



Fiscal Audit

Department of Parks and Recreation Frick Park Trust Fund (FPTF)

Report by the
Office of City Controller

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September 19, 2018

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MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

September 19, 2018

To the Honorables: Mayor William Peduto and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this Fiscal Audit of the **Frick Park Trust Fund** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Frick Park Trust Fund (FPTF) was established in December of 1926 to account for funds received from the Henry Clay Frick Trust. Funds deposited into the trust fund are utilized by the Department of Parks & Recreation to pay for expenses related to the operation and maintenance of the City's historic Frick Park.

We performed certain procedures to determine whether policies, procedures, and internal controls relating to the administration of the fund are adequate and that expenditures charged to the fund are allowable and properly supported. Based on these procedures, inadequate recordkeeping practices and a lack of appropriate oversight led to improper usage of funds. We specifically noted that Citiparks did not maintain adequate records to support all of the transactions reimbursed from the fund. Although there was no evidence of misappropriation based on the procedures performed, the nature of records maintained to support the transactions indicated that it could occur and not be detected timely.

Improved recordkeeping practices and oversight in the form of providing departmental invoices clearly documenting intended usage of funds and creation of a two-step verification process for the review of permissible usage of funds prior to reimbursement from FPTF, will help to strengthen internal controls. These issues and our recommendations are further discussed in the Result section of this report.

We appreciate the cooperation of the staff involved with the management of the fund as well as their patience during the course of our audit.

Sincerely,

Michael E. Lamb
City Controller

INTRODUCTION

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

SCOPE AND METHODOLOGY

Our procedures were conducted pursuant to the Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter. Our procedures covered the period January 1, 2014, to December 31, 2017.

The objectives of this audit are to determine whether procedures and internal controls relating to the administration of the trust fund are adequate. In order to achieve these objectives, we performed the following procedures:

- Interviewed the personnel from the Department of Parks & Recreation involved with the fund to gain an understanding of the fund's operations, processes, and internal controls.
- Reviewed procedures and related internal controls over the administration of the fund as well as the Internal Revenue Service's (IRS) Publication 990-PF.
- Reviewed procedures for the receipt and deposit of all revenue categories.
- Applied procedures to a sample of expenditures to determine whether they were properly documented and approved.
- Performed variance analysis on expenditures for plausible relationships.
- Summarized revenues by source and expenditures by category for the period of our audit.
- Verified amount and receipt of annual earning withdrawals from the Henry Clay Frick Trust Fund into the Frick Park Trust Fund.
- Conducted meetings with the Department of Parks & Recreation as well as the Office of Management and Budget to gain an understanding of the extent of oversight of the Henry Clay Frick Trust.

BACKGROUND

The Frick Park Trust Fund (FPTF) was established in December of 1926 to account for funds received from the Henry Clay Frick Trust. Funds deposited into the trust fund are utilized by the Department of Parks & Recreation to pay for expenses related to the operation and maintenance of the City's historic Frick Park. Upon his death in 1919, Henry Clay Frick bequeathed to the City of Pittsburgh the original 150 acres that established the present day Frick Park, in addition to \$2 million to provide for its care and maintenance. The park opened in 1927 upon acquisition of an additional 190 acres. Over time, the park expanded from its original acreage as Frick Park trustees made 39 purchases to acquire additional land. Its current footprint stretches from its northern boundary in Point Breeze to its southernmost point at the Monongahela River.

The most noteworthy attribute of Frick Park is the Frick Environmental Center, a nature center funded by the Frick Trust. Originally built in the 1960s as a rustic wooden structure located just inside the park entrance in Squirrel Hill, it was destroyed by fire in 2002. Reconstruction lasted nearly two years, with the center reopening to the public in late 2016 as a \$19 million, 16,000 sq. ft. shared project between the City of Pittsburgh and the Pittsburgh Parks Conservancy (PPC). Since its inception, it has been maintained by a dedicated maintenance staff funded by the original trust bequeathed by Henry Clay Frick.

Prior to 2008, the Henry Clay Frick Trust was treated as a charitable trust subject to Section 8113 of the Pennsylvania Probate, Estates and Fiduciary Code. Currently, the Henry Clay Frick Trust is categorized by the IRS as a Section 4947(a)(1) Trust Treated as a Private Foundation, which requires the annual filing of Form 990-PF. The form is used to determine the tax based on investment income and to report charitable distributions and activities. The 990-PF is required to be filed by the 15th day of the 5th month following the close of the foundation's fiscal year, which is October 1st to September 30th for the trust.

As trustee, BNY Mellon Wealth Management sends correspondence related to the Henry Clay Frick Trust to four separate areas within the City of Pittsburgh, which include the Department of Parks & Recreation (Citiparks), Department of Finance, Office of Management and Budget (OMB), and the Controller's Office. We interviewed staff from OMB and reviewed prior years' documented correspondence between the trustee and the City of Pittsburgh in an effort to better understand the City's oversight of the fund. Additionally, further review was made regarding how the annual payment deposited into the Frick Park Trust Fund is derived.

Citiparks, Department of Finance, OMB, and the Controller's Office receive quarterly earnings statements from the trustee. OMB receives the annual payments along with an attached cover letter. Although, we were provided a copy of the most recent filing of Form 990-PF by OMB during our meeting, we could not confirm if any of the aforementioned departments regularly receive copies of filed Form 990-PF. Furthermore, it was determined that there was no central point of contact within the City that is responsible for the filing and maintenance of BNY Mellon related documentation. We feel that OMB would be best suited to perform this function moving forward.

The Frick Park Trust Fund receives payments from the Henry Clay Frick Trust on an annual basis, typically in late January or early February. OMB initiates the process by requesting the payment from the Henry Clay Frick Trust. Payment is subsequently received in the form of a wire transfer and explanatory cover letter. OMB then forwards the payment to the Department of Finance, who in turn issues a wire transfer request to the Controller's Office for deposit into the Frick Park Trust Fund.

According to OMB, the trustee uses the most recent Form 990-PF to estimate the actual upcoming year's disbursement into the FPTF. Additionally, per the trustee's First Vice President, each year a determination is made, based on the market conditions at the time, as to what a prudent level of "income" should be for the specific type of trust. The trustee uses 5% of the average annual market value, as required under Section 4942 of the IRC, as the definition of income. We tested the actual payments deposited into the FPTF during the years covered in the scope of the audit, yet were not able to reconstruct the exact payments received during the scope of the audit using the methodology given.

Further analysis confirmed that the trustee uses the most recent filing of IRS Form 990-PF as a basis for determining the upcoming year's distribution to the City from the trust. More specifically, the minimum investment return (Part X, line 6 of Form 990-PF) constitutes the baseline, while the adjusted qualifying distribution (Part XII, line 6) establishes the cap. The minimum investment return is derived from 5% of the net value of noncharitable-use assets (Part X, line 5 of Form 990-PF). We tested whether annual distributions received in 2014-2018 fell within the accepted range, which were confirmed. However, we were not able to verify how the specific estimate that fell within the accepted range was derived. Additionally, during our review we verified that payments made from the Henry Clay Frick Trust to the Frick Park Trust Fund matched what was reported on their corresponding Form 990-PF. We advise the City to meet with the trustee to revisit the derivation of annual distributions as well as their role in the oversight of the Henry Clay Frick Trust.

On August of 2013, the City of Pittsburgh's City Council enacted Resolution No. 572 of 2013 (Bill No. 2013-1649), which authorized the Mayor and the Directors of the Departments of Finance, Parks and Recreation, and Public Works to enter into an agreement with the Pittsburgh Parks Conservancy (PPC). Per the Resolution, PPC will make renovations and/or capital improvements to the Frick Environmental Center ("the Center") and undertake natural area restoration in dedicated areas of the Frick Woods Nature Reserve. Additionally, PPC will assist in the operation and maintenance of the Center/Nature Reserve with the provision of the related programs. The actual related contract was executed in December of 2013, and is valid for a period of 15 years.

The Attachment to Bill No. 2013-1649 further outlines terms and conditions. The City agreed to contribute \$5,200,000 for the Construction Project and/or operation of the Center, which was distributed from the Henry Clay Frick Trust to the City for deposit into the FPTF. Analysis confirmed that two separate payments of \$2,600,000 were made from the FPTF to PPC in January and August of 2014. Commencing with the 2014 annual distribution, the City is responsible for providing PPC with 85% of its annual earnings from the Henry Clay Frick Trust. The payment to PPC is intended for the operation and maintenance of the Center for a period of use consistent with the remaining term of the Agreement. Funding is contingent upon the City's prior review and

approval of the PPC's proposed upcoming annual budget for the Center by December 31st of the prior year and submission of the following year's budget. Analysis verified that the required 85% of the annual distributions received from the Henry Clay Frick Trust was paid to PPC during the audit scope, totaling \$2,106,474.

The actual funding process begins with Pittsburgh Parks Conservancy submitting a letter to the Director of the Department of Parks and Recreation at the start of each year. The letter serves several purposes, including serving as a formal request for the payment of 85% of the Frick Trust earnings, as well as documenting both the prior year's actual and budgeted finances, in addition to the current year's budgeted finances. The extent of oversight by Citiparks of the 85% payment consists of the review and approval of PPC's proposed upcoming annual budget for the Center. We feel there are opportunities for additional oversight regarding verification of actual spending.

The 15% of the annual earnings payment from the Henry Clay Frick Trust is used for the maintenance of the remainder of Frick Park that is not maintained and operated by PPC. The authorization of expenditures is always done via approval from two separate individuals within the Department of Parks and Recreation. Citiparks utilizes the Department of Public Works for maintenance of the City's Five Regional Parks, which includes Frick Park. Therefore, any invoices that Public Works generates for the related maintenance of Frick Park is sent to Citipark's Administrative Office for payment. Additional funding for the maintenance of Frick Park is provided by the Department of Parks and Recreation's Allegheny Regional Asset District Trust Fund (ARADTF-Parks).

A total of \$3,312,455 was deposited into the trust fund during the period of our audit, January 1, 2014 through December 31, 2017 as detailed below:

<i>Fund Source</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
Henry Clay Frick Trust	\$834,250	\$835,350	\$842,189	\$800,666	\$3,312,455*

A total of \$8,197,393 was paid out of the trust fund to cover eligible expenses for the same period as detailed below:

<i>Category</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
Construction-Maintenance	\$5,200,000	\$1,556,910	\$715,860	\$686,776	\$8,159,546
Property	-	-	-	18,189	18,189
Supplies	-	-	-	19,658	19,658
Total:	\$5,200,000	\$1,556,910	\$715,860	\$724,623	\$8,197,393*

***: Difference due to \$5.2 million payment to PPC for FEC, which was accumulated prior to the audit scope.**

FINDINGS AND RECOMMENDATIONS

Finding #1: Lack of Support for Reimbursed Expenses

Our procedures disclosed inadequate recordkeeping practices that resulted in a lack of support for reimbursed expenses. Citiparks does not maintain adequate records to support all of the transactions being reimbursed from the Frick Park Trust Fund. Although there was no evidence of misappropriation based on the procedures performed, the nature of records maintained to support the transactions indicated that it could occur and not be detected timely.

No Support Provided

Support was not provided for the total amount of expenses reimbursed from the FPTF. During our review of expenditures, we noted a transfer out of the FPTF to the ARADTF-Parks on February of 2015 for the amount of \$823,810. The ARADTF-Parks is permitted to be used for expenses related to the City's Five Regional Parks, which includes Frick Park. Therefore, we asked Citiparks for supporting documentation for the reimbursed expenses from ARADTF. We were provided internal documentation, which included a summary of expenditure accounts with corresponding totals for the ARADTF. More specifically, in 2013, 257 transactions were posted in 19 different expenditure categories within the ARADTF-Parks totaling \$406,866. In 2014, 147 transactions were posted in 17 different expenditure categories within the ARADTF-Parks totaling \$414,942.

We tested to see whether the provided supporting documentation for the reimbursed expenditures (over 2013-2014) equaled the amount that was reimbursed in 2015. It was determined that supporting documentation totaled \$821,808, which resulted in a difference of \$2,002. We provided an opportunity for Citiparks to provide additional support, which was not provided. As a result of our testing, the ARADTF-Parks was over reimbursed by the FPTF for the amount of \$2,002. Citiparks' practice of reimbursing expenditures spent from another trust fund over a two year span can be problematic. While we do not advise for this type reimbursement, we do acknowledge that it is permissible as long as there is sufficient support provided for the expenditures, which are in line with their Resolutions' outlined allowable usage of funds.

Support Provided was Insufficient

Documentation provided was insufficient to support allowable usage of funds for the FPTF. We further tested the \$821,808 in expenditures to determine if they were used for the maintenance of Frick Park. We randomly selected a sample for testing, which amounted to \$362,530 or 44% of the original population of \$821,808. Furthermore, our testing consisted of the following three attributes: trace and agree to supporting documentation, expenditures were used for allowable purposes, and expenditure was approved and approval was properly documented. Our testing resulted in exceptions/failures to tested attributes.

It was determined that five exceptions were found for the attribute that tests for allowable usage of funds, which totaled \$5,328. More specifically, \$2,500 of the \$5,328 clearly listed that

expenditures were for City Parks other than Frick Park (i.e. Riverview, Schenley, and Troy Hill). Conversely, \$2,828 of the \$5,328 could not be traced back to Frick Park. We provided Citiparks with an opportunity to provide supporting documentation for the \$2,828 (as the \$2,500 was clearly for parks other than Frick Park), which was not provided. As a result of testing, Citiparks reimbursed expenditures spent from ARADTF-Parks with funds from the FPTF, which were not allowable under the Resolution that established the FPTF. Citiparks' inadequate recordkeeping practices demonstrated a weakness in internal controls that led to an unallowable reimbursement of \$5,328.

Recommendation:

Limit the amount of reimbursements made from trust fund to trust fund within reason. Strengthen existing recordkeeping practices and oversight by creating a two-step verification process for the review of permissible usage of funds prior to reimbursement from FPTF. Additionally, maintain and provide supporting documentation as part of departmental invoices (DIs) that are kept on file internally as well as DIs sent to the Controller's Office that clearly notate originally intended usage of funds.



CITIPARKS

City of Pittsburgh
Department of Parks & Recreation

William Peduto, Mayor
Ross Chapman, Director

Mr. Michael E. Lamb
City of Pittsburgh
Office of the City Controller
414 Grant Street
Pittsburgh, PA 15219

September 18, 2018

Controller Lamb:

Please find attached the preliminary response to your office from the Department of Parks and Recreation, specific to the review of the department's Frick Park Trust Fund, for the review period of January 1, 2014 through December 31, 2017. The Department of Parks and Recreation have worked diligently towards ensuring accurate and transparent fiscal management practices to ensure the ongoing support of Frick Park made possible by the trust fund.

We appreciate your efforts in preparing this report and the procedures and processes that were implemented by the audit team. The Department of Parks and Recreation is committed to carefully consider all of your audit team's recommendations and findings. While your audit found areas upon which Citiparks could improve some of its internal processes, we are pleased to discover that no evidence of misappropriation was found.

We look forward to further communicating with your office as we move forward. This letter and subsequent document serves as our final report regarding our plan to implement any necessary solutions that may be required to address the recommendations and findings resultant from your audit.

Please contact me should you have any questions or concerns regarding the responses provided.

Sincerely,

Ross Chapman
Director

Cc: Mayor William Peduto
Chief of Staff, Dan Gilman
City of Pittsburgh Council Members
Director of Finance, Margaret Lanier
Chief of Operations, Guy Costa



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CITIPARKS

City of Pittsburgh
Department of Parks & Recreation

William Peduto, Mayor
Ross Chapman, Director

Department of Parks and Recreation Response to Fiscal Audit of the Frick Park Trust Fund

Finding #1: Lack of Support for Reimbursed Expenses

The Department of Parks and Recreation has the responsibility to fiscally manage the Frick Park Trust Fund, while a portion of these funds are also shared with the Department of Public Works (DPW) for expenses specific to Frick Park. Invoices are paid by the Department of Parks and Recreation on the behalf of the Department of Public Works for expenses related to Frick Park from the yearly transfer of funds from the BNY Wealth Management Account. The invoices specific to Frick Park expenditures that the Department of Public Works incurs, are signed for approval to pay by the DPW Manager for Frick Park.

During this audit, the auditors used a test to identify payments they designated for Frick Park exclusively. The testing involved reviewed the process by which an invoice contained the word Frick and/or Frick Park, written on the physical invoice, and/or if the City's accounting system, JD Edwards, had Frick notated on the departmental invoice (DI) contained within. In some cases only the DPW Manager's signature appeared on the invoice, providing the necessary approval. This statistically small number of the invoices were not clearly marked as a Frick Park expenditure, having not contained the written word "Frick." However, it is known and accepted that both the Department of Parks and Recreation and the Department of Public Works, recognize that all relevant payments are specific to Frick Park based on the required signature authorizing the reimbursement of expenditures.

In response to the findings and recommendations of this audit, the Department of Parks and Recreation will clearly identify each expenditure and/or reimbursement as well as any relating invoices or supporting documentation as "Frick Park." Additionally, we will implement, as a standard practice, a methodology to properly notate this within the JDE system, including as much text and relevant information as is allowed in the Order Attachment data field of that system.

As recommended, and to address the cited weakness in internal controls, the Department of Parks and Recreation will provide additional clarity on all related materials to avoid any misinterpretation or confusion that could result from invoices which may have previously only contained an approver's signature. To further assist with sound recordkeeping practices and procedures, the Department, now more appropriately staffed, will maintain a two-step verification process to insure all permissible usage of Frick Park Trust Fund fiscal monies and related activities are maintained and managed in accordance with all of the audits findings and recommendations.



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