

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 28, 2018

Mr. John R. Koelmel
Chairman
New York Power Authority
123 Main Street
White Plains, NY 10601-3170

Re: Real Estate Portfolio
Report 2017-F-16

Dear Mr. Koelmel:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we have followed up on the actions taken by officials of the New York Power Authority to implement the recommendations in our prior report, *Real Estate Portfolio* (Report 2013-S-23).

Background, Scope, and Objective

The New York Power Authority's (NYPA) mission is to "provide clean, low-cost and reliable energy consistent with our commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables and innovation, for the benefit of our customers and all New Yorkers." To accomplish its mission, NYPA operates hydroelectric and gas-powered energy plants throughout the State, including seven hydroelectric plants licensed by the Federal Energy Regulatory Commission (FERC). A FERC license lasts 50 years and includes a land management plan for property affected by the hydroelectric plant. Any decisions that could impact the land management plan require FERC approval before they can be implemented.

NYPA has two computer systems to monitor its property. One system, the Geographic Information System (GIS), is used to store and generate maps with topographical and other information, such as ground features or animal habitats. The other system, Real Estate and Land Management (REALM), was developed in house and is used to record acquisition and disposition information. Public Authorities Law Section 2896 (Section 2896) requires each public authority to maintain adequate inventory controls for all of its property and to periodically review this inventory to determine which property shall be disposed of. Section 2896 also requires public authorities to publish, at least annually, a report listing all property held and all property acquired and disposed of during the year. NYPA reports on its properties by project rather than by individual

lots and reports on the total acreage for each project. As of December 31, 2017, NYPA reported total acreage of 48,801 for 13 generating Facilities and Administrative Centers.

Public Authorities Law Section 2897 (Section 2897) allows each public authority to dispose of property when it is not needed to accomplish its mission. Furthermore, a public authority may rent, lease, or grant easements or other rights in any land or property it owns. Such arrangements and property disposals should be on terms beneficial to the State. Section 2896 requires public authorities to determine which property shall be disposed of and transfer or dispose of such property as promptly as possible. When the terms are for less than fair market value, under certain conditions, Section 2897 requires a public authority to notify the Governor and the Legislature of its intentions and to provide details about the transaction, including a justification for accepting less than fair market value.

The objective of our follow-up review was to assess the extent of implementation, as of December 18, 2018, of the nine recommendations included in the initial report. The initial audit was issued June 20, 2014.

Summary Conclusions and Status of Audit Recommendations

We found that NYPA made some progress in addressing the problems identified in our prior report. However, additional actions are warranted. Of the nine prior audit recommendations, two were implemented, four were partially implemented, and three were not implemented.

Follow-Up Observations

Recommendation 1

Ensure that both GIS and REALM are correct and updated timely when property is acquired or disposed of.

Status - Partially Implemented

Agency Action - In its 90-day response to the initial audit, NYPA agreed with the recommendation and stated "NYPA is in the process of implementing this recommendation to strengthen our real estate management systems and continues to improve its system capabilities." However, NYPA did not provide any documentation to corroborate its actions in support of the response. We were advised that NYPA used GIS, but not REALM, to prepare its annual report, "Overview of Real Property Holdings" (Report), required by Section 2896.

In addition, we found that the total acreage in the Report and GIS was the same for only 3 of the 13 projects reviewed. NYPA officials stated that, for 2015-2017, the Report started with the acreage from the prior year and changed to reflect acquisitions and dispositions. Thus, they would have to go back to the original file created several years prior and calculate the annual additions and deletions for each property to reconcile the inventory numbers in the Report with GIS. We also noted there were properties that were not listed

in GIS, but were in the Report. For example, a search of GIS on November 4, 2018 did not return any data on NYPA's White Plains office building, yet it was listed in the Report.

NYPA also did not update GIS property records in a timely manner. For the ten properties, one was found during the initial audit, eight were found during the follow-up, and over four years later, one was not found in GIS. Also, NYPA purchased a property on October 28, 2016 for \$230,000, yet the property was not added to GIS until October 1, 2017.

Recommendation 2

Ensure that REALM correctly reflects the status of temporary easements that are expired.

Status - Not Implemented

Agency Action - NYPA also agreed with this recommendation in its 90-day response. However, NYPA had no documentation to support it actually took any action to correct the status of the 506 temporary easements identified in the initial audit. NYPA officials stated that REALM has not been used to monitor property since 2016, but there was no documentation to support this change. At the closing conference on December 18, 2018, NYPA officials stated that REALM is not used to help generate the Report.

Recommendation 3

Comply with Section 2896 regarding the reporting of all property disposed of during each year.

Status - Implemented

Agency Action - We reviewed data for nine New York State counties from October 24, 2018 to November 27, 2018. We did not identify any dispositions that were not accounted for in the documents NYPA provided.

Recommendation 4

Develop a formal schedule for reviewing properties and determining whether NYPA continues to need to retain them, as required.

Status - Not Implemented

Agency Action - NYPA agreed with the recommendation in its 90-day response and stated it was in the process of implementing a five-year formal review, starting in 2015, to determine which of its properties, if any, were no longer needed for NYPA operational or regulatory purposes. It added that, as part of the normal course of business, NYPA evaluates the need to continue leasing space. However, during the follow-up review, NYPA officials told us they do not formally review their real property to determine whether NYPA continues to need to retain them.

Recommendation 5

Conduct a formal needs assessment and determine the extent to which these needs can be addressed by NYPA-owned property.

Status - Not Implemented

Agency Action - NYPA officials also agreed with this recommendation in their 90-day response. However, during the follow-up review, we were advised that they do not conduct a formal needs assessment. Instead, they rely on email correspondence with their Regional Managers to determine whether they have sufficient acreage.

Recommendation 6

Periodically evaluate the need to continue leasing space and document the results including, but not limited to, office space at the Westchester County Airport.

Status - Partially Implemented

Agency Action - NYPA agreed with our recommendation and stated that “additionally, as part of its normal course of business, NYPA evaluates the need to continue leasing space. A similar evaluation led to the decision that the Westchester County Airport provides the most cost efficient and secure location for NYPA’s flight operations.” However, NYPA did not demonstrate that it reassessed the need for the airport office space at the start of the renewed three-year lease in 2016.

Recommendation 7

Inform the public of NYPA property available for lease and document the results.

Status - Implemented

Agency Action - NYPA agreed with the recommendation in its 90-day response. In addition, it issued a Request for Proposal for its cafeteria space and stated it will continue to advertise available properties on its website. However, officials stated that they are not entering into any new leases at the White Plains office because they anticipate needing the building space for their operations. No documentation to support this statement was provided.

Recommendation 8

Notify the Governor and the Legislature when leasing property for less than the fair market value, as required by law.

Status - Partially Implemented

Agency Action - In NYPA's 90-day response, it indicated that it was in compliance with all legal requirements. NYPA provided a November 2017 letter, in which the relevant parties were notified of transfers between NYPA and various municipalities. However, the leases for two tenants were below fair market value and not disclosed, as required.

Recommendation 9

Collect rental revenue from all leases.

Status - Not Implemented

Agency Action - A tenant that was in arrears in the original report is still in arrears.

Contributors to this report were Robert C. Mehrhoff, Joseph Smith, and Robert Tabi.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank New York Power Authority management and staff for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,



Carmen Maldonado
Audit Director

cc: G. Quinones, NYPA, President
A. Davis, NYPA, Controller
Division of the Budget