TO: The Honorable Chairman and Members of the Board of County Commissioners

FROM: Ken Burke, CPA
Clerk of the Circuit Court
Ex Officio County Auditor

SUBJECT: Audit of EpiCenter Interlocal Agreement

DATE: May 11, 2011

For your review and filing in the Official Records, I am enclosing a copy of the report dated May 11, 2011 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Jim Bennett, County Attorney
Mark Woodard, Chief Assistant County Administrator
David J. DelMonte, Manager, Real Estate Management
Mike Meidel, Director, Economic Development
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young
AUDIT OF THE
EPICENTER
INTERLOCAL AGREEMENT

Audit Services
Division of Inspector General

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May 11, 2011
REPORT NO. 2011-07

*Regulated by the State of Florida
**Accredited Office of Inspector General
By the Commission of Florida Law Enforcement Accreditation
May 11, 2011

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted an audit of the EpiCenter Interlocal Agreement. Our audit objectives were to:

- Evaluate compliance with the provisions of the Interlocal Agreement.
- Determine if Pinellas County is efficiently using all its assigned space.
- Determine if Pinellas County is reimbursing St. Petersburg College according to the provisions of the lease agreement.
- Determine if WorkNet Pinellas is adhering to the provisions of the sublease agreement with the County.

County departments occupying the EpiCenter are in compliance with the EpiCenter Interlocal Agreement. The County is following the Lease agreement provisions on reimbursing the College. WorkNet Pinellas is paying the correct lease amount to the College for the leased space. The County is efficiently using the assigned meeting/work room areas.

The 2003 Agreement requires the County reimburse the College for 50% of the shared space that includes both "meeting/work room" areas and "standard facility space" (food service, lobby, atrium, passageways, break and rest rooms, and utility areas). Applying the shared space allocation to the "standard facility space" segment as a percent of occupied leased space would be a sounder policy and cost savings to the County of $79,000.

An opportunity for improvement is presented in this report.

We appreciate the cooperation shown by Pinellas County and St. Petersburg College staff during the course of this review. We commend management for their responses to our recommendations.

Respectfully submitted,

Hector Collazo, Jr., Director
Audit Services, Division of Inspector General

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor
*Regulated by the State of Florida
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INTRODUCTION

Synopsis

Pinellas County (County) and St. Petersburg College (College) are complying with the provisions of the EpiCenter Interlocal Agreement. However, the County should re-evaluate the provisions of the EpiCenter Interlocal Agreement shared space allocation and possibly renegotiate the terms decreasing its shared space allocation. The 2003 Agreement stated that the shared space cost would be allocated equally between the County and College. The allocation method was based on the business assumption that the meeting/workroom areas would be jointly used by the County and the College. However, the EpiCenter buildings’ shared space area consists of 24% “meeting/work rooms” and 76% “standard facility space.” Allocating 50% of the “standard facility space” segment of the building shared space is not appropriate.

Background

EpiCenter
at ST. PETERSBURG COLLEGE

Audit Services, Division of Inspector General
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The EpiCenter is a joint-use facility between St. Petersburg College and Pinellas County. On October 30, 2003, the County signed an operations agreement with the Board of Trustees of the St. Petersburg College. The County and the College agreed to develop the EpiCenter, a technology and business development center. Simultaneously, both institutions entered into an Interlocal Agreement in which the County contributed $8,000,000 and agreed to plan, design, construct, furnish, and equip the EpiCenter with the College. In exchange, the County would lease a proportionate share of space at the state mandated standard lease rate adjusted annually.

The EpiCenter began operations in November of 2007. The facility provides over 171,000 square feet of modern space for classrooms, labs, office spaces, and conference rooms. The EpiCenter hosts the St. Petersburg College Corporate Training Center, which offers classes in professional development, technology and business solutions. In addition, the College of Technology and Management offers classes at this location.

The County’s Convention and Visitors Bureau and Economic Development have their offices there and WorkNet Pinellas subleases office space from the County. The County’s proportionate share of the space totals 47,694 square feet. In Fiscal Year 2009/10, the County paid the State mandated lease rate of $8.525 per square foot. The total annual payment to the College for the County-occupied 30,355 square feet of space is $258,776. WorkNet Pinellas subleases from the County a total of 17,339 square feet of space and pays $147,815 directly to the College.
Scope and Methodology

We have conducted an audit of the Pinellas County participation in the joint operation of the EpiCenter with St. Petersburg College. Our scope covered compliance with the Interlocal Agreement, adequacy of internal controls and a review of the related maintenance and personnel expenses paid by the County.

To meet the objective of the audit, we obtained the Interlocal Lease Agreement executed by the Pinellas County and St. Petersburg College operations of the EpiCenter, a joint-use facility. We interviewed both County and College management to obtain a clear understanding of the processes and procedures of the joint operation. We tested for compliance with the lease provisions and the Interlocal Agreement. We performed such other audit procedures that we considered necessary in the circumstances.

The objectives of the audit were to:

- Evaluate compliance with the provisions of the Interlocal Agreement.
- Determine if Pinellas County is efficiently using all its assigned space.
- Determine if Pinellas County is reimbursing St. Petersburg College according to the provisions of the Lease agreement.
- Determine if WorkNet Pinellas is adhering to the provisions of the subleased agreement with Pinellas County.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Standards for Offices of Inspector General, and accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. The audit period was October 1, 2009 to July 31, 2010. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Pinellas County departments occupying the EpiCenter are in compliance with the EpiCenter Interlocal Agreement. The County is following the Lease agreement provisions on reimbursing the College. WorkNet Pinellas is paying the correct lease amount to St. Petersburg College for the leased space. The County is efficiently using the assigned office space.

The 2003 Agreement requires the County reimburse the College for 50% of the shared space that includes both "meeting/work room" areas and the "standard facility space" (food service, lobby, atrium, passageways, break and rest rooms, and utility areas). Applying the shared space allocation to the "standard facility space" segment as a percent of occupied leased space would be a sounder policy and cost savings to the County of $79,000.
OPPORTUNITY FOR IMPROVEMENT

Our audit disclosed certain practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunity for improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

**Pinellas County May Be Overpaying $79,000 Per Year For The Shared Space At The EpiCenter.**

In 2003, the County signed an Interlocal Agreement (Agreement) with St. Petersburg College (College) to lease space at the EpiCenter. According to the Agreement, 29,367 square feet, 22% of the available office and storage space, was allotted to the County with the remaining 106,275 square feet, 78% of the remaining office and storage space, allotted to the College. According to the Agreement, 35,831 square feet of shared space consisting of “meeting/work rooms” and “standard facility space” was divided equally between both organizations. Consequently, the County agreed to pay for 50% of the shared space, but uses only 22% of the EpiCenter’s allotted office and storage space.

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**The Total Space Occupied by St. Petersburg College and Pinellas County at the EpiCenter**

- **Total Space Occupied By Pinellas County Departments (22%)**
- **Total Space Occupied by the College (78%)**

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Economic Development Management stated that the sharing of the common space was based on the joint projects objective to provide Pinellas County residents a facility to meet and promote the development of businesses in the area with the support of St. Petersburg College.

County Real Estate Management stated that it is customary in the business of leasing space to assign area equal to 12-14% of rented space as the shared space (i.e., for each 1,000 square feet rented, the assigned shared space should be between 120-140 square feet). However, Management does not consider the EpiCenter a standard office building since the design was for a "One Stop Shop for Business Development," thus shared space may be affected. Our calculation noted that the County has been assigned area equal to 69% of their total useable rented space as building shared space.

Consideration should be given that some of the shared space includes meeting/workrooms, which various BCC and County departments use extensively (per County management). Consequently, it would be understandable for the County to pay 50% for 8,426 square feet of the shared “meeting/work rooms” space. However, paying for 50% of the remaining 27,405 square feet (“standard facility space”), which includes the food service, lobby, atrium, passageways, break and rest rooms, and utility areas, is excessive considering the College occupies 78% of building.

Taking into account the scenario in which the County pays for 50% of shared “meeting/work rooms” space and 22% of the remaining common shared space (“standard facility space”), the County should be paying $87,314 annually for the shared space. Instead, the County is currently paying $166,655 and may possibly be overpaying $79,341 annually for the excessive shared space assigned.

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<th>SHARED SPACE COSTS</th>
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<td>Estimated annual cost of the shared space (County)</td>
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During the review of the EpiCenter documentation, we noticed a discrepancy in the total space assigned to the County. The original 2003 EpiCenter Interlocal Agreement assigns 47,283 square feet of space to the County. However, the most recent calculation of the EpiCenter operational costs to the County is based on 47,694 square feet of space. The shared space calculation changed from the 2003 number of 35,831 square feet to 39,098 square feet. Economic Development Management stated that the 2003 Agreement square footage was pre-construction projection and the current calculations are more accurate. The diagram on the next page displays the space usage of the EpiCenter building.

Based on the current lease agreements, the County annually pays $166,655 ($8.525 per square foot per year) for 19,549 square feet of assigned shared space that represents 41% of the total lease payment of $406,591 paid by County functions.
We recommend County management:

A. Assure that Pinellas County's current shared space allocation at the EpiCenter is accurate.

B. At the next renewal of the Agreement, amend the square footage to reflect the accurate measurements of the leased space and shared space for the EpiCenter.

C. Evaluate the current shared space allocation for reasonableness. If feasible, renegotiate the Agreement with St. Petersburg College to decrease the percentage of the "standard facility" shared space Pinellas County is allocated under the leases.

Management Response:

The Economic Development Department will review items A and B with the Real Estate Department and County Administration. Recommendation C calls for the County to re-evaluate the current shared space allocation for reasonableness, and potentially renegotiate this provision to decrease the County's portion. The shared spaces include the conference rooms, meeting rooms and workrooms. These are used extensively by all County departments, not just those located at the Epicenter. Other shared spaces include the mechanical rooms where our servers and telecommunications equipment is stored. The bathrooms and food service areas are used regularly by our employees and clients, and the College maintains these facilities to high business standards. The lobby, atrium, and hallways constitute a significant portion of the shared space, but this expansive design was reviewed and approved by the County during the initial negotiations with the College.

The County was fully aware that the Epicenter project was not a typical lease of space. This was a first-of-its-kind concept to provide a unique center of collaboration open to the public and private sectors to promote the economic growth of the County. The equal distribution of the shared space cost was agreed to in full understanding that the College would be the majority user of the non-shared space. This was just one element of the total negotiated set of program costs and benefits. All space allocations and shared costs were clearly delineated by line item in the executed agreement.

Finally, it should be noted that there is technically no true "renewal of the Agreement." The Interlocal Agreement "shall perpetually continue in full force and effect unless jointly terminated in writing by the parties hereto," while the Operations Agreement "shall continue in full force and effect for the duration of the occupancy by both of the parties." However, the Operations Agreement does provide that it "may be amended upon mutual agreement and by official action of the Pinellas County Board of County Commissioners and the St. Petersburg College Board of Trustees."
The College has been a good corporate partner and building owner. They respond quickly to partner requests and the building is maintained in a good and safe condition as required in the agreement.

We plan no major changes to the day to day management of the agreement based on positive findings of the Audit Report. The Economic Development Department will review the three audit recommendations and our responses with County Administration to determine further action.
DIVISION OF INSPECTOR GENERAL

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