May 9, 2022

Audit of DRPA Property Lease and Rental Agreements

Performed by:
Angeleen Coppolino, CPA, Manager, Internal Audit
& Mark Zitzler, CPA, Auditor

Delaware River Port Authority
Office of the Inspector General

AUDIT OF PROPERTY LEASE AND RENTAL AGREEMENTS

Contents

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OFFICE OF THE INSPECTOR GENERAL

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A. Objective / Scope / Methodology

The Office of the Inspector General (OIG) conducted an audit of Property Lease and Rental Agreements of Authority owned assets. These lease / rental agreements represent supplemental revenue sources to the Authority and allow the lessee to access and / or operate their businesses on Authority property pursuant to the terms and conditions of said agreements. The audit was conducted by Angeleen Coppolino, Manager, Internal Audit and Mark Zitzler, Auditor. The audit objectives included:

- evaluating management oversight over lease and rental agreements;
- evaluating the process for entering into agreements with lessee and assuring current, executed agreements are in place;
- determining how fair market value was / is determined for use of Authority property and documented revenue due the Authority;
- assuring retention of required supporting documentation;
- assessing the Authority's contract management practices and controls in place to assure compliance with agreed upon terms and conditions documented within the subject agreements (and any amendments, if applicable); and,
- assuring contracted revenue terms are effectively executed, and that revenue is received in an accurate and timely manner.

The scope of our audit covered active property lease and rental agreements, including associated revenue received, from January 2018 through December 2021. Based on OIG's initial planning, associated lease / rental revenue reported during this time period amounts to approximately $8 million.

To assist in the evaluation of the Property Lease and Rental Agreements audit, OIG was provided access to requested information and documentation, including:

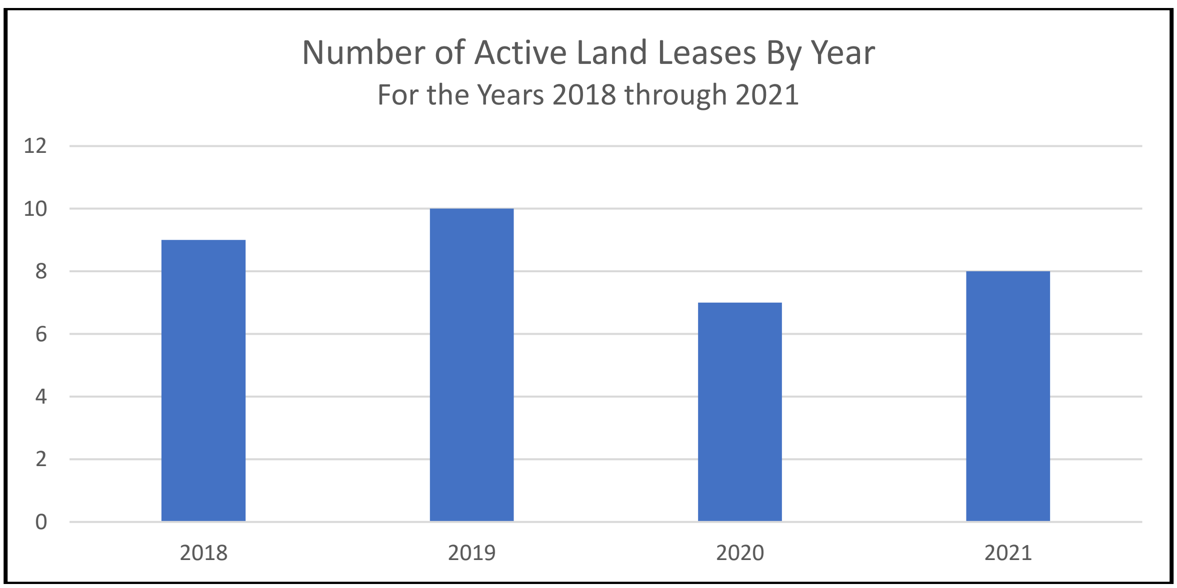
- the resolutions and agreements associated with the Authority property lease and rentals;
- "read only" access to supporting financial documentation for the monthly cash receipts' journal entries and revenue transactions (within SAP);
- financial records prepared under the Property Management Services Agreement for One Port Center;
- third party appraisal results used to determine fair market value for land and building space; and,
- required insurance documentation related to the agreements.

In addition to being provided the documentation noted, OIG communicated with the CEO, Deputy CEO, General Counsel, Deputy General Counsels, Assistant General Counsel, Property Manager (Newmark Knight Frank), Chief Engineer, Director of Risk Management, Supervisor of Accounts Payable & Receivable, Director of Finance (DRPA), Manager of Accounting (DRPA), Budget Analyst, and various other Authority staff members during the course of the audit.

B. Background

The Authority owns land In New Jersey and Pennsylvania near the bridges, some of which can be leased by other businesses for a fee. The land is not actively marketed, however, if a business approaches the Authority wanting to use the land, the Authority will negotiate a fee for the land if it is beneficial to the Authority.

The Authority currently leases eight plots of land, four in Philadelphia and four in New Jersey. Additionally, there were five revenue generating leases reviewed within the audit period that are no longer active. Most of the leases are for a period of one year or less with an option for renewal. Three of the leases have been active for more than 20 years. All of the leases are used for parking vehicles with the exception of the Holt agreement, which includes right of use and access to DRPA offshore holdings beneath the Walt Whitman Bridge in connection with Holt's marine terminal operations. The chart below shows the number of active land leases by year for each year during the audit period.

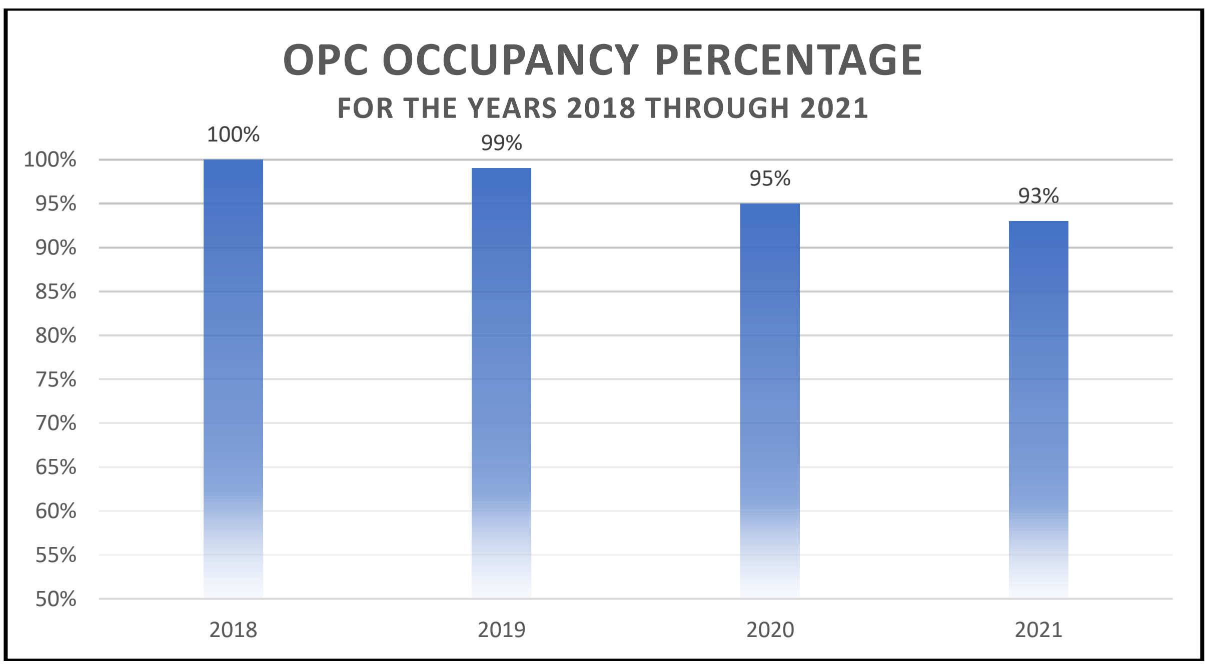


Appendix 1 shows a list of the land lessees that had active lease agreements during the audit period for Authority owned land along with their location and lease term dates.

In addition to the land leases identified in Appendix 1, the Authority has an agreement with JAR Chocolate Works, LP, for right of entry and use to property owned by the Authority located beneath the Benjamin Franklin Bridge on the east side of 3rd Street in Philadelphia, Pennsylvania. JAR Chocolate Works owns and operates a residential building with two loading docks that can only be accessed through use of Authority property. The agreement allows right of entry and use for the sole purpose of providing vendors, delivery personnel, trash removal personnel, and residents access to the loading docks. There is currently no revenue associated with this agreement. The term of the current agreement is from November 30, 2021 through November 30, 2022. Similar agreements have been in place since 2001. The term of the current agreement does reference that JAR Chocolate Works will commence the process for negotiating a longer-term access agreement, including a fair market value assessment.

The Authority also owns the One Port Center (OPC) building located in Camden, New Jersey. The building is partially used as administrative offices by the Authority, but additional office space is leased out to various parties. Newmark Knight Frank (Newmark) has been engaged to provide property management services for the OPC building and adjacent parking lot and grounds since January 1, 2014. The current contract was renewed effective July 1, 2019, for a period of three years, with two annual renewal options. Newmark is a leading commercial real estate advisory firm and has the expertise to advise the Authority in all aspects of property management, including but not limited to, marketing to potential tenants, negotiating lease agreement terms, providing guidance on determining appropriate rent and cost reimbursements, and managing building maintenance.

OPC has approximately 147,000 square feet of office space, with about 75,000 square feet occupied by the Authority. Occupancy rates for OPC have declined in the past two years but remain above 93% (see following OCP Occupancy Rate chart below). The decrease is related to two tenants deciding to not exercise renewal options (Camden Special Services with 1,100 square feet and Lockheed Martin with 4,640 square feet). In addition, the lease for the restaurant / café located on the first floor of OPC was terminated in 2020. The restaurant/café area accounts for approximately 4,350 square feet. Newmark is actively marketing all vacant space.



Appendix 2 shows a list of the current tenants with active lease agreements for office space at OPC. If a space is vacant, the most recent tenant and lease term is included.

C. Audit Summary

Based on conversations with Authority management and testing performed, OIG determined that most property lease and rental agreements are in compliance with current executed contracts. However, opportunity exists to define responsibilities and improve management oversight to improve consistency and compliance. In summary, based on the completion of our audit, the following was determined and communicated to the CEO, General Counsel, CFO, Chief Engineer, Deputy General Counsels, Director of Finance (DRPA), Director of Risk Management, Manager of Accounting (DRPA), and Property Manager (Newmark Knight Frank):

- Newmark provides property management services which cover all aspects of lease arrangements with tenants at OPC. Executed agreements, certificates of insurance, and financial schedules were complete and available upon request. However, there was not clearly defined responsibility for oversight of the Property Management Services agreement at the Authority level. Responsibilities for oversight of land lease agreements were more decentralized based on location of land and documentation was more difficult to obtain. Centralizing the oversight function for all agreements under a single point of contact would assist in promoting consistency, as well as operational and financial compliance.
- Management should develop formal policies and procedures to guide management oversight responsibilities. In addition, implementing a central repository for lease and rental agreements, and related documents, would allow for easier tracking and retrieval.
- Agreements with Holt Hauling and Warehousing Systems, Inc. (Holt) for right of access to land near the Walt Whitman Bridge and Fukuyoshi Enterprises Inc., now Sagami (Fukuyoshi / Sagami), for land in Collingswood, New Jersey did not have clearly defined lease termination dates. These leases have continued at historically agreed upon payment rates for many years without renegotiation of terms. OIG recommends negotiating these leases at current market rates. Any changes to lease terms should result in an executed amendment to the current lease document or negotiation of a new lease.
- Aside from the Holt and Fukuyoshi / Sagami leases identified above, rental rates and other charges were based on fair market value or comparable analyses (such as appraisals). Rental rates for OPC are reviewed by Newmark. Most OPC leases contain an annual escalation and operating expense allocation. More recent land leases are based on an appraisal and calculated rate per square foot. Although appraisals are being obtained, there is not a documented policy or procedure in place that requires an appraisal.
- Board of Commissioners approval (Summary Statement and Resolution) for lease and rental agreements was missing for three leases executed in 2014 or prior (or 3 of the total active 26 agreements reviewed during this audit). Board level approval for lease and rental agreements should be applied consistently in accordance with the DRPA Bylaws.

Consideration should be given to the impact of renewal options in determining the length of a lease term.

- Payments from lessees were made timely and in accordance with terms in the lease agreements in most instances. Newmark tracks accounts receivable for tenants of OPC. A billing/accounts receivable process is in place for four of the eight active land leases as of December 31, 2021. OIG identified one missing payment of $1,247.62 from Live Nation for the 2019 concert season. Live Nation sent the check to the Authority on March 31, 2022.
- Check payments for land leases are received by the same individual that records the journal entry and performs the bank reconciliation. This segregation of duties conflict was also identified in a prior audit. Finance has decided not to separate these tasks at this time and has agreed to accept the associated risk. Compensating controls have been implemented.
- Reconciliations of rental revenue and related accounts should be performed at least annually to identify incorrect entries, missing or delayed payments, and compliance with payment related contract terms and conditions. Accounts recorded on a cash basis should be analyzed annually to determine if any adjustment is necessary to fairly present the financial statements in accordance with generally accepted accounting principles.

These summarized findings and associated recommendations are presented in more detail within the report.

D. Review of Process for Establishing and Assuring Compliance with Agreements

<u>One Port Center</u>

OIG evaluated the management oversight of activities related to the One Port Center (OPC) lease agreements. Under the terms of the Property Management Services agreement, Newmark acts as the Authority's representative for business interactions with current and future OPC tenants. This includes attracting and screening for prospective tenants, as well as negotiating lease terms with prospective tenants and renewal terms with current tenants. Newmark utilizes its collective knowledge of the real estate market to advise the Authority on setting appropriate rental rates and other financial terms of lease agreements. Final determinations on prospective tenants and terms of lease agreements and amendments are subject to approval by the Authority. Deputy General Counsel coordinates with Newmark to ensure that terms are acceptable and in the best interest of the Authority. All lease agreements and amendments are reviewed and signed by the Authority, typically the Chief Executive Officer.

OPC also has a dedicated Property Manager assigned by Newmark to manage lease arrangements with existing tenants, property maintenance and repairs, and ongoing services at OPC. The Property Manager coordinates the collection of monthly rents, adjustments for escalations and fees, calculation of operating expense reimbursements in accordance with terms in the lease agreements, and other charges due from tenants. With a few exceptions, most tenants pay monthly and on time. A few tenants with more project-based revenue streams, make payments less frequently. The Property Manager reviews the aged delinquencies report monthly and contacts any tenants with outstanding balances. If any issues arise, the Property Manager coordinates with the Authority's Deputy General Counsel and Legal department for recourse.

Payment for rents at OPC are billed and collected by Newmark in accordance with the lease agreements and deposited into a dedicated bank account that is used solely for property management transactions for OPC. Accounts receivable and other financial information is recorded by Newmark and presented to the Authority in the form of a monthly financial package. The monthly financial package contains a general ledger, balance sheet, income statement, aged delinquencies report, and rent roll among other items. Recipients of the monthly financial package include the Deputy General Counsel, Administrative Coordinator Office of the Chief Operating Officer, Manager Budget/Financial Analysis, and the Budget Analyst. The Engineering Program Analyst was added as a recipient in 2020.

OIG reviewed the annual "rent roll" report prepared by Newmark at year end of each year and Authority general ledger accounts for lease and rental revenue to identify leases in place during the audit period. Copies of executed lease agreements were obtained and reviewed for all active leases identified. Most lease agreements were signed on behalf of the Authority by the Chief Executive Officer (CEO). One lease agreement was signed by the Deputy CEO and one was signed by the Chief Financial Officer (CFO) as designee for the CEO. Most of the agreements reviewed also contained sign-off by the Office of General Counsel for review and approval of legal form. OIG also reviewed the annual "rent roll" reports for each year as provided in the monthly financial package from Newmark for accuracy and agreed tenant name, square footage occupied, base rent, and lease term to the executed lease agreements.

OIG reviewed the annual year end aged delinquencies reports for each year during the audit period. All tenant balances were within one month at each year end.

Land and Other Lease Agreements

OIG evaluated the management oversight of activities related to the land lease agreements. Currently, responsibility for overseeing the agreements is assigned to a Deputy General Counsel based on whether the parcel is located in New Jersey or Pennsylvania. Negotiations for the agreements reviewed were handled by the former Deputy CEO. Authority owned land is not currently marketed. If an interested party wants to lease Authority property, a proposal is submitted to the DRPA by whoever is interested in leasing the land explaining the proposed purpose, use, and desired lease rate; the proposal is subject to review and evaluation by the Deputy CEO.

Fair market value for new agreements is then determined by using a third-party vendor to appraise the fair market leasing/rental value of the land associated with the potential agreement. OIG observed an appraisal from 2017 for the land associated with the Stadium Casino agreement and from 2019 for the land leased to Venu located at Broad Street and Packer Avenue, Philadelphia. Final rates were 90% or more of the appraised value. Additionally, there was documentation of an appraisal in 2019 for the Chickie and Pete's lot; however, an agreement could not be reached during negotiations and the lease was not renewed. Although appraisals are being obtained, there is not a documented policy or procedure in place that requires an appraisal. Refer to **Audit Finding #1**.

When lease payments are received, they are recorded by the Finance department. Check payments are typically sent to the Accounts Payable and Receivable Supervisor who records the transactions and makes the deposit electronically. In some cases, if the checks are addressed to another person within the Authority, the individual that receives the check will forward it to the Accounts Payable and Receivable Supervisor for deposit and to record the transactions. OIG noted and the Director of Finance and Manager, Accounting for the DRPA concur that this assignment of responsibilities presents a segregation of duties conflict that has been identified in prior audits. Based on the materiality of checks received and the size and budget of the Finance department, Finance has decided not to separate these tasks at this time and has agreed to accept the associated risk. The following compensating controls have been implemented by the Finance department to address the reported segregation of duties finding:

- a scan of the deposit and all support including check copies is attached to the journal entry in SAP;
- for A/R accounts (customer files) SAP generated invoices and deposits create automatic journal entry posts. For payments that are not set up as "customer files", journal entries are reviewed and approved by the Manager, Accounting (DRPA); and,
- bank reconciliation responsibility is shared between the Accounts Payable and Receivable Supervisor and another Accountant. Bank reconciliations are reviewed by the Manager, Accounting (DRPA).

Payments for land leases are structured in various ways. Payment for most of the land leases is a base rent amount due monthly. The Philadelphia Parking Authority lease at 4th and I-95 consists of a base monthly payment plus 50% of net profit generated by the lot. For Live Nation, payment is based on a percent of total revenue generated from use of the lot and is paid at the end of the concert season (typically after September). In the latter two instances, financial reports to support the amount of payment were provided to the Finance department or appropriate contact at the Authority and documentation was retained in SAP to support the amount of revenue recorded in most instances. Refer to **Audit Finding #4**. For the agreement with Live Nation, a schedule for planned concerts is provided to the designated contact at the Authority in the beginning of the season. However, the OPC lot is only used for overflow parking, which can make actual usage inconsistent with the schedule. OIG also recommends developing a process for Live Nation to communicate lot usage to the Authority, within a week before or after the lot has been used. This information should also be shared with Finance to track what funds are due to the Authority.

OIG identified two leases that did not have clearly defined lease terms and have continued at historically agreed upon rates for many years without renegotiation. A lease with Fukuyoshi Enterprises Inc., now Sagami, for land in Collingswood, New Jersey, has annual current lease revenue of $362.50 and was originally executed in 1985. An agreement for right of access to and use of land beneath the Walt Whitman Bridge was executed in 1984 with Holt Hauling and Warehousing Systems, Inc. (Holt). This agreement provides Holt with the use of the lands and within the right-of-way of the Walt Whitman Bridge in connection with Holt's marginal wharf and marine terminal operations. Rental revenue was originally $19,000 per year; however, as part of a later unrelated agreement in 1993, rental payments were reduced to $1 per year. Refer to **Audit Finding #2**.

Compliance with Insurance Requirements

Based on the terms within the leasing agreements, lessees are required to maintain the following insurance:

- Workers Compensation and Employers Liability;
- Commercial General Liability;
- Automobile Liability; and,
- Commercial Umbrella Liability.

OIG reviewed current certificates of insurance (COI) for lessees with active leases during the audit period. Newmark maintains current COIs for OPC building occupants and COIs for land lessees are maintained by the Director, Risk Management. Certain tenants are self-insured under Federal and State Tort Claims Acts and therefore, do not provide COIs. For OPC lessees, Newmark retained a one-time acknowledgement of the self-insurance program signed by an appropriate representative of the tenant. There is one land lease with a self-insured lessee, the US District Court, for land at 3rd and Market in Camden, New Jersey. Similar documentation of self-insurance was not retained for this lease. In addition, the land lease at 37 Crescent Boulevard in Collingswood, New Jersey, did not have a current COI.

Governance / Board Oversight

OIG reviewed applicable Summary Statements and Resolutions (SS&Rs) of the Board of Commissioners related to all identified lease agreements in place during the scope period to assess whether the proposed benefits, assumptions, and costs presented were consistent with the final executed agreements. According to section XII.C.6 of the Bylaws of the Authority, the Chief Executive Officer, with the approval of the Chair and Vice Chair, may enter into any and all agreements for the use and/or occupancy of property which the Authority owns or as to which the Authority has a possessory interest including, but not limited to, leases, easements, licenses and permits, provided that: (i) the said agreement is revocable by the Authority without cause being shown, or that (ii) changes the identity of the counter party to an existing agreement consistent with the terms of the said agreement, or that (iii) is a renewal or extension of an existing agreement on terms and conditions as favorable to the Authority as was the prior agreement. Provided, however, that no agreement entered into by the CEO pursuant to this provision shall obligate the Authority to expend funds in excess of amounts that the CEO is authorized to approve under the provisions of this Article XII, and further provided that no agreement entered into by the CEO under this provision shall have a term in excess of five years.

For those SS&Rs reviewed, information presented to the Board was materially consistent with the final executed agreement. However, OIG noted that Board level approval for lease and rental agreements was missing for three leases executed in 2014 or prior. These include the US Government, General Services Administration – US Marshalls lease at OPC, the lease with Fukuyoshi Enterprises Inc., now Sagami, for land in Collingswood, New Jersey, and the lease, and the lease/right of use agreement with Holt. In addition, it was unclear how lease renewal options should be considered for purposes of applying the five-year lease term limit in the Bylaws.

Audit Finding #1: Roles and responsibilities for monitoring lease and rental arrangements are decentralized and not clearly defined. There is not currently an individual or department acting in a central oversight role to ensure that all necessary tasks are performed timely. Responsibilities vary based on type of lease, location of property, and task. There are no policies or procedures related to management oversight of lease arrangements, and real estate activity in general. In addition, real estate related contracts (including lease / rental agreements) are not stored in a central repository to allow for easy retrieval and review.

Audit Recommendation #1: Overall accountability for lease and rental arrangements, and real estate transactions in general, should be clearly defined. All agreements should be centralized under one individual / department to assure accountability and consistency in management oversight, and operational and financial compliance (single point of contact). Routine communication should occur with both lessees and Finance to assure payments are budgeted and received properly as per the agreements, in particular for contracts with varying payment terms. Management should develop formal policies and procedures to set expectations and guide management oversight. In addition, management should consider a central repository for lease and rental agreements to allow for easier tracking and retrieval.

Management Response #1: The CEO concurs with the finding and recommendation. Overall accountability for lease and rental arrangements, and real estate transactions in general, will be centralized under the Deputy CEO (DCEO), once appointed. In the interim, the CEO will fulfill this responsibility with the assistance of Legal and Finance. This responsibility will include ensuring proper retention of agreements, providing consistent operational oversight, and monitoring overall financial compliance. The DCEO will delegate individual tasks to Legal, Finance, and other departments as appropriate, and ensure that information is communicated to enable assigned individuals to fulfill their responsibilities. In addition, the DCEO will lead the development of formal policies and procedures to set expectations and guide oversight of real estate transactions, as well as pursue possible options for storage and tracking of real estate related agreements. The CEO has assumed these responsibilities and will notify the OIG that the responsibilities have been transferred once a new DCEO is appointed. Recommended policies and procedures will be drafted and implemented by July 31, 2022.

Audit Finding #2: Certain land leases (Holt Hauling and Warehousing Systems, Inc. for land near the Walt Whitman Bridge and Fukuyoshi Enterprises Inc., now Sagami, for land in Collingswood, New Jersey) did not have clearly defined lease termination dates. These leases have continued at historically agreed upon payment rates for many years without renegotiation of terms. Current COIs could not be located for the Sagami lease.

Audit Recommendation #2: All leases should have a clearly defined lease term. Renewals should be negotiated at current market rates. Any changes to lease terms should result in an executed amendment to the current lease document or negotiation of a new lease. The land leases with Holt and Sagami should be evaluated to determine if agreements reflect the land currently being used and the appropriateness of rental fees based on current market value. Clearly defined accountability for oversight and documented policies and procedures would assist in ensuring that leases are tracked and renegotiated within reasonable time frames. Refer to **Audit Recommendation #1**.

Management Response #2: The CEO and General Counsel concur with the finding and recommendation. General Counsel has requested, and Engineering has initiated a project to engage a consultant to perform work which includes a deed and title search, property survey, and development of a plan to confirm the use of DRPA property with respect to land being leased to Holt. As of March 22, 2022, Engineering is clarifying project requirements and negotiating costs with the consultant. Once the project is complete, management will begin a fair value assessment and engage in any necessary negotiations. Management will also assess the land leased to Sagami and consider current market rates to determine if renegotiation is necessary. General Counsel will provide the OIG with updates on the progress of these projects at the end of each quarter.

Audit Finding #3: Board of Commissioners' approval (Summary Statement and Resolution) for lease and rental agreements was missing for three leases executed in 2014 or prior (or 3 of the total active 26 agreements reviewed during this audit). These include the US Government, General Services Administration – US Marshalls lease at OPC, the lease with Fukuyoshi Enterprises Inc., now Sagami, for land in Collingswood, New Jersey, and the lease, and the lease/right of use agreement with Holt. In addition, it was unclear how lease renewal options should be considered for purposes of applying the five-year lease term limit in the DRPA Bylaws.

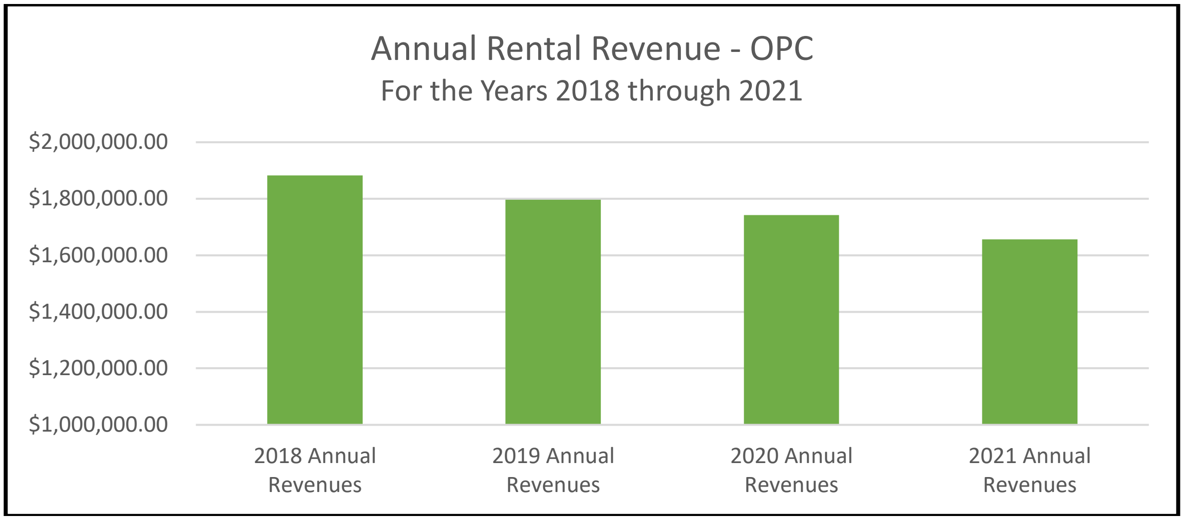
Audit Recommendation #3: The individual responsible for oversight of lease and rental agreements, and real estate transactions in general, in coordination with the General Counsel, should ensure that Board level approval for these transactions is applied consistently in accordance with the DRPA Bylaws and to assure continued transparency. Consideration should be given to the impact of renewal options in determining the length of a lease term.

Management Response #3: The CEO and General Counsel concur with the finding and recommendation. An SS&R will be prepared and presented to the Board of Commissioners for all lease and rental agreements with an initial lease term in excess of five years. Leases with renewal or continuation terms that contain an Option to extend the term of the lease beyond five years will also be presented to the Board. Presentation of SS&Rs for lease and rental agreements meeting these criteria will begin immediately.

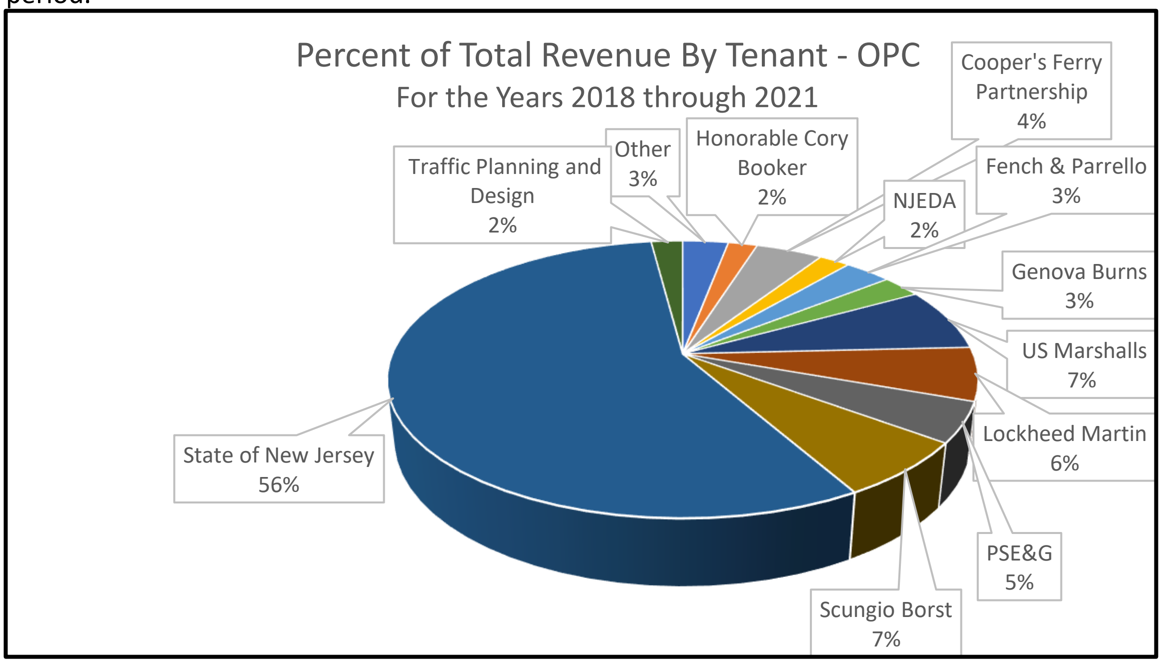
E. Financial Review / Payment Accuracy and Timeliness

One Port Center

Rental revenue has decreased by 11.7% over the four-year audit period from $1.88 million for the year ended December 31, 2018, to $1.66 million for the year ended December 31, 2021. The decrease is largely due to the reduction in occupancy from 100% in 2018 to 93% in 2021. Total revenue received by the Authority for building leases for the four-year audit period was approximately $7.1 million. The table below shows the annual rental revenue for OPC rental agreements for each year within the audit period.



The table below shows the percentage of revenue attributed to each OPC tenant over the audit period.

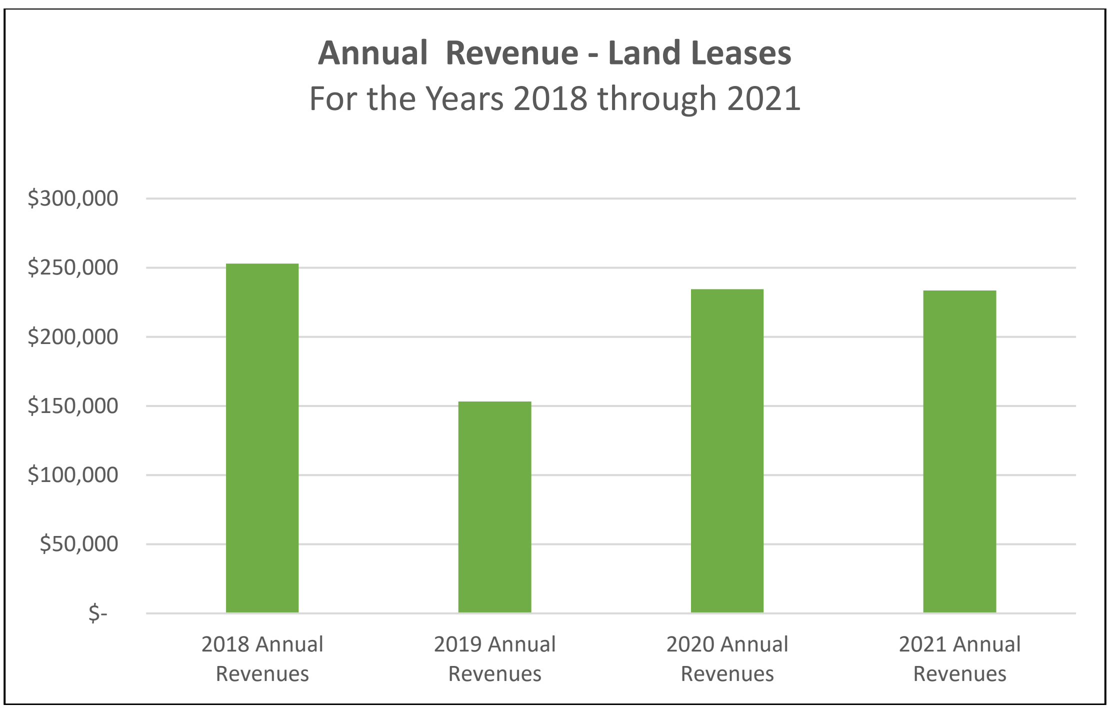


The Budget Analyst at the Authority receives the monthly financial package from Newmark and uses the reports provided to prepare journal entries for rental revenue and OPC building related expenses. Monthly journal entries are recorded on a cash basis to reconcile to the bank account dedicated to OPC and managed by Newmark. OIG traced the cash receipts recorded in the general ledger to the Cash Detail reports and "rent roll" reports provided by Newmark to ensure the correct amount was billed/received by the Authority in accordance with the lease agreements. As part of this process, OIG identified entries related to funding of capital assets for OPC that were miscategorized as revenue. This resulted in an overstatement of rental revenue and capital assets of $228,207 for the year ended December 31, 2018, and $66,625 for the year ended December 31, 2019. After discussion with the Director of Finance (DRPA), a similar entry made in December 2021 for $60,873 was identified by the Finance team and corrected prior to year-end 2021. OIG also identified a $9,689 payment that was received, but not recorded for the year ended December 31, 2018, and net activity of $3,922 related to security deposits received and repaid during the audit period.

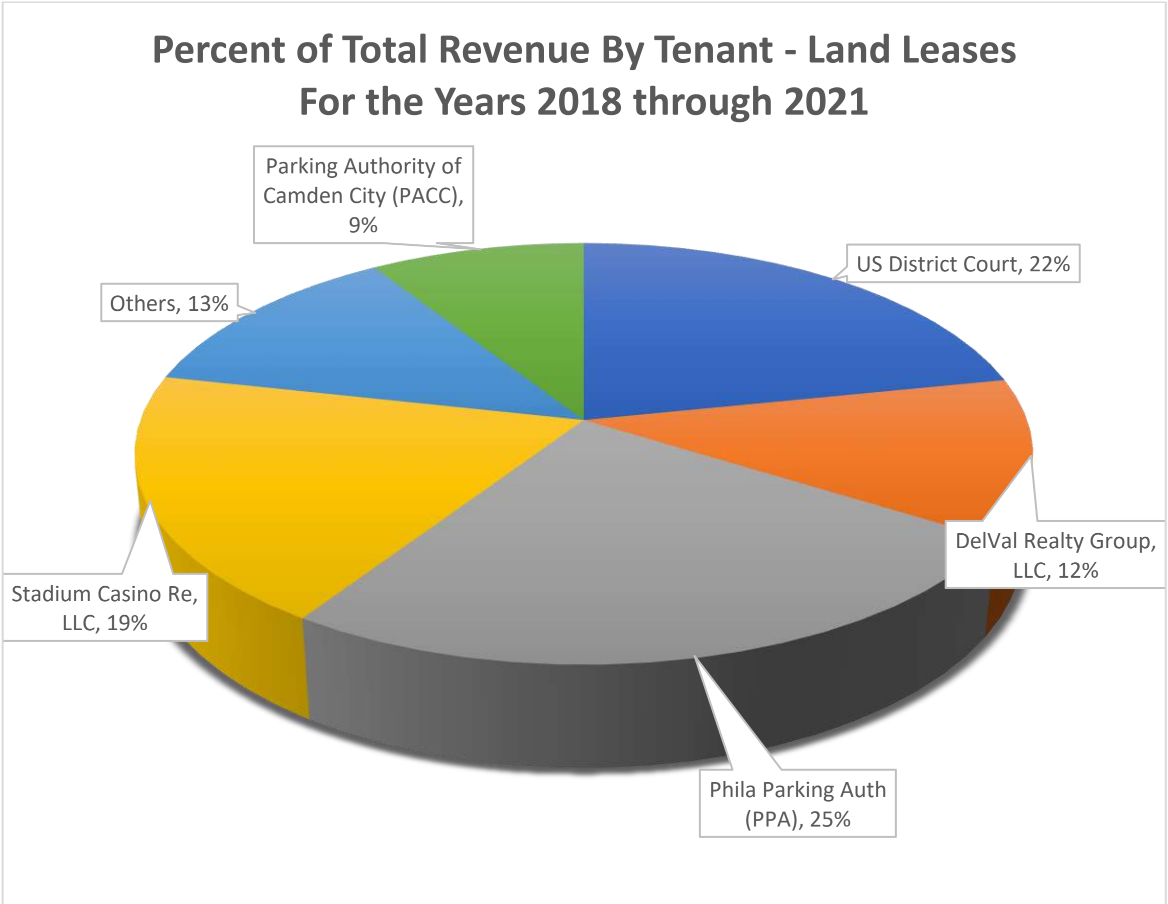
Finance does not currently perform an analysis to determine if accounting for lease and rental transactions on a cash basis would result in a material difference from accrual basis accounting and generally accepted accounting principles. OIG performed an analysis to compare revenue recorded using cash basis accounting and accrual basis accounting at each year-end during the audit period. No significant differences were identified. OIG's analysis was provided to Finance department management for further consideration and future use.

Land and Other Lease Agreements

Rental revenue has decreased by 8% over the four-year audit period from $253 thousand for the year ended December 31, 2018, to $233 thousand for the year ended December 31, 2021. The decrease is largely due to a decrease in the amount of space leased by DelVal Realty Group, LLC and the sale of Lot 6 in 2019 which was previously leased by the Parking Authority of Camden County. Total revenue received by the Authority for land leases for the four-year audit period was approximately $874 thousand. The table below shows the annual rental revenue for land lease agreements for each year within the audit period.



The table below shows the percentage of revenue attributed to each land lease tenant over the audit period. The primary source of revenue (25%) is generated from the Phila Parking Authority for the lot at 4th Street and I-95 which began in 2020. Eight other agreements make up the other 13%.



The Supervisor, Accounts Payable & Receivable records the land lease payments and revenue transactions as received. There were two leases (US District Court & The Venu Group) that were invoiced each month creating an accounts receivable. During the course of the audit, two additional leases (DVR Philly & Philadelphia Parking Authority) were added and are now being invoiced. OIG noted that one of the 13 land leases tested within the audit period had payments that were not paid on time. The non-payments were tracked in the Accounts Receivable system and were eventually received along with a late fee.

Although lease agreements were in place for Live Nation in 2019 and 2020, no payments were received for these agreements. The expected payments would have been based on a percent of revenue collected for parking and OIG was not able to determine if there was any parking activity that would have generated revenue. OIG inquired of the Supervisor, Accounts Payable & Receivable and the Deputy General Counsel, as well as reviewed the other non-operating revenue and related accounts to determine if any payment was due. In addition, OIG obtained copies of the planned concert dates and lot usage from the OPC Property Manager. At the request of OIG, Deputy General Counsel contacted Live Nation directly to determine if the lot was used during that time. Based on Live Nation's records, the lot was used for two concerts in late July 2019 for which the Authority was due $1,247.62 under the agreement. Live Nation sent the check to the Authority on March 31, 2022. Due to Covid-19, the lot was not used during 2020. As part of **Audit Recommendation #1**, OIG recommends developing a process for Live Nation to communicate lot usage to the Authority, within a week before or after the lot has been used. This information should also be communicated to Finance to track what funds are due to the Authority.

While some land lease revenue is recorded in specific general ledger accounts, the revenue for the Live Nation and Parking Authority of Camden County leases is recorded in a non-specific other non-operating revenue account with various other unrelated items. Journal entry description is a free text field and descriptions were not always consistent and detailed enough to allow for easy identification of the lease revenue entries.

Audit Finding #4: In reconciling the cash payments to the rental revenue account for OPC, OIG identified entries related to funding of capital assets for OPC that were miscategorized as revenue. This resulted in an overstatement of rental revenue and capital assets of $228,207 for the year ended December 31, 2018, and $66,625 for the year ended December 31, 2019. After discussion with the Director of Finance (DRPA), a similar entry made in December 2021 for $60,873 was identified by the Finance team and corrected prior to year-end 2021. OIG identified a $9,689 payment that was received, but not recorded for the year ended December 31, 2018. In addition, net activity of $3,922 related to security deposits from tenants received and repaid during the audit period was recorded directly to rental revenue rather than a liability account.

In addition, it was unclear whether payments were due and/or received for certain land leases that were active during the period (Live Nation for the years 2019 and 2020 and the Parking Authority Camden County). The revenue for these leases was recorded to Other Non-Operating / Miscellaneous Revenue and intermingled with other unrelated items.

Audit Recommendation #4: A reconciliation of rental revenue general ledger accounts to supporting documents and payments would assist in the identification of incorrect entries, missing or delayed payments, and compliance with payment related contract terms and conditions. This reconciliation should be performed quarterly, but at least annually. Recording of land lease and rental revenue to a more specific dedicated account(s) would make missing payments more apparent and easier to identify.

Management Response #4: The Director of Finance (DRPA) and the Manager, Accounting (DRPA) concur with the finding and recommendation. The instruction regarding the entries made for the OPC rental income and expense has been updated to ensure that owner funding does not get mistakenly booked to expense or revenue. The funding from DRPA to OPC should just be a change in cash between the two accounts. Any revenues and expenses will be captured by OPC's ledger and booked by budget. In addition, the annual analysis reconciliation has been updated with similar instructions regarding owner funding. This process will be used as of March 4, 2022 and forward. In addition, Finance will begin using statistical work orders within SAP to track revenue for new lease arrangements. This process will be in place as of September 30, 2022.

Audit Finding #5: Revenue for office space lease agreements and some land lease and rental agreements (those not set up as customer accounts within SAP) is recorded on a cash basis in the period payment is received, rather than on an accrual basis in the period in which the revenue is earned/due. Finance does not currently perform an analysis to determine if accounting for lease and rental transactions on a cash basis would result in a material difference from accrual basis accounting and generally accepted accounting principles.

Audit Recommendation #5: An analysis should be performed by Finance to assess whether accounts recorded on a cash basis require adjustment to fairly present the financial statements in accordance with generally accepted accounting principles. This analysis should be performed on a quarterly basis, but at least annually.

Management Response #5: The Director of Finance (DRPA) and the Manager, Accounting (DRPA) concur with the finding and recommendation. Finance will update a modified version of the 410250 cash to accrual basis reconciliation the OIG created on an annual basis to help evaluate the accuracy/completeness of the revenue entries. If budget notices a new revenue stream or long-term gaps in vendor payments, he/she will follow up with OPC management to obtain more information. This process will be used as of March 4, 2022 and forward.

Appendix 1

List of the land lessees that had active lease agreements for the years 2018 through 2021 for Authority owned land along with their location and most recent lease term dates.

Location	Current Tenant	Lease Term
3rd & Market Camden, NJ	US District Court	July 17, 1998 - October 1, 2022
3rd & Market, Camden NJ (Evening)	Dean Taly Spirits	May 1, 2018 - April 30, 2021
Area underneath WWB in Phila, PA	DelVal Realty Group, LLC	October 5, 2017 - July 31, 2018
Area near WWB in Phi, PA - AKA Whiskey Yard	DVR Philly, LLC	December 21,2020 - December 20, 2022
10th Street & Packer Avenue, Phila PA	The Venu Group, LLC	May 1st, 2019 - December 31, 2021
Broad Street & Packer Ave, Phila PA	Chickie & Pete's	December 24, 2013 - April 2, 2019
Parking Lot 4th & I-95 Under BFB, Phila PA	Phila Parking Auth (PPA)	October 29, 2019 - October 28, 2034
Area near PATCO & Crescent Boulevard, Collingswood NJ	Fukuyoshi (Sagami)	April 10, 1985 - Open ended
One Port Center Parking Lot, Camden NJ	Live Nation	May 1, 2021 - September 30, 2021
23 Pier Head Line Gloucester City, NJ-Holt Marine Terminal	Holt hauling and warehousing systems, INC.	January 10, 1984 - Open ended
Lot 6 - Camden NJ	Parking Authority of Camden City (PACC)	January 1, 2018 - December 31, 2018
Parking at Lindenwold, NJ PATCO Parking Lot	Kennedy University Hospital, Inc. T/A Jefferson Health - New Jersey	July 1, 2019 - December 31, 2019
Broad Street, Packer Avenue, and 10th Street in Phila, PA	Stadium Casino Re, LLC	May 17, 2019 - May 17,2021

Appendix 2

List of tenants with active lease agreements for office space at OPC for the years 2018 through 2021.

Square Footage	Current Tenant (if lease ended, most recent tenant)	Lease Term
895	Armand Corporation	October 1, 2021 - September 30, 2023
1,050	Honorable Cory Booker, US Senator	Monthly as of January 2, 2021
1,100	Camden Special Services District	April 1, 2017 - March 31, 2019
2,468	Cooper's Ferry Partnership, Inc.	April 1, 2021 - March 31, 2022
1,186	New Jersey Economic Development Authority	October 1, 2016 - September 30, 2021
2,106	Fench & Parrello Associates	May 1, 2021 - April 30, 2022
1,558	Genova Burns LLC	March 1, 2019 - February 28, 2022
3,940	US Government, General Services Administration - US Marshalls	August 20, 2014 - August 19, 2024
4,636	Lockheed Martin	July 1, 2016 - May 31, 2021
2,750	Public Service Electric and Gas Company	August 1, 2020 - July 31, 2023
5,075	Scungio Borst & Associates, Inc.	October 31, 2021 - October 31, 2024
40,234	Division of Property Management and Construction - State of New Jersey	October 1, 2016 - September 31, 2021
1,625	Traffic Planning and Design, Inc.	December 1, 2015 - November 30, 2020
Restaurant café	HomeStretch Deli/Andreotti's Catering	Feburary 1, 2017 - June 30, 2020

Note: Scungio Borst & Associates increased their current space on April 1, 2021 by extending into Suite 506, which was previously occupied by Traffic Planning and Design, Inc.; this additional square footage is reflected in the table. However, they filed for Chapter 11 bankruptcy in March 2022. A new lease renewal is currently being negotiated with the State of New Jersey and they are continuing to occupy the space under the terms of the previous agreement until the new lease is finalized.

The New Jersey Economic Development Authority relocated to Suite 401 (previously occupied by Lockheed Martin) effective October 1, 2021 and executed a five-year lease extension. Cooper’s Ferry Partnership, Inc. decided not to renew their lease upon termination on March 31, 2022. Genova Burns LLC has extended their lease on a month-to-month basis upon termination on February 28, 2022.