1,472,752	\$ 4,314,650
Medical Examiner				
1400-1520 Penn Ave. Pittsburgh 15222	\$ 473,356	\$ 506,071	\$ 506,153	\$ 1,485,580
TOTAL	<u>\$ 12,955,834</u>	<u>\$ 13,867,113</u>	<u>\$ 15,098,591</u>	<u>\$ 41,921,538</u>

II. Objectives, Scope, and Methodology

Objectives

Our performance audit objectives were to identify all active real estate leases during 2017 through 2019, determine the rent paid by Allegheny County for those years, and determine if County real estate taxes have been paid on the leased property. We also planned to identify the processes utilized by the Law Department to select the leased space, arrive at the lease terms, and determine if the County is paying a fair market rate for the real estate lease. Finally, our objectives were to verify that the rent paid agrees to the calculated rent based on the contract rates and to determine if the landlord complied with key terms of the lease agreement.

Scope

Our audit procedures covered the period from January 1, 2017 through December 31, 2019. We conducted our 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

Methodologies used to accomplish our objectives included, but were not limited to the following:

- Interviewed Law Department personnel and reviewed documentation to gain an understanding of the processes and procedures related to the real estate leases in Allegheny County including the process utilized to select the leased spaces, determine a fair market rate, and arrive at the lease terms.
- Extracted information from the County's accounting system and reviewed payment records in order to identify real estate lease payments for 2017, 2018, and 2019. Parking leases, leases for temporary election locations, and leases where the payments were less than \$20,000 for the three-year period were not included in our population of leases. The population was divided into District Court leases and leases for all other County Departments (general County leases).
- Reviewed the Allegheny County Real Estate Portal to determine if the County taxes were paid.
- Reviewed the lease agreements to determine if the lease was a new lease at a new location, or a continuation of a lease at a current space.

II. Objectives, Scope, and Methodology

- Selected a sample of six leases that were for a lease at a new location. Five leases were selected from the population of general County leases and one lease was selected from the population of District Court leases:
 - Tested rent payments made for the sample leases to verify the payments were made in accordance with the lease agreement.
 - Conducted site visits at the sampled lease locations to verify the key services and key improvements specified in the lease were provided or completed.
- Reviewed the Law Department's lease contract for the Fort Pitt Commons Building to verify the key services are being provided and key improvements were completed for the leased space.
- Our audit also included an assessment of internal controls that are significant within the context of our objectives. Any significant findings related to internal controls are included in the findings and recommendation.

We performed these procedures from March 2020 through March 2021. We provided a draft copy of this report to the Law Department Solicitor for response. His response begins on page 23.

III. Findings and Recommendations

Finding #1

Real Estate Lease Contracts are Incomplete

Criteria: Allegheny County contracts frequently include exhibits and attachments to describe components and requirements of the contract that are too detailed or voluminous to be included in the body of the contract. These exhibits and attachments often include fundamental obligations and conditions the landlord is required to meet or provide.

The contracts we sampled included improvements that the landlord was required to complete prior to the County occupying the new lease space. The contracts' exhibits were to include specifics surrounding these improvements and explain in detail what the County was to receive.

Condition: Our review of the six sampled contracts revealed:

- Two of the six (33%) contracts did not contain all the exhibits and attachments required in the contract
- Two of five (40%) applicable contracts did not contain documentation of the rent commencement date
- Neither the County nor the landlord could provide additional documentation required for one of the contracts.

Minor Judiciary Court 05-3-09 Missing Construction Specifications

Contract #196644, which is for a new building for Minor Judiciary Court 05-3-09 on Miller Avenue in Clairton, PA, requires the architect's construction specifications, drawings, plans, and details that were approved by the County to be included in Exhibit C as Construction Specifications. These Specifications were not included in the contract, so we requested them from the Law Department and Court personnel. Neither were able to provide the construction specifications, therefore, we had to use the minimum improvements specific to a District Court facility listed in the contract as testing points for our site visit.

Health Department STD Clinic Missing Tenant Improvement Specifications

Contract #200052 for the Health Department STD Clinic lease of the Blakey Center on Centre Avenue in Pittsburgh states that Tenant Improvement Specifications are attached as Exhibit B. The Specifications were not included in the contract, there was only a basic floor plan. We requested the Specifications from the Law

III. Findings and Recommendations

Department and Health Department personnel, but they were not able to provide them. The Law Department found that Economic Development loaned funds to the original owner for the improvements, and Economic Development provided us access to their records for the building renovation. We located the Construction Drawings for the tenant renovations in Economic Development's records and created a list of improvements based on these drawings which we used as testing points for our site visit.

Rent Commencement Letters Missing

During our testing, we also reviewed the rent commencement letters required in the contract. Although an anticipated completion date for the improvement work is set, there may be delays in the County occupying the leased space. Therefore, many contracts require a confirmation of lease term letter or rent commencement letter to be included as an attachment to clarify the actual start of the lease term. Five of the six contracts in our sample contain language requiring these letters. However, we found that two of the five (40%) contracts did not contain the required letter.

Emergency Services Missing Key Certifications and Reports

Contract #1027121 for the Department of Emergency Services on Hookstown Grade Road states that Exhibit B-1 Improvements-Scope of Work is incorporated by reference due to its size and is available at the Allegheny County Airport Authority (the landlord) and the Emergency Services Office. The Airport Authority provided the Technical Specifications for the Call Center Building rehabilitation which is a 705-page document describing in detail the required improvements. We reviewed the Specifications and selected certain improvements as testing points for our site visit.

The Specifications reference a Project Manual and numerous sections of the Specifications require the submission of certifications, testing/inspection/evaluation reports (reports), and shop drawings. In many instances the certificates and reports were to be completed by an external party during the construction process and were to provide assurance that the specified item meets the necessary requirements and was properly installed. The drawings should provide specific information regarding the details of the installation.

We selected a sample of 25 certifications/reports and five shop drawings and requested these documents, as well as the Project

III. Findings and Recommendations

Manual, from the Airport Authority, Emergency Services, the Law Department, and the contractor. Emergency Services and the Law Department indicated they do not possess these documents and the contractor indicated they turned over all project documents to the Airport Authority. As of the report date, the Airport Authority has not provided us with any of the requested information.

Cause: Control procedures designed to ensure contracts are complete were either not in place or not functioning as intended.

Effect: Without these Exhibits, we could not fully test the required improvements for Minor Judiciary Court and the Health Department to ensure the contract was properly executed and the County received the agreed upon improvements. Without rent commencement letters, we cannot confirm the official commencement date of the lease.

The Technical Specifications for Emergency Services required certification, testing and inspections for key improvements and essential systems of the building, which includes the County's 911 center. Some of the improvements were not just cosmetic (such as painting), but involve critical improvements required for the ongoing operation of the center. Without obtaining these reports, we cannot verify these testing and inspections were properly completed.

Recommendations: We recommend that Law Department:

- Work with the specific County department involved in the leasing process to ensure the contract is complete and all exhibits and attachments, including rent commencement letters, are included in the contract, and maintained at the Law Department.
- Ensure the Controller's Office receives the complete contract with all exhibits and attachments.

Management's Response:

In accordance with professional standards, the Controller's Office requests that every auditee addresses each individual recommendation in an audit. This provides the auditee an opportunity to either agree or disagree with an audit recommendation and then set forth the basis of their response. The Law Department refused to comply with this request. The Law Department's general response is on page 23.

III. Findings and Recommendations

Finding #2

Tenant Improvements and Services Specified in Contracts' Construction Plans Were Not Fully Completed

Criteria: We reviewed six contracts which required the landlord to make significant improvements before the County occupied the property. These contracts also require the landlord to provide certain services such as utilities, lighting, heating and air conditioning, janitorial services, snow and ice removal, and general repairs throughout the life of the lease. Although the specific requirements vary from lease to lease, all the sampled leases contained provisions for improvements and ongoing services.

Condition: We conducted a site visit at each of the six properties to determine if the required improvements were properly completed and if the landlord is providing the required services. Our testing found the following improvements that were not completed or services that are not being provided:

Property #1 – 10700 Frankstown Road

Department of Human Services Children Youth and Families

- The Tenant Improvement Specifications indicated that the family/assisted use restroom was to have a floor-mounted toilet as well as a wall-mounted urinal. We found that the wall-mounted urinal was not installed.

Property #2 – 10 Parkway Center

Allegheny County Police

- According to Police Department personnel, the cleaning services such as dusting, vacuuming and trash removal are not adequately completed according to the requirements of the lease.
- During our site visit, we also discussed the issue that the walls in certain rooms are heavily scuffed by suspects held in these rooms. According to the cleaning specifications in the contract, the landlord is required to clean and remove scuff marks nightly.

Property #3 – 150 Hookstown Grade Road

Emergency Services

- The contract's Technical Specifications indicate that a window film is to be applied to certain windows in the facility. According to Emergency Services personnel, they decided not

III. Findings and Recommendations

to have the window film installed. However, the Specifications were not updated to reflect this change.

- We were also provided a floor plan as required by Exhibit B of the lease. During our site visit, we found the floor plan was inaccurate. Several changes had been made to the layout, but the floor plan that had been provided as part of the contract had not been updated. Emergency Services personnel did provide us with the current floor plan. However, it was never made part of the contract.

Property #4 – 1908 Wylie Avenue

Health Department

- As described in Finding #1, the Tenant Improvement Specifications were not included with the contract as required. Therefore, we used the Construction Drawings for the tenant renovations which were provided by Economic Development (they loaned the funds for the improvements to the original owner). During our site-visit, we noted several improvements detailed on the construction drawings that were not completed at the property.
 - The top cabinets on the wall in the lab do not lock as required.
 - The wall protection was not installed in the waiting room or exam corridors as indicated on the drawings.
 - The windowsills were not replaced as specified in the drawings.
 - Shades were not installed on all the windows as specified on the drawings. According to Health Department personnel, the windows are frosted, and the shades were not necessary, however, the drawings were not revised to reflect this.
 - The lights in a couple of the rooms were a different type than specified in the drawings.
- The landlord is required to perform window cleaning at least twice a year and steam clean the carpets / clean the min-blinds once a year. According to Health Department personnel, this has not been completed since the lease began in 2018.

Property #5 – 1970-1972 Clayton Avenue

Fifth Judicial District of Pennsylvania - Office of Adult Probation

- The lease required the installation of ceramic tile on the wet walls in the restrooms which was not installed.
- Only four of the five emergency battery pack units (for the exit signs) were installed. After we brought this to their attention, the landlord had the fifth unit installed.

III. Findings and Recommendations

- The landlord is required to replace damaged, dirty, or stained ceiling tiles as needed. During our site visit, we noted there were several stained ceiling tiles. The landlord had these tiles replaced after our initial visit.

Property #6 – 461 Miller Avenue

Fifth Judicial District of Pennsylvania Office of Minor Judiciary

- The minimum improvements specific to an MDC (Magisterial District Court) in the lease indicate that the prisoner holding area shall have a bench and bars bolted to the floor and walls. Our review revealed that the bench was only bolted to the floor. Court personnel indicated that they changed the type of bench that was to be used, however, the change was not documented.

Overall, during our site visits, we also found that several improvements could not be tested because they are no longer visible since the construction was completed prior to our visit. This included items such as soundproof/noise reducing insulation, wiring, plumbing, and the use of specific materials. In addition, we were not able to confirm compliance with certain standards identified in the lease as this would have needed to be done during the construction process.

Cause:

While the leases typically contain general language that occupancy will not occur until tenant improvements are complete or that it is presumed that all work is satisfactorily complete at the commencement date, the leases generally do not require the County (tenant department personnel, Controller's Office personnel, etc.) to be involved in the construction process or require substantiated documentation that each individual improvement was properly completed. The County does not have a policy requiring a comprehensive checklist to document that County personnel verified all required improvements were properly completed during the construction process before the department occupies the leased space.

In addition, contract language regarding "as-built" drawings varied among the six leases we reviewed. Construction plans and improvements may need to be revised during the process, but these changes are not reflected on the documents included in the contract.

Effect:

Although the incomplete improvements may not be critical to the operation of the department, it's important for the County to formally acknowledge any changes that are made to the plans

III. Findings and Recommendations

originally agreed to with the landlord and verify that any changes are reflected in the final improvement cost.

Recommendations: We recommend that Law Department:

- Include language in leases requiring tenant improvements that County personnel, including Controller’s Office construction inspection staff, have the right to perform onsite inspections during the construction process or require documentation to substantiate that improvements were properly completed in accordance with all terms of the contract.
- Create a checklist to be completed by appropriate County personnel to evidence their review and approval of the improvements throughout the construction process. If personnel are not available during all phases of the construction, the landlord should provide evidence to the County, such as pictures or inspection reports, that the work was properly completed. The landlord should also provide the County with copies of any required permits (e.g. building permits, occupancy permits) or any other documentation received regarding compliance with laws, ordinances, regulations, and codes. If the original plans are revised, ensure all revisions are included on the “as-built” plans. Submit the checklist and “as-built” plans to the Law Department and Controller’s Office to be included in their records.
- Ensure language regarding requirements surrounding tenant improvements is consistent among all contracts that contain tenant improvements.

**Management’s
Response:**

In accordance with professional standards, the Controller’s Office requests that every auditee addresses each individual recommendation in an audit. This provides the auditee an opportunity to either agree or disagree with an audit recommendation and then set forth the basis of their response. The Law Department refused to comply with this request. The Law Department’s general response is on page 23.

III. Findings and Recommendations

Finding #3

The Law Department Does Not Have Written Policies and Procedures Surrounding the Leasing Process

- Criteria:** Written policies and procedures are an essential part of any organization. Together, policies and procedures provide a road map for day to day operations. They ensure compliance with laws and regulations, give guidance for decision making, and streamline internal processes. Therefore, written policies and procedures should be in place to ensure that the process of negotiating and finalizing lease contracts are properly conducted and completed.
- Condition:** The Law Department does not have written policies and procedures, or any requirements related to the process of securing and negotiating a County lease contract. We reviewed lease files maintained by the Law Department for a sample of six leases. Only one of the six files (17%) contained documentation regarding the identification and selection of the leased space and the negotiation of lease terms, and none of the files contained documentation to support the research and work done to ensure the County is paying a fair market rate for the lease.
- Cause:** The Law Department has not established written policies and procedure requiring documentation of lease negotiation processes. In addition, the current Manager of Real Estate and Administration who is responsible for lease contracts was not in this position when the contracts in our period were negotiated. The current Manager has developed his own process, but nothing is memorialized as written policies and procedures.
- Effect:** Without documentation to support the work completed, we cannot determine the process utilized to select the lease space, negotiate the lease terms, and verify the County is paying a fair market rate for the lease. For 2017, 2018, and 2019, the County paid an average of nearly \$14 million a year in lease payments, so it is imperative to ensure the County has negotiated the best possible rate and terms.
- Recommendations:** We recommend that the Law Department:
- Develop and implement written policies and procedures regarding the selection and negotiation of County lease contracts. At a minimum, this should include procedures to ensure a fair market rate is negotiated and procedures to confirm that all relevant lease terms, such as required improvements, services, and amenities are

III. Findings and Recommendations

included in the lease. The policies should detail the documentation required to be maintained as part of the lease file.

**Management's
Response:**

In accordance with professional standards, the Controller's Office requests that every auditee addresses each individual recommendation in an audit. This provides the auditee an opportunity to either agree or disagree with an audit recommendation and then set forth the basis of their response. The Law Department refused to comply with this request. The Law Department's general response is on page 23.

III. Findings and Recommendations

Finding #4 Real Estate Taxes On County Leased Spaces Not Paid

Criteria: When applicable, County lease contracts contain language requiring the landlord to pay all real estate taxes when they are due and payable. There are instances, such as ownership by an exempt entity, when payment of real estate taxes is not required.

Condition: We reviewed Allegheny County’s Real Estate Portal to determine if the County’s real estate taxes were paid for 2017, 2018, 2019 for the 117 lease locations occupied during our engagement period. Since we found unpaid taxes during this period, we reviewed the year 2020 as well. We found that seven properties have unpaid taxes for at least one of these four years. Delinquent County Real Estate taxes are typically turned over to an outside agency for collection. Penalty, interest, lien costs, service expenses, and other expenses are added onto the tax balance to calculate the total amount due. The chart below depicts the taxes and other amount due as of February 28, 2021.

Address	Leasing Department	Tax Years Unpaid	Taxes Owed	Other Amounts	Payments	Total
409 Walnut St. McKeesport 15132	District Attorney	2018, 2019, 2020 *	\$ 4,399	\$ 1,894	\$ 0	\$ 6,293
1908 Wylie Ave. Pittsburgh 15219	Health Department	2020	3,886	988	0	4,874
112 Washington Pl. Pittsburgh 15219	Economic Development	2020 (Partial)	2,838	170	0	3,008
1007 Mt. Royal Blvd. Pittsburgh 15223	MDJ 05-2-03	2017, 2018, 2019, 2020	9,460	4,640	0	14,100
3876 Perrysville Ave. Pittsburgh 15214	MDJ 05-2-42	2019, 2020	3,081	1,085	(487)	3,679
2060 Saxonburg Blvd. Gibsonia 15044	MDJ 05-3-04	2015, 2016, 2017 **	1,754	1,529	(1,064)	2,219
1205 Main St. Pittsburgh 15215	MDJ 05-2-04	2020	304	77	0	381
			\$ 25,722	\$ 10,383	(\$ 1,551)	\$ 34,554

* Although the property is owned by the Redevelopment Authority of the City of McKeesport, this property does not qualify for a Real Estate Tax Exemption under the Municipality Authorities Act.

** When the agency provided the information on the outstanding taxes for 2017, they indicated that taxes for 2015 and 2016 totaling \$1,169 are outstanding in addition to taxes owed for 2017. The amounts for all three years are included in the chart.

III. Findings and Recommendations

Cause: There are no internal controls in place to verify County real estate taxes are paid before the lease begins or throughout the term of the lease.

Effect: Allegheny County is making rent payments to landlords who are not upholding the terms of their contract by paying their County real estate taxes timely.

Recommendations: We recommend that the Law Department:

- Verify all real estate taxes are current before finalizing the lease contract. The County should not enter into a lease with a landlord that has unpaid real estate taxes.
- Develop written policies and procedures to verify real estate taxes are paid on an annual basis. If there are any outstanding taxes, take measures to ensure the taxes are paid, including, but not limited to contacting the landlord and require that they pay the outstanding taxes or invoking the contract clause that allows the County to pay the taxes and deduct the amount from their next rent payment.

Management's Response:

In accordance with professional standards, the Controller's Office requests that every auditee addresses each individual recommendation in an audit. This provides the auditee an opportunity to either agree or disagree with an audit recommendation and then set forth the basis of their response. The Law Department refused to comply with this request. The Law Department's general response is on page 23.

IV. Conclusion

To strengthen internal controls surrounding the real estate lease negotiations, the Law Department needs to develop written policies and procedures to ensure that lease contracts are being effectively negotiated and all contract improvement requirements are being properly completed. In addition, the Law Department needs to ensure that executed lease contracts are complete and contain all exhibits and components referenced in the contract. When contracts are missing key exhibits and attachments, it cannot be verified if the landlord fully complied with the terms of the contract. Furthermore, without documentation that tasks were properly completed, it is difficult to confirm whether certain types of improvements were done. Although there were several items in the contracts' construction plans that were not completed, it appears the required improvements (that could be observed) were otherwise generally provided. Finally, the Law Department needs to implement procedures to verify that County real estate taxes are paid before the lease contract is signed and during the term of the lease.



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COUNTY EXECUTIVE

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ANDREW F. SZEFI
SOLICITOR

BRIAN D. DUNBAR
LEGAL ADMINISTRATOR

May 7, 2021

The Honorable Chelsa Wagner
Allegheny County Controller
Room 219 Courthouse
436 Grant Street
Pittsburgh, PA 15219

Re: Response to Lease Report - January 1, 2017 through December 31, 2019

Dear Ms. Wagner:

The County Manager and the Law Department have reviewed the report pertaining to leases of real property for the period January 1, 2017 through December 31, 2019. Thank you for the opportunity to respond and for including the Law Department as part of your process. As noted in the report, our department has been entrusted with locating necessary rental properties, negotiating lease terms and conditions, and memorializing those terms and conditions in a lease agreement. We work with multiple County departments to fulfill their needs so that the services so vital to the public they serve can be provided at the greatest possible convenience to the residents they serve while at the same time recognizing that real estate market conditions and rental rates vary significantly across the many communities served by this government where rental space is required. It is always our objective to obtain optimal locations from both service and cost perspectives. We will certainly take your recommendations under advisement and, again, thank you for the opportunity to participate and respond.

Sincerely,

Andrew F. Szefi, Esq.
County Solicitor

cc: William D. McKain
County Manager