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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 28, 2017

Mr. John Degnan
Chairman
Port Authority of New York and New Jersey
4 World Trade Center
New York, NY 10038

Re: Real Property Dispositions
Report 2015-S-73

Dear Mr. Degnan:

Pursuant to the State Comptroller's authority as set forth in Section 7071 of McKinney's Unconsolidated Laws of New York, we audited the policies and procedures used by the Port Authority of New York and New Jersey to identify and dispose of real property. The audit covered the period January 1, 2013 to March 29, 2016.

Background

The Port Authority of New York and New Jersey (Port Authority) was established in 1921 with a wide-ranging mission that includes the administration and coordination of terminals and other transportation and shipping facilities located within the port district of New York and New Jersey. The Port Authority's real estate portfolio consists of over 12,000 acres of land and 45 million square feet of office, industrial, retail, and technical space. Other than the major transportation facilities (airports, rail lines, bus terminals, bridges, and tunnels), Port Authority holdings in New York include the Bathgate Industrial Park in the Bronx, the Teleport in Staten Island, the Queens West Development, and the World Trade Center.

According to the Port Authority's 2014 Annual Report, its mission is to "Meet the critical transportation infrastructure needs of the bistate region's people, businesses and visitors by providing the highest-quality and most-efficient transportation and port commerce facilities and services to move people and goods within the region, provide access to the nation and the world, and promote the region's economic development."

The Port Authority has five departments that reflect its major business segments, including:

- Port Commerce - which operates the Port of New York and New Jersey, the third largest container port facility by volume in the United States.

- Aviation - which manages five airport facilities within the region that serve as vital gateways to the world. These facilities provide a global connection for passengers and cargo.
- The World Trade Center (WTC) - whose core functions encompass the design and construction of the various capital projects at the WTC site (including coordination with private developers and governmental entities), property management of the WTC campus (including security functions), management of sitewide operations, management of joint venture business agreements, and financial functions (including capital and operating forecasting and accounts management).
- The Port Authority Trans-Hudson (PATH) - which operates and maintains a rapid transit railroad serving Newark, Harrison, Hoboken, and Jersey City in metropolitan northern New Jersey and Manhattan in New York City. The PATH operates 24 hours daily.
- Tunnels, Bridges and Terminals - which manages and maintains six interstate vehicular crossings and two interstate bus terminals that are the foundation of the transportation network that supports the economic engine of the New York and New Jersey region.

Annually, each department submits business plans that identify department-wide strategies and initiatives, both operating and capital, that reflect overarching agency goals and take into account the planning context and priorities identified by the Executive Director. Similarly, staff departments which support the agency's major lines of business submit work plans that identify the ways in which these departments will help businesses achieve agency-wide goals given the pre-established regional planning context.

Results of Audit

Port Authority officials indicated that they follow Administrative Instruction 25-3.02 (AI), an internal procedure that governs the disposition of real property. However, our examination revealed that the AI is obsolete. The AI was last updated on October 2, 1990, and its procedures are no longer consistently followed. In some cases, the AI does not reflect the Port Authority's current policies for administering property disposals. We interviewed Port Authority officials about the AI and found that officials from the Real Estate, Port Commerce, and Law Departments (who were subject to certain AI provisions for real property matters) were unfamiliar with it. In fact, several officials were unaware of its existence. Moreover, the AI requires the Office of Real Estate Instruction and Analysis (OREIA) to periodically review the Port Authority's holdings to identify underutilized property and to ensure compliance with the requirement. However, the OREIA no longer exists. Port Authority officials advised us that the Real Estate Service Department (RESA) assumed the functions of the OREIA; however, officials provided little evidence that RESA has formally conducted periodic reviews of Port Authority holdings, as otherwise required.

To assess compliance with the required real estate disposition procedures identified by the Port Authority, we examined the records of the seven Port Authority property dispositions during the audit period (see Exhibit A). The value of the dispositions ranged from \$650,000 to \$42 million for five properties. (Note: One disposition was an exchange of properties without assigned values and the remaining property transaction was not finalized at the time of our review.) We found that the Port Authority was not in compliance with one or more provisions of the AI for all seven properties (see Exhibit B for details of the seven properties' non-compliance

with the AI's ten primary administrative requirements). The degree of non-compliance with the AI varied from property to property. For example, for "Block 734, Lots 18 and 30" (in the Hudson Yards District in Manhattan), three required provisions were not followed, including advising the affected municipalities, community organizations, and government agencies of the disposal. This particular requirement was not followed for six of the seven properties reviewed.

Further, for the Newark Legal and Communications Center (NLCC), the Port Authority did not comply with six provisions, including "requiring that the Port Authority recommend and obtain a consensus on the method of disposition." This requirement was not followed for four of the seven properties reviewed. Additionally, for three of the seven properties, the disposition did not comply with the requirement that the Management and Budget Department ensure that the affected line department is appropriately credited for the proceeds of the disposition.

In response to our preliminary findings, Port Authority officials indicated that the proceeds from the sales of capital assets are generally deposited in the capital fund and used to fund future capital investments at any Port Authority facility. However, the Port Authority's response demonstrates the need for updated policies and procedures, as this "policy" conflicts with the current AI that governs property disposition (requiring the affected line department to be credited with the proceeds of the disposition). Port Authority officials also stated that they comply with Section F of the AI, which requires officials to advise the affected municipalities, community organizations, and government agencies of the pending disposal. However, documentation provided did not support the Port Authority's position. For instance, for the Bayonne Bridge disposition, the Port Authority provided us with a copy of a hearing notice (dated July 8, 2013) published in the *New York City Record*. The notice mentions the Bayonne Bridge and the Goethals Bridge; however, the lots discussed in the July 8, 2013 Notice of Public Hearing are not the same parcels that were declared as surplus by the Board and that we reviewed. Further, subsequently in this report, we detail the lease/sale of the NLCC, which did not comply with the requirement to advise affected municipalities, community organizations, and government agencies.

The Port Authority currently manages a real estate portfolio of more than 12,000 acres of land and 45 million square feet of office, industrial, and retail space, but relies on procedures that are obsolete and often not followed. The lack of current procedures and compliance with prescribed procedures for real estate disposition is of particular concern in light of the magnitude of the Port Authority's portfolio. Additionally, in its December 26, 2014 report, the Special Panel on the Future of the Port Authority (Special Panel) recommended that the Port Authority phase out real estate ownership and development as an element of the Port Authority's mission and restrict future real estate investments.

Without adequate procedures, the Port Authority cannot ensure that: future dispositions will be performed consistently and meet organizational needs; pertinent information and data (including a complete inventory, with descriptions of current use, of all real property owned by each line department) will be captured and communicated; and dispositions (through bid, negotiation, public auction, or other means) fully comply with agency policy and applicable laws and regulations. Moreover, transparency and accountability have been recognized as key attributes to promote integrity and prevent corruption in government. However, using an

inadequately defined and inconsistent process to dispose of millions of dollars of public properties could subject such transactions to risk of impropriety.

Newark Legal and Communications Center Agreement

The Port Authority entered into a restructured lease and sale agreement on November 14, 2014 to sell the NLCC to the current tenant (Matrix), which had the right of first proposal. (Note: Under the lease, the right of first proposal required the Port Authority to propose selling to the tenant prior to offering to a third party.) The Special Panel's report (from December 2014) indicated that the Port Authority's cumulative capital investment in NLCC was \$97.3 million. The Port Authority obtained appraisals from two firms: Cushman & Wakefield, and Navigant. Cushman & Wakefield valued the property at between \$42 and \$45 million. Navigant appraised the property at between \$36 and \$43 million.

The Port Authority relinquished the property through a lease purchase agreement for \$42 million, wherein \$33.6 million was paid upfront (when the agreement was finalized), and the remaining \$8.4 million will be paid on or before 2030, at 4 percent interest compounded annually. However, the transfer of the NLCC's title will not occur until after the expiration of existing Payment-in-Lieu-of-Taxes (PILOT) agreements. Under the terms of the restructured lease, for the lease period (of slightly more than 16 years), the tenant/buyer will not pay rent to the Port Authority. In contrast, under the prior lease, the annual rent was about \$2.08 million, with a provision for a periodic increase every five years.

A PILOT agreement helps to compensate a local government for the tax revenue forgone due to a property's tax-exempt status. The Port Authority has a PILOT agreement with the City of Newark for the NLCC. By maintaining title to the NLCC, the Port Authority enabled the tenant/buyer to pay the PILOT amount (instead of real estate taxes) for the period of nearly 16 years (from November 2014 through December 2030). Based on information provided by the Newark Tax Assessor, the property's PILOT (as of July 2013) was approximately \$1 million annually. However, for the latest tax year (2016), based on the assessed value of the NLCC building, property taxes would have been about \$2.1 million. Thus, for this year alone, the tenant/buyer saved about \$1.1 million by paying the PILOT instead of the property taxes. Throughout the life of the agreement, this could result in savings of about \$17 million. Moreover, although required under the current AI, the Port Authority did not advise the affected municipalities, community organizations, and government agencies of this lease purchase arrangement. Port Authority officials asserted that such advice was not required because the transfer of the NLCC's title will not occur until the beginning of 2031.

The AI requires the Port Authority to advise any municipalities affected by the disposition of agency property. Such disposition would include the sale, lease, or other conveyance of property. Port Authority officials should have complied with the AI by formally advising Newark and other affected officials of the transaction prior to finalizing the contract. Because Newark and other officials were not advised of the agreement prior to its finalization, there was a lack of transparency, which limited the ability of such officials to ensure that the interests of their constituents were adequately considered and protected.

Recommendations

1. Formally review and update the policies and procedures for periodically reviewing real property and identifying unneeded real property holdings and disposing of them in a timely manner. Disseminate the policies and procedures to all applicable departments and personnel.
2. Periodically review the policies and procedures for identifying unneeded real property holdings and disposing of them to ensure they are kept current.
3. Develop and implement formal quality control processes to ensure that there is full compliance with policies and procedures for identifying unneeded real property holdings and disposing of them.

Audit Scope, Objectives, and Methodology

The audit objectives were to determine whether the Port Authority: evaluated properties that are not essential to its core mission, as required, and took appropriate action; and followed prescribed procedures to help ensure it received appropriate payment amounts from sales of real property. The audit covered the period January 1, 2013, through March 29, 2016.

To accomplish our objectives, we met with Port Authority officials to gain an understanding of their internal controls related to real property disposals. We reviewed property disposal procedures, deeds, appraisals, proceeds of sale, contracts of sale, and Board of Commissioners minutes and Board items as related to property disposal authorization. We also visited County Clerk offices to corroborate property sales made by the Port Authority subsidiaries.

We conducted our performance audit in accordance with generally accepted government auditing standards. 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.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

A draft copy of this report was provided to Port Authority officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of it. Port Authority officials agreed to update policies and procedures related to the disposal of real property. However, they disagreed with the report regarding non-compliance with key controls. Our rejoinders to certain Port Authority comments are included in the State Comptroller's Comments.

Within 90 days after the final release of this report, we request that the Chairman of the Port Authority of New York and New Jersey report to the State Comptroller advising what steps were taken to implement the recommendations contained herein, and where the recommendations were not implemented, the reasons why.

Major contributors to this report include Abe Fish, Christine Chu, Orin Ninvalle, Jean-Renel Estime, and Adam Pischel.

We wish to thank the management and staff of the Port Authority of New York and New Jersey for the courtesies and cooperation extended to our staff during this audit.

Very truly yours,

Carmen Maldonado
Audit Director

cc: P. Foye, Executive Director, Port Authority
A. Levine, Port Authority
NYS Division of the Budget

Exhibit A

Property	Description
Property 1: Governors Island	The Trust for Governors Island (Trust) desired to bring potable water from the New York City water system to Governors Island. To accomplish this, the Trust approached the Port Authority to acquire an underground portion of real property (parcel) and an access easement for maintenance purposes at the Brooklyn Port Authority Marine Terminal to construct the tunnel. Both the Port Authority and the Trust obtained independent appraisals of the value of the parcel and access easement.
Property 2: Block 734, Lots 18 and 30	The Port Authority owns Block 734, Lots 18 and 30 in the Hudson Yards District. The Port Authority determined that the potential for development of this property is impaired by existing roadway use. A developer owns the adjacent lots, which it plans to develop, and wants to purchase the Port Authority’s development rights to these lots to accommodate additional development on its property.
Property 3: Block 731, Lot 22 and Lot 72 (RFP36900)	The Port Authority sought proposals from qualified parties for the purchase of land and development rights associated with two lots at Dyer Avenue between 33 rd and 34 th streets in Manhattan.
Property 4: Bayonne Bridge	The Port Authority Board of Commissioners Board Item dated December 4, 2013 proposed declaring as surplus certain parcels adjacent to the Bayonne Bridge, and transferring these parcels to New York City in exchange for aerial easement over the property.
Property 5: Newark Legal and Communications Center	The Port Authority entered into a restructured lease and sale agreement on November 14, 2014 to sell its Newark Legal and Communications Center to the current lessee, which had the right of first proposal. The right of first proposal required the Port Authority to propose to sell to the tenant prior to offering to a third party.
Property 6: Journal Square Technology Center	In May 2013, the Port Authority agreed to grant a light and air easement on property it owns in Jersey City, New Jersey to a developer owning adjacent property in exchange for a payment of \$2.6 million. This allowed the developer to construct a residential building on its property.
Property 7: Block 728, Lot 50	The Port Authority retained an appraiser to determine the value of its property on Block 728 in Manhattan. The Port Authority then sold a small portion of this property to the owner of an adjacent property.

Exhibit B

Administrative Instruction Section	Property						
	Property 1: Governors Island	Property 2: Block 734, Lots 18 and 30	Property 3: Block 731, Lot 22 and Lot 72	Property 4: Bayonne Bridge	Property 5: NLCC	Property 6: JSTC	Property 7: Block 728, Lot 50 (formerly Lot 1)
Section III requires that the Port Authority Law Department be consulted in all cases of disposition of land and improvements.			N				
Section IV A.1 provides that OREIA is responsible for periodically reviewing the real estate holdings of the Port, in conjunction with the line departments.	N	N	N	N	N	N	N
Section IV A.2 provides that the line departments are responsible for determining whether any real property and/or development rights are required for operational purposes.			N	N			
Section IV A.3 provides that key executive staff such as the Assistant Executive Director/Instruction Planning and Business Development, the Chief Financial Officer, the Director, World Trade and Economic Development, and the appropriate affected line Director determine if the potential disposition/development warrants further review.				N	N	N	
Section V.A.1 requires the Port Authority identify limitations on use which the affected or other departments may wish to impose on the disposition.			N	N	N		N
Section V.A.2 requires the Port Authority to administer the procedure for determining value.			N				

Administrative Instruction Section	Property 1: Governors Island	Property 2: Block 734, Lots 18 and 30	Property 3: Block 731, Lot 22 and Lot 72	Property 4: Bayonne Bridge	Property 5: NLCC	Property 6: JSTC	Property 7: Block 728, Lot 50 (formerly Lot 1)
Section V.A.3 requires the Port Authority recommend and obtain a consensus on the method of disposition.			N		N	N	N
Section V.B.2 requires the Law Department, in consultation with the Engineering Department, to address any environmental issues that arise in connection with the disposition.		N					
Section V.E requires the Management and Budget Department to ensure that the line department is appropriately credited for the proceeds of the disposition.	N				N	N	
Section V.F requires the Government and Community Affairs Department to advise the affected municipalities, community organizations, and government agencies.	N	N		N	N	N	N
Totals	3	3	6	5	6	5	4

N = Non-compliance.

Agency Comments

THE PORT AUTHORITY OF NY & NJ

Michael G. Massiah
Chief Capital Planning
Execution & Asset Management

June 22, 2017

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Re: Real Property Dispositions, Report 2015-S-73

Dear Ms. Maldonado,

The Port Authority of New York and New Jersey (the "PA") is in receipt of your draft report dated May 22, 2017 addressed to Mr. John Degnan, Chairman of the PA regarding the above-referenced audit.

Thank you for this opportunity to respond to your draft report related to the PA's disposition of real properties.

Over the last several years, the PA has focused on divesting and monetizing non-core real estate in a prudent manner that maximizes proceeds available to support the agency's core transportation mission. Towards that end, the agency has successfully monetized \$1.5 billion in non-core real estate holdings over the last five years including the retail space at the World Trade Center, Newark Legal Center, Midtown Manhattan land, and certain parcels at the Teleport on Staten Island. In each instance, the PA received fair market value and followed an appropriate process to ensure transparency and proper governance, including Law Department review, and consideration of and approval by the Agency's Board of Commissioners.

The draft report found that the PA's Administrative Instruction, AI 25-3.02 (AI) "*Disposition of Real Property*" is obsolete. The PA acknowledges that the AI, in its current form does not in all circumstances reflect current PA internal policy and organizational structure as it relates to the disposition of real properties and agrees that it should be updated. To that end, the PA has assigned a team of PA staff to update the AI to reflect current policy and organizational structure, while

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*See State Comptroller's Comments, page 14.

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maintaining the overall intent of the current AI, which is to ensure the highest and best use of PA public assets. With the exception of your observations as they relate to the disposition of the Newark Legal and Communications Center, which are addressed below, the remaining observations summarized on Exhibit B of your report result from the AI's obsolescence. Although in certain instances the PA was not able to provide your audit team with all of the documentation necessary to demonstrate compliance with the obsolete AI, the PA did provide significant documentation of compliance with many provisions of the AI and for every transaction cited, the PA did follow an appropriate process to ensure transparency and proper governance. Each transaction was done in accordance with the PA's current board authorization process and in all instances the PA received fair market value for each of the disposed properties. This process ensures that all affected departments review and comment on the transactions.

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Further, we would like to take this opportunity to clarify or correct certain inaccuracies contained in the draft report.

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We disagree with your statement relative to the Bayonne Bridge disposition that the hearing notice dated July 8, 2013 was for a property related to another bridge. The July 8, 2013 hearing notice provided to your team included information about two public hearing notices: one for the Goethals Bridge and the other for the Bayonne Bridge.

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We disagree with your statement that for Property 3 the PA did not comply with AI Section III, which provides "The Law Department is consulted in all cases of disposition of land and improvements thereon whether constructed by the PA or others and whether situated on lands owned by or leased to the PA". As we previously advised and documented, in each disposition the PA Law Department had an integral role and no disposition was executed without PA Law signing off. With respect to Property 3, we provided to you on June 7, 2016 and August 8, 2016 and October 25, 2016 documentation demonstrating the Law Department's involvement.

We disagree with your statement that all seven properties are in non-compliance with AI Section IV A.1, which provides "The Office of Real Estate Instruction and Analysis in conjunction with the line department is responsible for periodically reviewing the real estate holdings of the Port Authority". Although we agree that the AI's reference to "The Office of Real Estate Instruction and Analysis" is an outdated department title, as previously explained in our correspondence, the PA provided to you the verbal explanation that these reviews are continuous in nature and, in fact, are what led to the dispositions you audited. In addition, we further informed you that in 2015, the PA conducted an exhaustive review of its real estate assets to evaluate disposition/monetization potential and relevance to the PA core transportation mission. More specifically, in the first quarter

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THE PORT AUTHORITY OF NY & NJ

of 2015, a Real Estate Divestiture Team was convened (one of nine teams) pursuant to the recommendations of the Special Panel on the Future of the Port Authority, as set forth in its December 2014 Report; Keeping the Region Moving. Over the course of the ensuing year the Real Estate Divestiture Team met with representatives of every line department and certain staff departments to evaluate real estate assets. The team deliverables included: 1) identifying commercial real estate assets with monetization potential, 2) evaluating appropriate commercial real estate assets and determining a monetization strategy on a case-by-case basis, 3) evaluating World Trade Center assets and developing a monetization strategy for each and 4) developing standard metrics for evaluating future real estate activities. You were provided associated supporting documentation.

Regarding AI Section IV A.2, which provides for the line department determination of PA properties not required for operational use, and AI Section V.A.3, which provides for obtaining consensus on the method of disposition, these sections of the AI are satisfied in each instance because the affected line department director must agree with the disposition in order for it to move forward. In addition, as for your report indicating that your staff were not provided with certain documented evidence that the disposition transactions were disseminated to and concurred by various PA departments, please take note that all of the disposition transactions reviewed by your staff adhered to the PA's robust internal board item review process. The relevant board items were provided [and discussed] with your staff during the audit.

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Concerning your finding regarding AI Section V.F., which provides that the Government and Community Affairs Department advises affected municipalities, community organizations and government agencies, that the PA was in non-compliance for six of the seven properties is misleading. In most instances, the host municipality was well aware and/or directly involved in the transaction. For example, with regard to Property 1, the disposition was in fact to benefit Governors Island which is controlled by the City of New York. With regard to Property 6 (JSTC), that transaction received site plan approval by the City of Jersey City. The Board documents detailing these transactions were provided to your staff during the audit. Similar involvement in connection with the disposition of the other properties occurred, and you were provided with the relevant documentation.

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We disagree with your finding that the disposition of Property 6 (JSTC) was non-compliant with AI Section V.A.2. which provides that [the Office of Real Estate Instruction and Analysis in conjunction with the line departments] administers the procedure for determining value. The appraisals for this property were administered by the Real Estate Services Department and were previously provided to your staff during the audit.

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THE PORT AUTHORITY OF NY & NJ

Concerning the NLCC, the Port Authority disagrees with this observation. As part of the 2014 structured sale agreement with a third-party, the Port Authority had two independent valuations commissioned to determine the fair market value (FMV) of the Newark Legal Communication Center(NLCC). As noted in your draft audit report dated May 22, 2017, the two independent valuations determined that the fair market value (FMV) of the NLCC ranged from \$32 million to \$45 million. Subsequent to obtaining the proper internal approvals, the Port Authority's Board determined by resolution dated December 4, 2013 to enter into a structured sale agreement with a third-party for the disposition of the NLCC. The NLCC is net leased to a third party through 2101 including extension options, this structured sale enabled the Port Authority to monetize the rental payments of this long term lease. The final negotiated sale price totaled \$42 million, which was on the upper-end of the two independent FMV valuations. In 2014, the Port Authority, received \$33.6 million towards the disposition of the NLCC, with the remaining \$8.4 million being due (with interest) on or before 2030. Although the Port Authority's cumulative capital investment in the NLCC from 1985-2014 totaled \$97.3 million, in 2014 the Port Authority had a residual book value of approximately \$18 million and recognized an accounting gain of \$19 million related to disposition of the NLCC, the details of which were provided to and agreed by your audit team during their field work. As noted in your audit report, the 2030 date coincides with the expiration of the 2010 PILOT agreement with the City of Newark. The Port Authority disposed of the NLCC via a structured approach in order to dispose of and monetize a non-core transportation asset (at fair market value) as prescribed in the December 26, 2014 Special Panel Report. The structured approach also ensured that, through the end of 2030 the City of Newark will receive the same annual PILOT payment stream that in 2010 it affirmatively agreed was "fair and reasonable".

In closing, we believe we have satisfied the intent and substance of the obsolete AI in every instance and adhered to Board approved procedures, which provide for transparency in governance.

We appreciate the effort you and your staff provided during this audit which began in June 2015. We value your observations and look forward to improving our service to the public we serve.

Sincerely yours,



Michael Massiah
Chief, Capital Planning Execution & Asset Management

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State Comptroller's Comments

1. An objective of this audit was to determine if the Port Authority complied with its policies and procedures related to the identification and disposal of real property. Based on Port Authority officials' own admission, current policies and procedures are obsolete and thus they did not comply with them. Instead, the Port Authority claims that it followed an "appropriate process" to ensure transparency and proper governance. However, not only is this process unwritten but the Port Authority has never explained what steps make up this process. Moreover, our review of seven projects found inconsistencies among how disposals were handled. Additionally, the Port Authority did not comply with key controls related to transparency and proper governance such as informing affected municipalities, community organizations, and government agencies of dispositions.
2. As stated by the Port Authority, the intent of the current AI is to help ensure the highest and best use of Port Authority public assets. Our testing related to those key controls that are critical to meet that intent. While officials claim that they provided documentation to demonstrate compliance with the AI, the documentation received was limited and did not support that they had complied with key controls. Moreover, two of the five high-level managers involved in real property disposals (including the representative from the Real Estate Service Department) were not even aware of the AI.
3. We were provided one (not two) public notices. The public notice dated July 8, 2013 mentions the Bayonne Bridge and the Goethals Bridge; however, the Port Authority's Declaration of Surplus authorized transfers of two groups of multiple parcels to New York City and they are not the same parcels in the July 8, 2013 Notice of Public Hearing.
4. The report is correct. The Port Authority did not provide documentation of the Law Department's involvement for Property 3. Moreover, we were told at a meeting that the Port Authority's Procurement Department reviewed the RFP for form and content, not the Law Department.
5. According to Port Authority officials, they conducted continuous reviews and through these reviews made the decision to dispose of these properties. However, the only documentation the Port Authority provided to auditors to support this work is a single report from 2014 commissioned by the Governors of the States of New York and New Jersey. Moreover, even if one were to accept Port Authority officials' statements that they conducted these reviews, making such decisions without documenting the basis for them or alternatively refusing to provide such documentation to the auditors is contrary to the Port Authority's goals of ensuring transparency and good governance.
6. In their response, Port Authority officials fail to understand that a lack of evidence to the contrary is not support that they complied with various key controls. That a project moved forward does not mean controls were followed. It simply means that the project moved forward. Without supporting documentation, the risk exists that a public asset was sold without all necessary safeguards being performed. Moreover, while the Port Authority insists that it followed a robust process to dispose of real property, it is unclear why only limited documentation is available to support that assessment. If additional documentation is available to support the Port Authority's assessment, we question why it was not provided to auditors, as the Port Authority's stated focus is on transparency and good government.
7. Although the Governors Island Trust requested the easement, the Port Authority did not meet the requirements of AI Section V.F. The Port Authority provided information

for one meeting where a City official was present during a discussion of the design and construction, but there is nothing to document that the Port Authority's Community Affairs Department advised the affected municipalities, community organizations, and government agencies.

8. We revised the final report, as appropriate, based on information in the response to the draft report.
9. It is unclear what observation the Port Authority disagrees with. The 2014 agreement is a **restructured** lease and sales agreement that allowed the PILOT to continue instead of a straight sale of the property to the tenant and returning the property to the tax rolls. Documents provided by the Port Authority clearly state that the PILOT was a consideration in the way the agreement was structured. Moreover, the Port Authority did not notify the City of Newark and other affected officials of the agreement of the transaction.