



FISCAL AUDIT

**DEPARTMENT OF PARKS & RECREATION
DEPARTMENT OF PUBLIC WORKS
*PHIPPS CONSERVATORY TRUST FUND***

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OCTOBER 2024

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CITY OF PITTSBURGH
OFFICE OF THE CITY CONTROLLER
Controller Rachael Heisler

October 2024

To the Honorable Mayor Edward Gainey and
Honorable Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this fiscal audit of the PHIPPS CONSERVATORY TRUST FUND (PCTF), conducted pursuant to the power of the Controller under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Phipps Conservatory and Botanical Gardens (Conservatory) is an iconic Pittsburgh attraction of the Oakland neighborhood. The Conservatory provides elaborate flower shows and plant exhibits and has been a landmark feature of the City since 1893. The plant life requires a regular distribution of heat to thrive, and that heat is supplied in the form of steam by the Bellefield Boiler Plant.

The City of Pittsburgh once managed the operations of the Conservatory, including the care of the plants, general building operations, intake of revenue from admissions and other sources, and payment of staff. In 1971, the City established the PCTF through which the financial activities were to flow. The guidelines of that resolution provided details of the costs of admissions and the allowable expenses.

In 1993, a lease was executed, which placed operational control of the facility in the hands of the non-profit organization also known as “Phipps Conservatory and Botanical Gardens” (Nonprofit). Under this new agreement, the City acts as the “landlord” and would no longer be involved in the day-to-day operations of the Conservatory, and the Nonprofit would act as the “tenant.” The lease agreement also established an expectation in Section 7.03 that the Nonprofit would be responsible for paying the City a 5-year average of steam usage in quarterly installments. The original lease was set to expire in July 2022.

With the information above established, we kicked off our review of PCTF activity, but our preliminary research was challenging due to the limited information available in the City's financial management systems, even considering the rather large scope we selected of 2014 – 2023. As you will see in [Tables I](#) and [II](#) of our report, within our selected scope, single lump-sum inflows were received for only three years (i.e., 2014, 2016, and 2017) and outflows were identified in each year between 2014 – 2018 and then none thereafter.

Our report will reveal that following the execution of the 1993 lease agreement, the PCTF—once an account dedicated to the financial activities of the City's operation of the Conservatory—became a temporary portal through which steam utilities were handled. In the 2017 – 2018 range, the financials of steam processes were transitioned from the PCTF to the City's General Fund. All activity connected to steam utilities in the PCTF can be traced to the Department of Parks and Recreation (Citiparks); all steam utilities thereafter are connected to the Department of Public Works (DPW).

Unfortunately, neither Citiparks or DPW were able to provide documentation of the transition of steam responsibilities, and, therefore, we engaged with multiple City departments—Citiparks, DPW, the Office of Management and Budget (OMB), and City's Department of Law (Law)—and also the Nonprofit to develop a better understanding of the timeline of events. The information provided by each entity and also found within the City's financial management system comprise the results of our audit. We will summarize those as follows:

- Citiparks was solely responsible for the PCTF and was listed on the signature pages of the 1993 lease agreement. It utilized the trust fund to pay steam utility usage to the Bellefield Boiler Plant and, in turn, established a procedure of calculating a 5-year average of steam usage and requesting reimbursement from the Nonprofit annually via letters on the department's letterhead. However, this process was not administered consistently. The month of request changed drastically from year to year with the department making requests in September, March, and June of the years in which revenue was received; reimbursement was made over a year late in one instance; and reimbursement was not requested at all for the 2016 steam period, which would have comprised a 5-year average of 2011 – 2015 and connects to [Finding #1](#).
- Both Citiparks and DPW indicated that a transition of steam responsibilities had been directed; however, neither department was able to confirm exactly when this transition occurred and what information was relayed during the transition. Reimbursements were not requested from the Nonprofit for steam periods 2017 – 2021, which connects to [Finding #2](#) due to a general lack of oversight from both departments and also noncompliance with the 1993 lease agreement, which was still in effect during this period.
- During an interview, DPW indicated that the renewal of the 1993 lease agreement was in active negotiations but had no concrete status.
- Based on documentation provided by Law, we became aware that the Nonprofit had successfully extended the 1993 lease up through June 2043 by submitting a letter to the City, which is allowable per the original lease. The original lease also allows for modifications to the terms as long as both parties agree.
- Based on documentation provided by the Nonprofit, DPW and the Nonprofit came to an agreement to modify Section 7.03 of the lease so that the Nonprofit could begin paying the actual monthly amounts of steam, rather than the 5-year average. This modified agreement was effective as of December 2021. However, this modified agreement does not describe what responsibilities are specifically incumbent upon the City (i.e., DPW) or the Nonprofit, only that the Nonprofit will pay the monthly amounts of steam usage. Incidentally, auditors

identified reimbursement checks issued by the Nonprofit that were deposited by DPW in 2023, but auditors were unable to identify expenses from the General Fund indicating that utilities were paid. The lack of clarity in this process is likely a result of unclear terms within this modified agreement and a lack of policies and procedures. We also were unable to determine if Section 7.03 of the original lease had been officially updated. This connects to [Finding #3](#).

We appreciate the cooperation, patience, and support of the staff we coordinated with during the course of our audit.

Sincerely,

A handwritten signature in black ink that reads "Rachael Heisler". The signature is written in a cursive, flowing style.

Rachael Heisler
City Controller

INTRODUCTION

This fiscal audit of the **Phipps Conservatory Trust Fund (PCTF)** was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

The original scope of the audit was planned for **January 1, 2014**, through December 31, 2021; however, during the course of the audit, it was determined to be necessary to expand the scope up through **December 31, 2023**. Additional details will be provided in this report.

The objective of this audit was to determine whether or not internal controls related to the PCTF and steam-related responsibilities connected to the Phipps Conservatory and Botanical Gardens (Conservatory) were adequate during the timeframe under examination. In order to achieve this objective, we performed the following procedures:

- We reviewed Ordinance 98 of 1971, which established the PCTF.
- We interviewed department administrators with the Department of Parks and Recreation (Citiparks) and the Department of Public Works (DPW).
- We engaged with the Office of Management and Budget (OMB), the City's Department of Law (Law), and the non-profit organization Phipps (Nonprofit).
- We reviewed and analyzed the 1993 lease agreement between the City and the Nonprofit.
- We performed analysis of steam utility processes handled by Citiparks up through 2017.
- We performed analysis of steam utility processes handled by DPW starting in 2017.
- We documented and analyzed relevant revenue and expenditure entries made in JD Edwards (JDE) and OnBase in both the PCTF and General Fund during the scope of the audit.

BACKGROUND

The audit procedures described in this report connect to payment processes involving the Conservatory, the Bellefield Boiler Plant, and the City of Pittsburgh.

THE CONSERVATORY



Figure 1: Phipps Conservatory and Botanical Gardens.

The Conservatory is a Pittsburgh attraction located within Schenley Park of the Oakland neighborhood, 1 Schenley Drive, Pittsburgh, PA 15213. Botanical gardens are staffed establishments that house and care for plants, often for public display and scientific study.

The Conservatory currently stands as a historic Pittsburgh landmark and resembles a large Victorian-style glass house, comprising 14 attached glasshouses and 23 distinct gardens on 15 acres of land, which is an expansion upon the nine display rooms that were originally built in 1893 when Henry W. Phipps donated the Conservatory to the City.



Figure 2: Phipps Conservatory and Botanical Gardens, summer 2022.

The Conservatory provides seasonal flower shows, commissioned exhibits, various agricultural collections, and even educational activities. The Conservatory is also a popular spot for event bookings, particularly weddings and receptions.

The City operated the Conservatory by staffing the maintenance and care of the facility and plant life up until 1993 when building and ground operations were transferred to the Nonprofit.

BELLEFIELD BOILER PLANT

In order to sustain the plant life within the Conservatory, a regular supply of heat is required. This heat is supplied in the form of steam, which is piped to the Conservatory from the Bellefield Boiler Plant, which, going back to 1893, was once a small boiler facility designed to heat only the Carnegie Library and Music Hall. In 1932, the City constructed an underground pipe from the boiler house to the Conservatory, which marked the first time the boiler plant serviced steam to a new user. The plant provides steam to several other neighboring buildings, such as University of

Pittsburgh Medical Center (UPMC) Presbyterian Hospital, offices affiliated with the UPMC Children's Hospital of Pittsburgh, and Carnegie Mellon University.

CITY OF PITTSBURGH

The *2023 Operating Budget & Five Year Plan*, as published by OMB, lists the following criteria as authorizing documents related to the PCTF: (1) Ordinance 98 of 1971 and a (2) 1993 lease agreement between the City and the Nonprofit.

98 OF 1971

The legislation 98 of 1971 was published as “an ordinance” and established the trust fund as a depository for admission revenues received by the Conservatory. The establishment of the trust fund was spurred by a proposal from the Director of Citiparks for the implementation of an admission fee to be charged for special floral exhibits. Section 1 of this ordinance approved the implementation of admission fees, and Section 5 permitted the trust fund to be used not only for the receipt of admissions but also for operational expenses (e.g., wages, salaries, maintenance, etc.).

Section 1. The Director of the Department of Parks and Recreation is hereby authorized to establish admission charges at Phipps Conservatory during day or night special floral exhibitions each calendar year, not to exceed the following:	
For persons 17 years of age and over	\$.50
For all other persons	.25
For children under two years of age	None
Section 2. The payment of the admission charge provided for in Section 1 of this Ordinance shall entitle the person making the payment to admission to Phipps Conservatory during special floral exhibitions but to no other facility for which there is a separate charge.	

Figure 3: Section 1 of 98 of 1971.

Section 5. The City Controller hereby is authorized and directed to create a special trust fund account in Special Trust Fund No. 2 to be designated "Phipps Conservatory Trust Fund" for the purpose of paying costs and expenses, including wages and salaries, architectural fees and other expenses in connection with the improvement and development of Phipps Conservatory and environs, the maintenance, repair and staffing of Phipps Conservatory, and for other general purposes of the Department of Parks and Recreation. The proceeds from the aforesaid admission charges, together with all other revenues derived from the operation of Phipps Conservatory, shall be deposited to the credit of said special trust fund account.

Figure 4: Section 5 of 98 of 1971.

1993 LEASE AGREEMENT

A lease between the City (i.e., Citiparks) and the Nonprofit was executed in July 1993 and set to expire as of July 2022.

The original 1993 agreement changed the fundamental components of the Conservatory's operations. The most notable change was that the City would yield operational control and responsibility of the building and grounds to the Nonprofit and also pay to the Nonprofit "any balance remaining in the Phipps Conservatory Trust Fund Account," per Section 5.03. Section 7.03 of the lease stated that, in regard to utility payments, the Nonprofit would pay to the City the average of the preceding 5 years of annual charges for steam heat, including any taxes and the cost of maintenance and capital improvements assessed against the City pursuant to the *Bellefield Boiler Cooperation Agreement*, in quarterly installments.

The figure below is an excerpt from the 1993 lease agreement.

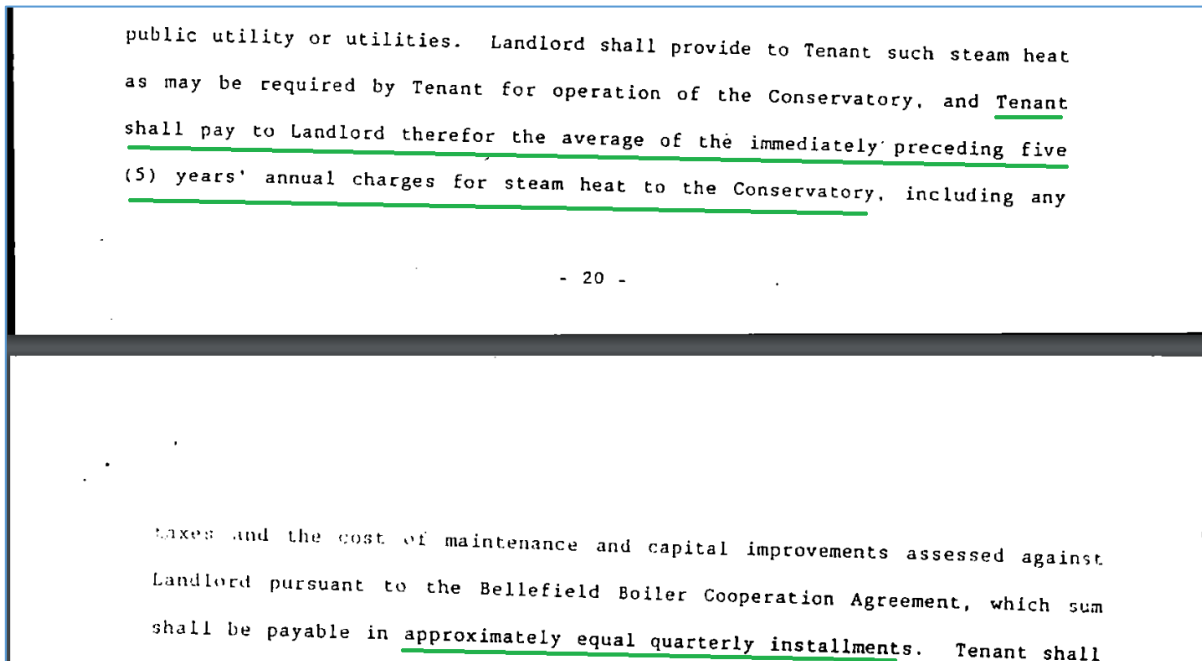


Figure 5: Excerpt from 1993 lease agreement, Section 7.03.

FUNDING SOURCES

During the scope of the audit, only three deposits were made into the PCTF. These deposits comprised checks received from the Nonprofit in 2014, 2016, and 2017, altogether totaling \$555,922.

<i>YEAR</i>	<i>CHECK FROM NONPROFIT (DESCRIPT: PHIPPS CONSERVATORY)</i>
2014	\$ 206,867
2015	\$ -
2016	\$ 172,459
2017	\$ 176,596
2018	\$ -
2019	\$ -
2020	\$ -
2021	\$ -
<i>TOTAL</i>	<i>\$ 555,922</i>

EXPENDITURE OF FUNDS

Within the scope of the audit, all expenditures were made in 2014 – 2017 for steam payments based on invoices from the Bellefield Boiler Plant. The 2018 expenditure was a wire transfer initiated by Citiparks. These expenditures, altogether, total \$617,032.

<i>YEAR</i>	<i>EXPENDITURE DESCRIPTION: STEAM</i>
2014	\$ 192,104
2015	\$ 127,523
2016	\$ 94,491
2017	\$ 73,848
2018	\$ 129,065
2019	\$ -
2020	\$ -
2021	\$ -
<i>TOTAL</i>	<i>\$ 617,032</i>

PROCEDURES

In accordance with the information provided in the [FUNDING SOURCES](#) and [EXPENDITURE OF FUNDS](#) sections, the PCTF existed, during our audit’s scope, as a vessel for the payment and reimbursement of steam utilities and not the deposit of admissions from the Conservatory nor expenses for Conservatory operations.

One of our initial tasks was to determine how the lease agreement affected the operation of the trust fund and its connection, if any, to the utility processes of the Conservatory. First and foremost, the lease established the City as the “Landlord” of the Conservatory and the Nonprofit as the “Tenant.” As noted in the [BACKGROUND](#) section, the balance of the PCTF was to be paid to the Nonprofit as part of the procedure for transferring the responsibility of facility's care; however, the lease does not provide any instruction on whether or not the PCTF should continue to be used for the administration of steam utility processes thereafter.

Because Citiparks was listed on the original ordinance and also as the City’s signatory on the 1993 lease agreement, we began our engagement with Citiparks’ administrators.

PHASE I, PRELIMINARY REVIEW OF PCTF ACTIVITY

Before engaging directly with Citiparks, we reviewed departmental memos and documentation of deposits made between 2014 – 2018 from JDE and OnBase. We found bank deposit information and steam invoices from the Supervising Committee of the Bellefield Boiler Plant.

We will provide some information on our preliminary analysis here, but please note that the results for [Phase I](#) will be delineated following the conclusion of [Phase III](#).

Revenue:

- It was evident that the revenue process was inconsistent between 2014 – 2017 and, subsequently, stopped altogether after 2017.
- We noted deposit memorandums described as “Trust Fund Reimbursements” and “Phipps Steam Reimbursements” for 2014, 2016, and 2017.
- We noted that no revenue was deposited in 2015 (see [Table I](#)).

Upon completing this analysis, we were faced with the following objective: To determine why deposits were missing for payments relating to 2015 and 2018 – 2021.

Expenditure:

- Expenditures, although present between 2014 – 2018, ceased altogether after 2018.

- All expenditures were described as “steam” and connected to invoices from the Supervising Committee of the Bellefield Boiler Plant.
- We noted a Citiparks’ memorandum requesting a transfer from the PCTF to DPW to correct an issue for steam heat invoices paid from the wrong account.

Upon completing this analysis, we were faced with the following objective: To determine why invoices were not paid after 2017 and DPW’s connection to the memorandum.

PHASE II, CITIPARKS’ USE OF PCTF

All activity within the trust fund between 2014 – 2018 was connected to Citiparks; therefore, we reached out to Citiparks requesting materials to assist in our research of the financial activities of the PCTF. The department’s initial response was that it was no longer responsible for the trust fund and that DPW had taken over years ago. We clarified that our scope covered 2014 – 2021, which includes the timeframe when Citiparks was directly involved with the fund.

Some of the items included in our request were as follows:

- Citiparks’ copy of the 1993 lease agreement.
- We asked for policies and procedures specific to the administration of steam utility payments for the Conservatory.
- We asked for supporting documentation of the wire transfer of \$129,065.46.
- We also asked for some supporting documentation of inflows and outflows noted in the fund.

In response, Citiparks provided a policy and procedure and supporting documentation for the wire transfer and inflows and outflows noted in the fund. Citiparks was unable to provide its copy of the 1993 lease agreement.

CITIPARKS’ STEAM POLICY

The only policy and procedure provided by Citiparks was a printed spreadsheet titled *Department of Parks and Recreation Bellefield Boiler Payment History*, which we will refer to as “Citiparks’ Steam Policy” hereafter. This document consisted of a table laying out monthly payment amounts for a full calendar year (i.e., January – December) over the course of 5 years (i.e., 2011 – 2015). Although no direct instructions were included with this document, the department confirmed that it, in its entirety, comprised the policies and procedures used by Citiparks for calculating steam reimbursements.

The figure below is a capture of Citiparks' Steam Policy. This template was used by the department for calculating the 5-year average annually.

CITY OF PITTSBURGH							
DEPARTMENT OF PARKS AND RECREATION							
Bellefield Boiler Payment History							
Month	2011	2012	2013	2014	2015	Average five years	Amount Due
January	54,300.92	32,532.25	51,703.00	54,089.12	49,733.45	\$ 48,471.75	
February	38,485.17	46,236.60	21,428.10	40,940.04	48,103.25	\$ 39,038.63	
March	31,474.13	37,246.15	25,520.00	25,950.00	23,252.05	\$ 28,688.47	
April	12,299.54	10,960.00	9,300.00	10,270.00	9,540.00	\$ 10,473.91	
May	3,535.74	10,410.00	3,910.00	3,880.00	2,979.00	\$ 4,942.95	
June	-	1,250.00	-	70.00	-	\$ 264.00	
July	-	30.00	-	-	-	\$ 6.00	
August	-	424.00	-	-	-	\$ 84.80	
September	2,009.63	-	6,394.16	4,804.15	106.00	\$ 2,662.79	
October	15,291.32	2,504.25	11,494.56	10,509.85	10,229.00	\$ 10,005.80	
November	-	12,494.75	2,056.80	-	16,260.40	\$ 7,702.99	
December	-	28,355.00	39,534.32	31,683.95	21,698.20	\$ 24,254.29	
Total Payment Due:	\$ 157,396.45	\$ 182,443.00	\$ 171,340.94	\$ 182,197.11	\$ 181,901.35	\$ 176,596.37	\$ 176,596.37

Figure 6: Citiparks' Steam Policy.

DOCUMENTATION OF WIRE TRANSFER

Citiparks provided a document listing nine items totaling \$129,065.46. This document included DPW's cost center listed next to each item. There was also a copy of Citiparks' memorandum dated March 9, 2018; several steam invoices; and DPW documents with dates ranging between 2018 and 2019.

SUPPORTING DOCUMENTATION OF INFLOWS AND OUTFLOWS

Citiparks provided copies of internal letters requesting reimbursement from the Nonprofit for steam payments, three reimbursement checks from the Nonprofit, copies of steam invoices, and proof of steam invoice payments.

PHASE III, CITIPARKS' USE OF PCTF

We met with Citiparks to discuss our analysis of JDE and OnBase as well as the documents previously sent. During this meeting, Citiparks provided insight on the policy and procedure, letters sent to the Nonprofit, and checks received from the Nonprofit. We also discussed the wire transfer documents and the transition of steam responsibilities from Citiparks to DPW.

Based on the 1993 lease agreement and the information observed in the trust fund, we anticipated a certain flow of financial activity. This flow would begin with the consumption of heat at the Conservatory, which would trigger a monthly invoice from the Bellefield Boiler Plant. Citiparks receipt of this document would prompt payment from Citiparks (i.e., expenditure from the PCTF). Citiparks would also be tasked with tracking the invoice amounts submitted by the Bellefield Boiler Plant so as to calculate a 5-year rolling average. Upon computing this average, Citiparks would notify the Nonprofit of payment due by sending a letter referencing Section 7.03 of the 1993 lease agreement.

The capture below shows the main body of a standard letter issued by Citiparks to request reimbursement of the 5-year average. We received letters from Citiparks for steam periods 2013, 2014, and 2015. The image below is taken from the department’s June 2017 letter requesting reimbursement for the 2015 steam period.

Pursuant to Article VII, Section 7.03 “Utilities” of the current lease agreement between the City of Pittsburgh and Phipps Conservatory, Inc., please accept these invoices in the amount of \$176,596.37 for steam heat for the period of January, 2015 through December 2015. I have enclosed copies of a worksheet and applicable invoices for said time period.

Figure 7: Excerpt from Citiparks' letter dated June 8, 2017, requesting reimbursement of the 5-year average for the period 2011 - 2015.

The graphic below shows the anticipated flow of money as described above based on Section 7.03 of the lease agreement.

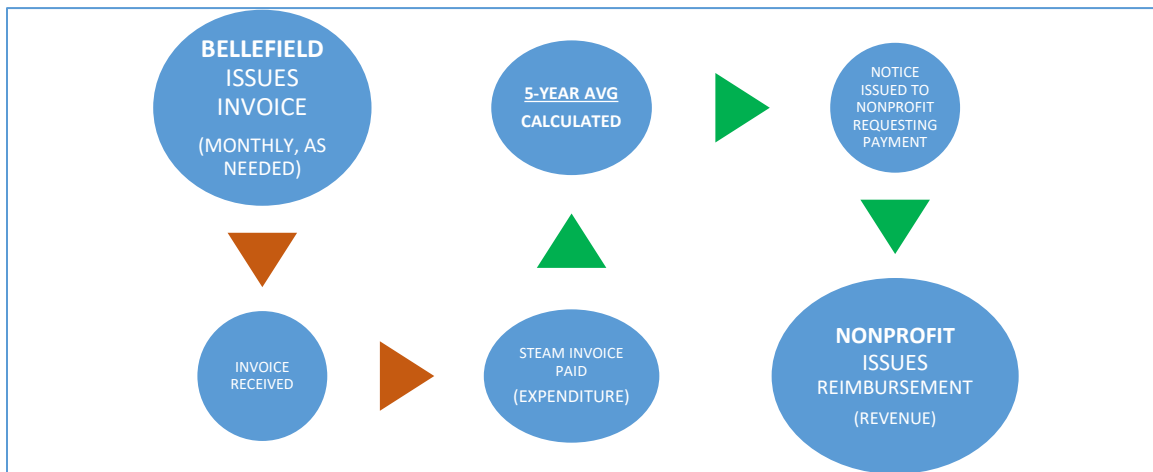


Figure 8: Visual graphic of the anticipated flow of financial activity based on the 1993 lease agreement and information provided in JDE.

In order to finalize the analysis of Citiparks’ management of the fund, auditors submitted another request for materials. Some of the items included in our request were as follows:

- We asked for supporting documentation of the steam periods 2016 and 2017.
- We asked for supporting documentation of the first page of the 2018 wire transfer shown in [Table II](#).

- We also asked for any additional invoices for 2016 and 2017 not previously received.
- We asked for any documentation of the transition of steam utilities from Citiparks to DPW.

DOCUMENTATION OF STEAM PERIODS, 2016 – 2017

Citiparks did not provide all documentation requested by auditors of the steam periods 2016 and 2017.

DOCUMENTATION OF WIRE TRANSFER

The dollar amounts on the first page of the documentation of the wire transfer did not align with the documentation included on the following pages, and, therefore, auditors requested supporting documentation of the initial page. Citiparks did not provide this requested information.

ADDITIONAL INVOICES

Citiparks provided a few memorandums and invoices from 2016 and 2017.

DOCUMENTATION OF TRANSITION

Citiparks was unable to provide any documentation of the transition.

RESULTS, PHASES I, II, AND III (CITIPARKS)

Auditors were then tasked with analyzing Citiparks' Steam Policy to determine how it was used to support the steam-payment process. It was also incumbent on auditors to determine if the anticipated flow of financial activity illustrated in [Figure 8](#) was evident and/or if sufficient evidence was otherwise available to explain why it was not, when applicable.

Please note the following results:

- Auditors confirmed that the calculation of the 5-year average connected to Section 7.03 of the [1993 lease agreement](#), which indicated that the Nonprofit would pay the City the average of 5 years of annual charges in quarterly installments, was the basis of Citiparks' notifications to the Nonprofit.
- Auditors noted that Citiparks' Steam Policy was designed to calculate an annual total of the prior 5-year average. This was also evident by yearly deposits into the trust fund.

- For the years Citiparks utilized the PCTF, auditors confirmed the anticipated flow of financial activity illustrated in [Figure 6](#). However, as noted in the bullet above, the City's request for steam reimbursement was administered annually, not quarterly, and was also inconsistent (see following bullets).
- Auditors noted inconsistencies in Citiparks process for requesting reimbursements. The department issued letters to the Nonprofit requesting reimbursement for steam usage on September 10, 2014, for steam period 2013; on March 21, 2016, for steam period 2014; and on June 8, 2017, for steam period 2015. Citiparks failed to send the Nonprofit a request for reimbursement for steam period 2016. See [Finding #1](#) for additional information.
- Citiparks was unable to provide documentation of the transition. Please see [Finding #2A](#) for additional information.
- Based on evidence of Citiparks' involvement up through 2018, Citiparks should have ensured that a reimbursement request was issued to the Nonprofit for steam period 2017 in 2018. Please see [Finding #2A](#) for additional information.
- Auditors identified a memorandum from Citiparks dated March 9, 2018, requesting a debit from the PCTF and credit to DPW's cost center account for an amount of \$129,065.46. As noted, this is the last expense reflected in the PCTF (see [Table II](#)). As noted, Citiparks was unable to provide supporting documentation of the amounts listed on its memorandum and on the first page of the document.
- The March 2018 memorandum noted in the bullet above is evidence of Citiparks involvement with the PCTF up through 2018. Please see [Finding #2A](#) for additional information.

PHASE IV, STEAM UTILITIES AS PROCESSED BY DPW

DPW was not identified as having any direct connection with the PCTF but was identified in connection with steam utility payments; therefore, auditors planned engagement with DPW to inquire on the department's awareness of the 1993 lease agreement, the transition of steam responsibilities, and the department's use of the General Fund in managing steam processes.

During the first meeting with the department, auditors also asked the department if it was aware of the 1993 lease agreement. DPW administrators indicated that they were aware of this agreement. DPW administrators also had limited information of what had been communicated by Citiparks during the transition of steam responsibilities.

In regard to the financial management of steam utilities, DPW noted that all utilities are processed via the General Fund and DPW's cost center number.

Following that meeting, auditors requested specific materials from the department. The items included in the request were as follows:

- We asked if the department had any policies and procedures specific to steam-payment processes and/or the processing of utilities at large.
- We asked for contact information for administrators of the Nonprofit.
- We asked for any documentation of the transition of steam-payment responsibilities from Citiparks to DPW.
- We asked for any correspondence related to steam-payment processes between DPW and the Nonprofit.
- We asked for all steam-related invoices.

DPW POLICIES AND PROCEDURES

DPW indicated that there were no policies and procedures in place to govern the steam utility processes but noted that they are handled in the same manner as all other utilities.

CONTACT INFORMATION FOR NONPROFIT

DPW did provide email addresses and contact numbers for the administrators and legal representatives of the Nonprofit.

DOCUMENTATION OF TRANSITION

DPW did not provide auditors with any documentation of the transition of steam utilities. The department administrators noted that the employees involved in the transition of steam-related processes no longer work for the department and current administrators are unaware of the details.

CORRESPONDENCE RELATED TO STEAM-PAYMENT PROCESSES

DPW did not provide auditors with any correspondence, in the forms of letters, emails, etc., documenting communication between DPW and Nonprofit.

STEAM INVOICES

DPW provided a package containing bundles of DPW departmental invoices and supporting invoices from the Supervising Committee of the Bellefield Boiler Plant for the following years: 2018 – 2023.

- DPW provided documentation of steam expenditures for 2018 – 2022. The department also provided documentation of one steam expenditure for 2023.
- DPW provided documentation of checks received from the Nonprofit. Auditors noted that most checks listed a description of “Steam Usage”; however, three checks in particular—numbered “#4,” “#5,” and “#6”—were described as “City of Pgh Steam repayment.”

LEASES

DPW provided its own copy of the 1993 lease agreement.

PHASE V, STEAM UTILITIES AS PROCESSED BY DPW

Following the analysis of the materials provided by DPW after the initial meeting, auditors scheduled a second meeting to obtain clarification of the processes. During this meeting, the department discussed its perspective on the 1993 lease agreement and provided some information about the materials previously provided to auditors.

In regard to the 1993 lease agreement, the department administrators indicated that they did not agree with the stipulations set forth in Section 7.03 of the lease and do not use this model of agreement in any current utility processes. The administrators also indicated that the renewal of the 1993 lease agreement was in active negotiations between Law and the Nonprofit and that the negotiations were pointed at changing the stipulations of the lease to be more in line with other leases used by the department to manage utilities. DPW administrators noted the “Aviary lease” as an existing example of the preferred model of a lease agreement.

In regard to the materials previously provided, auditors had noted the following: three checks with descriptions of “repayment #4,” “repayment #5,” and “repayment #6” and also seven steam usage checks from the Nonprofit totaling the actual amount of steam usage. DPW administrators indicated that the repayment checks were part of a resolution for past-due balances owed by the Nonprofit. The department indicated that the steam usage checks for the actual monthly amount of steam were likely a result of the Bellefield Boiler Plant moving the account directly to the Nonprofit.

Following this second meeting, auditors requested additional materials from the department. The items included in the request were as follows:

- We asked for any records retained by DPW regarding Law’s negotiations with the Nonprofit.

- We asked for any records of correspondence between DPW and the Nonprofit regarding the new arrangement for the Nonprofit to pay the full monthly amount of steam.
- We asked for a copy of the Aviary lease being that it was referenced by the department as the preferred lease structure.

DPW did not respond to auditors' request for materials, even after two follow-up emails were issued.

RECORDS FROM LAW

Not provided due to nonresponse.

CORRESPONDENCE BETWEEN DPW AND NONPROFIT

Not provided due to nonresponse.

AVIARY LEASE

Not provided due to nonresponse.

RESULTS, PHASES IV AND V (DPW)

Please note the following results:

- DPW administrators were unaware of whether or not Citiparks had relayed any previously established procedures regarding steam utilities. Please see [Finding #2B](#) for additional information.
- DPW was also unable to provide any of its own policies and procedures delineating the current steam processes and/or utility processes in general.
- Although there is evidence that DPW paid steam invoices, the department administrators indicated that they did not agree with Section 7.03 of the 1993 lease, and, therefore, did not request reimbursement from the Nonprofit. Please see [Finding #2B](#) for additional information.
- As noted, DPW was unable to provide any documentation of the transition of steam processes. Please see [Finding #2B](#) for additional information.

- In receiving documentation of checks issued by the Nonprofit and deposited by DPW in 2022 and 2023, auditors determined it necessary to expand the end of the audit’s scope from 2021 to 2023.
 - Upon review of JDE reports, auditors confirmed that, in 2022, DPW deposited repayment checks #4, #5, and #6. DPW paid steam invoices and deposited four steam usage checks received from the Nonprofit for the same amount.
 - In 2023, DPW paid one steam invoice and deposited one steam usage check received from the Nonprofit for the same amount. DPW also deposited four steam usage checks received from the Nonprofit; however, the department did not pay any steam invoices. Please see [Finding #3](#) for additional information.
 - Because DPW did not respond to auditors' [Phase V](#) request, auditors did not receive any records from Law, correspondence between DPW and the Nonprofit, or the Aviary lease.
 - Separately, auditors were able to locate the Aviary lease in the City’s online system OnBase. Of note, 7.03 of the Aviary lease indicates that the tenant is to reimburse the City for all City-paid utility services based on a schedule determined by the City so long as payment is not expected in less than 30 days from the tenant's receipt of an invoice from the City.
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PHASE VI, CORRESPONDENCE WITH LAW

After receiving no response to auditors’ second request for materials from DPW, auditors reached out to Law. Law informed auditors that the 1993 lease agreement is still considered to be in effect via a request for extension submitted by the Nonprofit to the Mayor’s Office. Auditors were then provided with a copy of Law’s letter dated December 29, 2021, acknowledging the Nonprofit’s request and confirming the extension through June 30, 2043.

PHASE VII, CORRESPONDENCE WITH NONPROFIT

Because auditors were unable to obtain sufficient documentation of the process from DPW, auditors also reached out to the Nonprofit’s contacts. In the emailed request, auditors provided two of the checks previously provided by DPW as examples and requested additional information about them. The Nonprofit's legal representative responded to the inquiry with a letter indicating that one check was the fourth of six installments paid towards an accrued steam balance and the other a monthly payment for steam usage. The letter also detailed an arrangement made between the Nonprofit and the City in 2021. Multiple attachments supporting this arrangement were enclosed with the correspondence received from the Nonprofit.

The following is a breakdown of the supporting documentation provided by the Nonprofit:

- The Nonprofit issued a letter to the directors of Citiparks and DPW dated February 26, 2020, to explain some financial concerns specific to the steam utilities, electrical usage at Mellon Park, and land remediation expenses from the hillside between Schenley Park and Panther Hollow Avenue (a.k.a., “Hillside Remediation”). The letter indicated that Citiparks had not issued a notification of reimbursement for steam utilities since June 2017, and, therefore, the Nonprofit provided a calculation of what it believed to owe based on **(1)** invoices the Nonprofit had been copied on and **(2)** the actual monthly payment amounts of steam. The amount calculated by the Nonprofit was \$609,891.25. Although the Nonprofit, in its correspondence, acknowledged Section 7.03 of the 1993 lease agreement, its letter indicated the 5-year average could not be calculated due to the lack of received invoices. The letter quoted \$6,508.70 as the effected cost of the electrical issues at Mellon Park and \$222,609.92 as the cost of the Hillside Remediation, recommending that these expenses be subtracted from the total past-due balance of steam utilities and leaving a net amount due of \$380,772.63. The Nonprofit requested that this net amount due be paid to the City in six equal monthly installments of \$63,462.10. In this letter, the Nonprofit also requested that, going forward, the Nonprofit be charged the actual monthly amount of steam, rather than the 5-year average.
- After receiving no response from DPW or Citiparks, the Nonprofit issued a follow-up letter on November 17, 2021, to the Mayor’s office. This letter included a printed table of the Nonprofit's adjusted calculation of \$679,706.66. This new value is compromised of the total of monthly steam amounts between January 2016 through September 2021 for \$905,746.36, minus the unchanged Mellon Park electrical and an adjusted quote for the Hillside Remediation of \$202,528.00.
- On December 12, 2021, DPW’s current administration responded to the Nonprofit’s prior two letters. In the response, DPW agreed with the proposed solution to resolve the past-due balances; however, a total amount of \$679,530.87, paid in six installments of \$113,255.15, was quoted instead. In this response, DPW administration also agreed with the Nonprofit’s proposal to pay the actual monthly amount of steam, rather than the 5-year average.

To confirm the current steam utility processes were properly in place, auditors reached out to the Nonprofit a second time. Auditors asked how the Nonprofit is notified when reimbursements are due. The Nonprofit’s response indicated that its Chief Financial Officer (CFO) receives an email of monthly invoices from the bookkeeper at the Bellefield Boiler Plant. In turn, the Nonprofit then issues the check for the monthly amount directly to the City.

RESULTS, PHASES VI AND VII

Law and the Nonprofit were not the subjects of the audit, and, therefore, the results below are simply observations:

- City's Law letter dated December 29, 2021, effectively extends the 1993 lease agreement through June 30, 2043.
- Although the Nonprofit copied both Citiparks and DPW on its first remediation letter dated February 26, 2020, neither department responded. The Nonprofit then issued a follow-up letter on November 17, 2021, directly to the Mayor's Office. Following this letter, DPW responded as described in [Phase VII](#) on December 12, 2021.
- Auditors were unable to determine how the DPW derived its calculation of the accrued steam balance due from the Nonprofit. The Nonprofit calculated \$679,706.66 based on actual steam amounts minus costs for Mellon Park electrical and the Hillside Remediation. DPW's response quoted a calculation of \$679,530.87.
- Auditors were able to confirm that the Nonprofit paid six installments of \$113,255.15 to resolve the accrued steam balance. The Nonprofit also sent DPW checks for the actual monthly amount for steam.
- Auditors also confirmed that, following the modified agreement in December 2021, the Nonprofit sent DPW checks for the actual monthly amount for steam.
- Auditors determined that Section 1.05 of the original 1993 lease agreement does allow for an extension upon receipt of a letter from the Nonprofit and that modifications can be administered to the terms and conditions of the lease as long as both parties agree. Therefore, the Nonprofit and DPW are within bounds to change the expectation of the 5-year average to the monthly amount of steam usage.

PHASE VIII, CORRESPONDENCE WITH OMB

In a separate correspondence auditors initiated with OMB, auditors were informed of [Resolution 896 of 2023](#), which closes the PCTF and several other trust funds.

—Please refer to the following section for Findings and Recommendations—

FINDINGS AND RECOMMENDATIONS

FINDING #1: TIMELINESS OF DEPOSITS AND MISSED REVENUE (CITIPARKS)

Citiparks did not send notifications requesting steam reimbursement in a timely fashion and also did not send any notification requesting reimbursement for the 2016 steam usage period in accordance with the stipulations described in Section 7.03 of the 1993 lease agreement and the department's established procedure.

Although Citiparks established a procedure for calculating the 5-year average of steam utilities due annually and carried out a process of sometimes sending the Nonprofit notification of reimbursement, Citiparks did not establish a procedure for when these notifications were to be issued.

Citiparks issued requests for 2014's steam period in 2016 and 2015's steam period in 2017, both reimbursement requests over a year late in comparison to the department's previously established pattern. In addition, the Nonprofit was not notified of steam reimbursement due for the 2016 steam period and, therefore, the City did not receive the 5-year average for this period.

- **Steam Period 2016:**
This coverage period would entail a calculation of a 5-year average including 2012 – 2016, and the notification requesting reimbursement would have been sent in 2017. Had this been done, the City would have received \$166,165.17.

For additional details, please refer to the [results for Phases I, II, and III](#).

RECOMMENDATION

Currently, Citiparks is not responsible for the PCTF; however, a generally good business practice would be to implement detailed policies and procedures that support consistent operations and establish clear expectations of those operations.

AUDITEE RESPONSE (CITIPARKS)

While it is noted that the Department of Parks and Recreation was unable to secure a copy of the 1993 lease agreement at the start of the audit process, the Department located a copy of the agreement in our files by 9/11/2024 and presented that to the audit team on that date. With the exception of the lease agreement and the five-year rolling average calculation chart referenced in this audit, few documents exist from prior to 2017 detailing the practices to be followed in the management of steam heat. The fiscal staff responsible for implementing the invoicing and reimbursement of the funds for this audit period were given little instruction on the practice when it transferred hands in 2002. Documentation prior to the audit window shows that there was a historic practice of reimbursement requests going out annually, but at different points of the year and without clear policy or direction of specific timing expected for those reimbursements.

We concur with the recommendation provided by the auditors. The Department began the process of establishing standard operating procedures for a number of departmental functions in 2021 following the audit of the Schenley Rink Trust Fund. That work is ongoing as we continue to work on establishing and updating these on a regular basis.

FINDING #2A AND 2B: INEFFECTIVE OVERSIGHT AND LACK OF COMPLIANCE WITH ORIGINAL LEASE (CITIPARKS AND DPW)

Citiparks and DPW did not oversee a seamless transition of responsibilities to avoid gaps in the processing of steam utilities, and, as a result, the City did not receive reimbursements of the 5-year averages for steam periods 2017 – 2020, in accordance with Section 7.03 of the 1993 lease agreement.

FINDING #2A (CITIPARKS)

Citiparks did not maintain any records of the transition of steam utilities, was unable to provide clear details about the transition of steam responsibilities, and also did not notify the Nonprofit of the following period:

- **Steam Period 2017:**
This coverage period would entail a calculation of a 5-year average including 2013 – 2017, and the notification requesting reimbursement would have been sent in 2018. Had this been done, the City would have received \$162,962.99. In accordance information summarized under [DOCUMENTATION OF WIRE TRANSFER](#), Citiparks was involved with the trust fund up until March 2018.

FINDING #2B (DPW)

DPW also did not maintain any records of the transition of steam responsibilities, was unaware of its staff activities during and after the transition, and did not request reimbursement from the Nonprofit for steam usage for the following periods:

- **Steam Period 2018:**
This coverage period would entail a calculation of a 5-year average including 2014 – 2018, and the notification requesting reimbursement would have been sent in 2019. Had this been done, the City would have received \$164,180.64.
- **Steam Period 2019:**
This coverage period would entail a calculation of a 5-year average including 2015 – 2019, and the notification requesting reimbursement would have been sent in 2020. Had

this been done, the City would have received \$158,358.52.

- **Steam Period 2020:**

This coverage period would entail a calculation of a 5-year average including 2016 – 2020, and the notification requesting reimbursement would have been sent in 2021. Had this been done, the City would have received \$157,979.97.

RECOMMENDATION

2A (CITIPARKS):

Although the transition of steam utilities is complete and Citiparks is no longer responsible for steam-related activities, Citiparks should note that a generally good practice would be to sufficiently document communications, directives, and results of any event, such as a transition of responsibilities, that impacts its operations and expectations, especially if such changes could impact the City financially.

2B (DPW):

As a generally good practice, DPW should ensure any transitions or changes in directives relevant to the department's financial operation be sufficiently documented. We also recommend that the department establish policies and procedures that detail utility processes. Policies and procedures can align the knowledge and expectations of staff and management and limit or prevent confusion and gaps in processing during transitions or staff changes.

AUDITEE RESPONSE, 2A (CITIPARKS)

The responsibility of steam heat payments, along with other utilities, were transferred to the Department of Public Works (DPW) by the Office of Management and Budget as documented in the DPW 2017 Operating Budget under Operations Property 54607- Steam; beginning on January 1, 2017. While there is no written record of the transfer request, the fiscal staff responsible did meet with OMB and DPW to hand the process over to the receiving department. We concur with the auditor's recommendation that in the event of a similar transfer of the responsibility of funds between departments, the details surrounding the transfer of those funds should be documented.

AUDITEE RESPONSE, 2B (DPW)

No response received.

FINDING #3: UNCLEAR MODIFICATIONS TO LEASE AGREEMENT (DPW)

Interviews with DPW indicated that the department was generally unaware of the renewal status of the 1993 lease agreement between the City and Nonprofit. Based on information provided by the Nonprofit, DPW and the Nonprofit agreed to modify the 1993 lease agreement as of December 2021; however, the modifications do not clearly detail the expectations of either party, only that the Nonprofit is to begin paying the actual monthly amounts of steam rather than the 5-year average. Auditors have been unable to obtain sufficient evidence that Section 7.03 of the lease has been fully updated.

Additionally, four checks issued by the Nonprofit were deposited by DPW in 2023, but auditors were unable to determine if DPW had issued payments, in turn, to the Supervising Committee of the Bellefield Boiler Plant for the monthly amounts of steam. Two of these checks, in the amounts of \$26,980.51 and \$11,407.07, were provided by DPW to auditors during [Phase IV](#) (see **STEAM INVOICES**). The other two checks, in the amounts of \$46,103.88 and \$35,826.21, were identified by auditors via internal research. This could be a result of numerous factors, including the following: a general unawareness of the status of the arrangement between the City and Nonprofit, unclear modifications to the 1993 lease agreement, and/or a lack of policies and procedures.

RECOMMENDATION

Because of the modified agreement reached December 2021 between DPW and the Nonprofit, DPW will no longer be responsible for calculating the 5-year average due in accordance with Section 7.03 of the original 1993 lease agreement; however, because the Nonprofit issued reimbursement checks deposited in 2023, DPW should, first, ensure that steam utilities are being paid.

DPW should work with Law to develop more detailed language to supplement the modified agreement and update Section 7.03 of the lease and then arrange further negotiations with the Nonprofit thereafter. DPW should also establish policies and procedures aligned with any financial structures agreed upon to ensure its staff and administration can maintain awareness of the processes.

AUDITEE RESPONSE (DPW)

No response received.

ADDENDUM

Fiscal auditing is an essential process in constructively reviewing financial operations. The process allows for the discovery of opportunities to build up and strengthen the financial functions of the City's trust funds. Fiscal auditors provide an opinion of the financial accuracy of the management of trust funds. The procedures of each audit can include but are not limited to risk assessments; legislative research and review; and testing of departmental documentation of financial records and, as necessary, policies and procedures.

The results of the Controller Office audits are kept in record and reviewed regularly. If the auditee disagrees with the recommendations made by the Office of the Controller, the auditee is advised of the responsibility for accepting the potential risks of that decision. If the auditee agrees, follow-ups are performed on any recommendations made until evidence is given showing that the identified risks are resolved. Fiscal audit reports and follow-ups can be viewed on the Controller portion of the City of Pittsburgh's website under [Fiscal Audits](#).