



Office of the Inspector General

Thomas W. Raftery III
Inspector General

MEMORANDUM

TO: Robert F. Teplitz, Chairman, Audit Committee
Audit Committee Members

FROM: Thomas W. Raftery III

SUBJECT: **Allegations involving the funding activities and statements of the DRPA pertaining to the Home Port Alliance (HPA)/ Battleship New Jersey (Battleship).**

DATE: May 21, 2012

On 1/18/12, Commissioner Robert F. Teplitz, Chairman, Audit Committee, Delaware River Port Authority (the Authority) received a packet from an individual, who introduced himself as Christopher von Zwehl, while entering One Port Center, prior to the Board of Commissioners (Board) meeting. The packet was from the USS New Jersey Battleship Foundation, Inc. (Foundation). The Foundation packet contained information concerning the Battleship New Jersey (Battleship) and outlined reasons why the Board should vote against the extension of the loan guarantee for a loan between the Home Port Alliance (HPA) and TD Bank (TD). The packet included allegations involving the activities and statements of John J. Matheussen, Chief Executive Officer (CEO); Jeffrey L. Nash, Vice Chairman, Board; Richard L. Brown, General Counsel; and John T. Hanson, Chief Financial Officer (CFO).

At the 1/18/12 Board meeting, a Summary Statement and Resolution (SS&R) was on the agenda recommending an extension of the loan guarantee on the HPA loan for a period of ninety (90) days. The Authority was contacted by TD Bank (TD) concerning the HPA loan which was in default. TD intended to call the loan unless it received some indication from the Board as to its position on the loan guarantee. Authority staff incorrectly believed that the loan guarantee would expire in February 2012. In response to TD's request, staff prepared the SS&R. The loan guarantee was actually scheduled to expire on 4/1/12. The Board authorized a ninety day (90) extension. The Board also requested that the newly appointed Inspector General conduct a review of the allegations as soon as possible. The loan guarantee is now set to expire on 6/30/12.

On 2/7/12, Commissioner Teplitz formally requested the Office of the Inspector General (OIG) conduct a thorough investigation into the allegations set forth in the Foundation packet. OIG's initial review of the packet indicated that the information provided by the Foundation involved seven (7) allegations which are discussed in the attached report. Investigation determined that the allegations were coming from von Zwehl, President, Board of Trustees, Foundation.

The OIG initiated an investigation into the allegations set forth in the Foundation packet as well as additional allegations made by von Zwehl during interviews. The investigation involved the following:

- The review of Authority documents related to the funding provided to the Battleship/HPA.
- The review of Board Resolutions and minutes associated with the Battleship/HPA funding.
- The review of emails and miscellaneous Authority documents.
- GAO Report dated 10/2000 for the Selection Decision on USS New Jersey.
- Interviews with Authority personnel.
- Interviews with TD and HPA personnel.
- Interviews with von Zwehl.

The investigation conducted by the OIG focused on the allegations involving Authority funding provided to the Battleship/HPA as well as the activities/statements of Authority staff and Board. The investigation did not review records from the HPA with the exception of the financial documents noted above. The investigation did not review records of vendors doing business with both the Authority and the HPA. Most of the allegations made by von Zwehl were **not supported** by the facts. Von Zwehl acknowledged during an interview that he did not review the loan guarantee documents and made assumptions involving issues "based on the facts as he knew them". The most significant allegations involved the loan guarantee and are summarized below:

1. Richard L. Brown, General Counsel, and John T. Hanson, Chief Financial Officer (CFO) misled the Board when they stated that the Authority would have to pay the \$900,000 balance on the HPA loan. According to von Zwehl, TD would have to exhaust all remedies with the HPA prior to taking action against the Authority. This allegation was **not supported** by the facts. Investigation reviewed the loan guarantee documents with TD. Under Section 2B, page 1, Enforcement of Guaranty, it is clearly stated that the Authority is responsible for the balance of

the loan and that TD can seek reimbursement directly from the Authority. An interview with a TD representative confirmed this fact, which was referred to as an **unlimited and unconditional guarantee**.

2. Vice Chairman Jeffrey L. Nash **should have recused** himself at the 1/11/12 Finance Committee Meeting when the loan guarantee extension was discussed. Commissioner Nash is an ex-officio member of the HPA and should have recused himself from any discussions involving the loan guarantee. However, several mitigating factors were noted. Chief Executive Officer (CEO) John J. Matheussen thought that Commissioner Nash's ex-officio position was a function of Nash being the Freeholder Director, Camden County. When Commissioner Nash stepped down as Freeholder Director, both Matheussen and Commissioner Nash lost track of Nash's HPA position. Further investigation revealed that Commissioner Nash was also an ex-officio member of the HPA due to his position as Vice Chairman of the Authority. Commissioner Nash never attended the HPA Board meetings, never reviewed minutes, etc. However, Authority staff such as David Murphy, did attend the HPA meetings. Upon learning he was still an ex-officio member, Commissioner Nash designated an alternate (Commissioner Charles Fentress) to the Board, HPA. Investigation confirmed that Commissioner Nash never attended any HPA meetings. Investigation determined that Commissioner Nash's conflict of interest was **unintentional** and had **no material effect** on outcome of the vote extending the loan guarantee. Von Zwehl also alleged that Commissioner Nash and Matheussen had a vested interest in the outcome of the vote to extend the loan guarantee but provided no evidence to support this statement.

During the course of the investigation, discrepancies were noted in the handling of Economic Development funding to the HPA in 2001. This resulted in the write off of a \$6 million grant and a \$2.5 million advance (\$8.5 million total), which were carried as receivables on the Authority's books. The State of New Jersey (NJ) was listed as the source of reimbursement on the Summary Statement and Resolutions (SS&Rs). Authority staff was unable to locate any agreement with a State of NJ agency for reimbursement. This finding is discussed in more detail in the attached report. The circumstances that contributed to these write offs were addressed by **Reform Resolution 10-097**. Investigation also revealed other discrepancies in the source of funds for the HPA funding which are discussed in more detail in the attached report.

During the investigation, frequent references were made to the Reform Resolutions passed by the Board in 2010. Interviews with Authority staff revealed that these reforms were not incorporated into the Bylaws and Standard Operating Procedures (SOPs) of the Authority. It is **recommended** that the Board clarify the intent of these reforms, reconcile the reforms with the terminology used by the Authority, and ensure that the reforms are incorporated in the Authority's Bylaws and SOPs. This is discussed in more detail in **Section G, Recommendations**, of the attached report.

Based on the investigation conducted, there are two (2) options available to the Board with respect to the loan guarantee. The Board must select between these two (2) options which are explained in more detail in **Section H, Required Board Action**, of the attached report:

1. **Extend** the loan guarantee since TD has direct recourse against the Authority. This will provide additional time for the HPA to remedy its financial problems and further reduce the outstanding balance. Any determination as to the likelihood of an improved financial situation at the HPA was outside the scope of the investigation. The \$1 million has been in a Project Fund at TD since 2001. Debt service on this amount is partially offset by the interest earned at TD (0.19% currently).
2. **Not extend** the loan guarantee. TD will call the loan and have direct recourse against the Authority and deduct the balance owed (\$900,000) from the \$1 million in the Project Fund. The balance of \$100,000 can be used by the Authority for capital expenditures.

The Authority will **remain responsible** for the debt service on the \$1 million regardless of the Board's decision. The Board should anticipate public reaction on this matter regardless of which option is chosen.

On 3/29/12, the Authority received an email from TD after the ninety (90) loan guarantee extension, approved by the Board on 1/18/12, was signed. It stated that TD was "going to meet with the Battleship to discuss a long term plan. We (TD) will iron out the details with them and then reach out to you (the Authority) for the next steps".

The investigation conducted by the OIG is addressed in more detail in the attached report. Should there be any questions about this investigation and/or the manner in which it was conducted, please do not hesitate to contact me.

Thomas W. Raftery III
Inspector General



DELAWARE RIVER PORT AUTHORITY
of Pennsylvania & New Jersey

The Office of the Inspector General

INVESTIGATIVE REPORT

**ALLEGATIONS INVOLVING THE FUNDING
ACTIVITIES AND STATEMENTS OF THE DELAWARE
RIVER PORT AUTHORITY PERTAINING TO THE
HOME PORT ALLIANCE AND THE BATTLESHIP NJ**

Thomas W. Raftery III
Inspector General

May 21, 2012

TABLE OF CONTENTS

A.	Summary of Allegations	1
B.	Background of Battleship.....	4
C.	DRPA Funding Provided for Battleship	6
D.	Investigative Findings	
a.	Allegation #1	9
b.	Allegation #2	10
c.	Allegation #3	11
d.	Allegation #4	12
e.	Allegation #5	14
f.	Allegation # 6	15
g.	Allegation # 7	17
E.	Additional von Zwehl Allegations	19
F.	Summary of Investigation	21
G.	Recommendations.....	23
H.	Required Board Action.....	25
I.	Index of Interviews Conducted	27
J.	Index of Documents Reviewed	28

A. Summary of Allegations

On 1/18/12, Commissioner Robert F. Teplitz, Chairman, Audit Committee, Delaware River Port Authority (the Authority) received a packet from an individual, who introduced himself as Christopher von Zwehl, while entering One Port Center, prior to the Board of Commissioners (Board) meeting. The packet contained information concerning the Battleship New Jersey (Battleship) and outlined reasons why the Board should vote against the extension of the loan guarantee for a loan between the Home Port Alliance (HPA) and TD Bank (TD). The packet included allegations involving the activities and statements of John J. Matheussen, Chief Executive Officer (CEO); Jeffrey L. Nash, Vice Chairman, Board; Richard L. Brown, General Counsel; and John T. Hanson, Chief Financial Officer (CFO).

At the 1/18/12 Board meeting, a Summary Statement and Resolution (SS&R) was on the agenda recommending an extension of the loan guarantee on the HPA loan for a period of ninety (90) days. The Authority was contacted by TD concerning the HPA loan which was in default. TD intended to call the loan unless it received some indication from the Board as to its position on the loan guarantee. Authority staff incorrectly believed that the loan guarantee would expire in February 2012. In response to TD's request, staff prepared the SS&R. The loan guarantee was actually scheduled to expire on 4/1/12. The Board authorized a ninety day (90) extension. The Board also requested that the newly appointed Inspector General conduct a review of the allegations as soon as possible. The loan guarantee is now set to expire on 6/30/12.

Matheussen outlined the details of the receipt of the packet in a 2/6/12 email to Kathy D. Bruder, Deputy Chief of Staff to Pennsylvania (PA) Governor and Board Chairman Tom Corbett, several Authority Commissioners, Brown, and Hanson. Matheussen explained that two (2) groups competed for the Battleship over a decade ago: one (1) from North Jersey and one (1) from South Jersey. The South Jersey group won.¹ The original North Jersey group was known as the U.S.S. New Jersey Battleship Commission (Commission).

On 2/7/12, Commissioner Teplitz formally requested the Office of the Inspector General (OIG) conduct a thorough investigation of the allegations set forth in the packet. An initial review of the packet indicated that the information was provided by the USS New Jersey Battleship Foundation, Inc. (Foundation). The Foundation is the successor to the Commission. The following seven (7) allegations were made in the Foundation packet:

1. **Allegation:** The \$1 million loan guarantee is/ has been backstopped by DRPA with the 1999 "Series A PDP Bonds" at an avg. rate of 5.5% costing DRPA \$55,000 a year in interest x 9 years or \$495,000 to date.
2. **Allegation:** "The Homeport Alliance for the USS New Jersey, Inc." has reported on their 2009 IRS 990 Filing \$18,408,709.00 "Net Assets" that are more than sufficient to serve as collateral for the \$900,000 principal outstanding to TD Bank.

¹ Matheussen email dated 2/6/12.

3. **Allegation:** TD Bank Representative Michael Carbone is a full Trustee on the Board of "The Homeport Alliance for The USS New Jersey" and has already expressed a willingness to re-negotiate/restructure the loan guarantee/collateralization should the DRPA guarantee not be extended at this DRPA Board Meeting. If DRPA Board says "NO" to loan guarantee extension, contrary to Mr. Hanson & Mr. Brown, will not have to come up with \$900,000. TD Bank would first have to exhaust all remedies with "The Homeport Alliance for the USS New Jersey."
4. **Allegation:** Vice Chairman Nash should have recused himself from the 11JAN Finance Committee discussions as that Committee's Chair with regard to extending the loan guarantee as he, Like DRPA CEO/Homeport Alliance Board Chair John Matheussen, sits on the Board of Trustees for "The Homeport Alliance for the USS New Jersey" and has a vested interest in the outcome of this vote.
5. **Allegation:** "The Homeport Alliance for the USS New Jersey" CEO testified in March, 2011 to the NJ State Senate Finance Committee that if NJ cut off the \$1.74 million in state aid they received the prior year, they would be insolvent by the end of 2011, and the State of New Jersey did cut off that aid, almost 50% of the Homeport Alliance's revenue. DRPA will NOT see another \$100,000 in 2012 shaved off the TD Bank loan guarantee as Mr. Hanson stated, reducing DRPA's exposure. The Homeport Alliance is projecting a \$1million plus operating deficit in 2012, owes another \$1million plus and the ship museum is currently closed.
6. **Allegation:** DRPA has already directly invested As Economic Development" \$10.75 million in to the Battleship New Jersey from 2001 UBS credit/cash swap costing DRPA almost \$20 million to date plus another \$8-10 million in improvements around ship. DRPA's projected total cost/exposure by CPA general accounting practice standards for the USS New Jersey is over \$40 million. A full audit should be forthcoming. This is in total contradiction to Finance Committee Chairman Nash's comments in the meeting minutes from 12JAN where he is quoted saying that "DRPA has not paid any money for this project as it is simply a guarantor of the loan."
7. **Allegation:** DRPA and "the Homeport Alliance for the USS New Jersey" have the same:
 - CEO and Chairman John Matheussen since 2003. John is also the Co-founder of "The Homeport Alliance"
 - Board Vice Chairman & Trustee Jeffery Nash, Fellow Camden County Freeholder

- Patricia Jones is Vice Chair & Co-founder of "The Homeport Alliance"
- Auditor (Bowman & Company) *recently changed
- Engineering Company (S.T. Hudson Engineers) *one of several for DRPA
- A full audit over the last ten years will show that DRPA vendors, contractors, employees, police, materials, etc. have been used outside the Board's prview to the benefit of "The Homeport Alliance for the USS New Jersey" at a significant cost to DRPA's bond holders, toll payers and PATCO riders and to the State of Pennsylvania's and New Jersey's taxpayers, at the direction of DRPA's CEO.²

The OIG initiated an investigation into the allegations set forth in the Foundation packet as well as additional allegations made by von Zwehl during interviews. The investigation involved the following:

- The review of Authority documents related to the funding provided to the Battleship/HPA.
- The review of Board Resolutions and minutes associated with the Battleship/HPA funding.
- The review of emails and miscellaneous Authority documents.
- GAO Report dated 10/2000 for the Selection Decision on USS New Jersey.
- Interviews with Authority personnel.
- Interviews with TD and HPA personnel.
- Interviews with von Zwehl.

It is noted that this investigation did not review the records from the HPA with the exception of the financial documents noted above. The investigation did not review records of vendors doing business with both the Authority and the HPA. The investigation focused on the allegations involving Authority funding provided to the HPA/Battleship as well as the activities/statements of Authority staff and Board.

² Foundation packet.

B. Background of Battleship

On 11/17/98, a Federal Register notice announced the availability of the U.S.S. New Jersey for donation, the Navy's donation and application requirements, and a 5/17/99, deadline for receipt of applications.³ On 1/20/00, the Secretary of the Navy approved the selection of the HPA to receive the U.S.S. New Jersey under the Navy's ship donation program.⁴ The decision was the culmination of the competition between the HPA and the U.S.S. New Jersey Battleship Commission (Commission).⁵

The Commission actually submitted an application to the Navy for the Battleship in 1996. The Commission designated Liberty State Park in Jersey City, New Jersey (NJ), as the intended mooring site. However, Navy officials did not fully evaluate the application because of uncertainties over the availability of the Battleship. In 1998, when it appeared that congressional action would make the Battleship available for donation, the Commission voted Bayonne, NJ, as the proposed mooring site in its application. By this time, the HPA had stated its intention to submit an application, proposing Camden, NJ, as the mooring site.⁶

In 2000, several congressional members requested an investigation into the awarding of the Battleship. The U.S. General Accounting Office (GAO) conducted an investigation and issued its report on 10/12/00. The GAO Report made several recommendations to strengthen the Navy's handling of future applications. The GAO Report stated that the Navy's decision to award the ship to the HPA was credible and impartial and noted that the HPA application was superior in four (4) of the five (5) evaluation categories.⁷

Beginning in June 2000 through 2005, the Authority provided funding to the HPA as part of its economic development mission. The funding was in the form of grants and advances to the HPA. Several grants and advances were to be reimbursed by the State of New Jersey (NJ). As will be discussed later in more detail, \$6 million in a grant and \$2.5 million in an advance were never reimbursed by the State of NJ. In addition, on 3/19/03, the Board authorized staff to provide a loan guarantee in support of the HPA securing a \$1 million line of credit with TD (then Commerce Bank). The purpose of the loan guarantee was "to aid HPA with their continued operations by providing a credit enhancement that will enable them to offset a cumulative operating loss of approximately \$1.5 million from 2002 and projected for 2003".⁸

³ U.S. General Accounting Office (GAO) Report to Congressional Requesters dated 10/12/00, page 3.

⁴ GAO Report, page 1.

⁵ GAO Report, page 1.

⁶ GAO Report, pages 3 and 4.

⁷ GAO Report, page 3.

⁸ DRPA SS&R 03-034, page 1.

Later in the same SS&R, the Board stated that “as part of its economic development mission the DRPA has worked to assist in the revitalization of the Delaware Waterfront”.⁹

CONFIDENTIAL

⁹ DRPA SS&R, page 2.

C. DRPA Funding Provided to Battleship

	Project Name	Client	Date of Agreement	Resolution No.	Type of Funding	Source	Year Funds Committed	Board Action Date	Commitment Amount	Project Expenditures	Notes
1	Funding for the USS New Jersey	Home Port Alliance	7/26/2000	DRPA-00-057	Operating Grant	2001 PDP Bonds A /2001 NJ SWAPS	2000	21-Jun-00	2,000,000	2,141,569	Disbursements exceeded Board Approved amount
2	Funding for the USS New Jersey - NJ Dept. of Military & Veterans Affairs Reimb.	Home Port Alliance	3/30/2001	DRPA-00-057	Short-term advance	1999 PDP Bonds	2000	21-Jun-00	6,000,000	6,000,000	Reimbursed by State of NJ - Dept. of Military & Veterans Affairs
3	DRPA Advance - NJDOT Reimb.	Home Port Alliance	1/22/2002	DRPA-01-018	Reimbursable Grant	2001 PDP Bonds A	2001	1-Mar-01	2,000,000	2,000,000	Reimbursed by State of NJ - NJDOT
4	DRPA Advance - State of NJ Reimb.	Home Port Alliance	N/A	DRPA-01-018	Reimbursable Grant	2001 PDP Bonds A	2001	1-Mar-01	6,000,000	6,000,000	We are not aware of an agreement with the State of NJ for reimbursement
5	Funding for the USS New Jersey	Home Port Alliance	9/17/2001	DRPA-01-060	Reimbursable Advance	1999 PDP Bonds A	2001	18-Jul-01	2,500,000	2,500,000	We are not aware of an agreement with the State of NJ for reimbursement
6	USS New Jersey Loan Guaranty	Home Port Alliance	4/20/2003	DRPA-03-034	Loan Guaranty	1999 PDP Bonds A	2003	19-Mar-03	1,000,000		\$1M Reserved against Guaranty
7	Home Port Alliance Operating Grant	Home Port Alliance	12/23/2003	DRPA-03-118	Operating Grant	1999 PDP Bonds A	2003	19-Nov-03	350,000	350,000	
8	Homeport Alliance Sponsorship Grant	Home Port Alliance	N/A	N/A	Sponsorship Grant	2001 NJ SWAPS	2005	N/A	50,000	50,000	

Source: Maroney Chart.

OIG conducted a review of the Authority funding provided to the Battleship/HPA starting with the relevant resolutions/minutes identified in a chart prepared by Christina Maroney (the Maroney Chart) prior to 2005. The chart has not been updated since 2005 when Maroney's involvement in the Battleship project ceased. Investigation was supplemented by the review of various funding documents provided by the Finance Department as well as other Authority documents pertaining to the allegations made in the Foundation packet. Interviews of personnel from the Authority, HPA, and TD, as well as von Zwehl were conducted. Several discrepancies were noted during the course of this review. The most significant **discrepancies** noted were the lack of executed reimbursement agreements with the State of NJ that cumulated with the write off of \$8.5 million. There were other discrepancies noted pertaining to which PDP bond issue was used as the Source of Funds (SOFs) and/or whether the General Fund was used.

In 2005, Hanson, the Finance Department, and outside counsel initiated an analysis of the HPA/Battleship funding to ensure that the proper bond proceeds were identified as the SOFs for each grant/advance. This was done to ensure that the Authority was in compliance with its bond covenants. In addition, the Finance Department sought to verify that agreements with other funding sources for reimbursement were executed. In two (2) instances, a \$6 million grant and a \$2.5 million advance, funding was authorized by the Board with the State of NJ listed as the source of reimbursement. The Finance Department was unable to identify any agreement with a NJ State agency for reimbursement and the \$8.5 million was written off in

2005. The Authority had been carrying the \$6 million and \$2.5 million as receivables on the books. This analysis resulted in the preparation of a spreadsheet reflecting the actual SOFs which is maintained by Ronnie Gilbert, Finance Department (Gilbert's spreadsheet). This eliminated the SOFs discrepancies.

The Maroney Chart identified the eight (8) Authority funding streams provided to the HPA/Battleship which is detailed below:

1. On 6/21/00, the Board approved a \$2 million operating grant to the HPA for the Battleship using 1999 PDP Bonds. The actual SOF was 2001 PDP Bonds, Series A. Project expenditures totaled \$2,141,569. The overage (\$141,569) was authorized by the CEO, at that time, without Board approval and 2001 Bond Swap funds were used to pay the overage.
2. On 6/21/00, the Board approved a \$6 million short term advance to the HPA for the Battleship using 1999 PDP Bonds. However, the Authority received a \$6 million "deposit" on 4/24/01 from the State of NJ, Department of Military and Veterans Affairs, in advance of any project expenditures. No Authority funds or bond proceeds were used to fund eligible project expenses.
3. On 3/1/01, the Board approved a \$2 million reimbursable grant to the HPA for the Battleship using the General Fund. The \$2 million was reimbursed by the State of NJ, Department of Transportation.
4. On 3/1/01, the Board approved a \$6 million reimbursable grant to HPA for the Battleship using the General Fund. The State of NJ was listed on the SS&R as the party responsible for reimbursement. Authority staff could not locate a reimbursement agreement and the grant was written off. The General Fund was replenished in the amount of \$6 million utilizing 2001 PDP Bonds, Series A. The Authority is still responsible for debt service on this amount.
5. On 7/18/01, the Board approved a \$2.5 million reimbursable advance to the HPA for the Battleship using 1999 PDP Bonds. The State of NJ was listed on the SS&R as the party responsible for reimbursement. Authority staff could not locate a reimbursement agreement and the advance was written off. The Authority is still responsible for debt service on this amount.
6. On 3/19/03, the Board approved a \$1 million loan guarantee to the HPA using 2001 PDP Bonds. The actual SOF was 1999 PDP Bonds, Series A. The current

balance is \$900,000. Debt service payments are offset partially by interest earned in the Project Fund.

7. On 11/19/03, the Board approved a \$350,000 operating grant to the HPA using 1999 PDP Bonds, Series A.
8. In 2005, a \$50,000 promotional partnership grant was provided to the HPA using 2001 Bond Swap proceeds. There was no resolution approved by the Board since it was under the \$100,000 threshold which required Chair, Vice Chair, and CEO approval. The Finance Department made two contract voucher payments in the amounts of \$40,000 and \$10,000 to HPA. Under the grant, HPA promoted the Ferry, PATCO, and the Authority.

Hanson advised that the some funding to the HPA/Battleship was prepared without the assistance of the Finance Department which led to the SOFs problem. In addition, some SS&Rs were presented at Board meetings without advanced notice.

D. Investigative Findings

The OIG reviewed the allegations in the Foundation packet as well as additional allegations made by von Zwehl during interviews. The investigative findings are discussed by each allegation.

1. Allegation: The \$1 million loan guarantee is/has been backstopped by DRPA with the 1999 "Series A PDP Bonds" at an avg. rate of 5.5% costing DRPA \$55,000 a year in interest x 9 years or \$495,000 to date.

Investigation:

Investigation confirmed that the SOFs for the loan guarantee were 1999 PDP Bonds, Series A. The \$1 million is held in a Project Fund on reserve at TD. The \$1 million is part of a \$6 million in Project Funds currently held at TD. The \$1 million is currently earning 0.19% interest but the rate has fluctuated from a high of approximately 4%.

Investigation determined that the \$1 million was part of the \$164,215,000 in 1999 PDP Bonds, Series A, issued by the Authority.

Findings:

This allegation **is supported** by the facts. The Authority is making debt service payments on the \$1 million held by TD for the loan guarantee. The resolution authorizing the loan guarantee was approved by the Board on 3/19/03. The \$1 million was part of a larger bond issue with the proceeds used for Economic Development projects in NJ and PA. Debt Service payments are slightly offset by the interest earned while the \$1 million is held in trust in a Project Fund. The interest rate is currently 0.19%.

2. Allegation: "The Homeport Alliance for the USS New Jersey, Inc." has reported on their 2009 IRS 990 Filing \$18,408,709.00 "Net Assets" that are more than sufficient to serve as collateral for the \$900,000 principal outstanding to TD Bank.

Investigation:

Investigation confirmed that the HPA listed over \$18 million in assets on 2009 IRS Form 990. However, further investigation determined that approximately \$14 million in assets are related to the pier and improvements. The Battleship belongs to the Navy, not to the HPA, and cannot be used as collateral.

During the investigation, von Zwehl advised that he did not know what the over \$18 million in assets were comprised of and stated that he was "going by the facts as he knew them". Von Zwehl also stated that he assumed Matheussen arranged for the loan guarantee after becoming the Authority's CEO.

A review of the HPA financial documents presented at its Executive Committee Meeting on 11/30/11 revealed the pier was valued at over \$13 million.

Findings:

These allegations are **not supported** by the facts. Robert Curley, Regional Vice President, TD, was interviewed and advised that "any statement that HPA has sufficient assets to serve as collateral on the loan is inaccurate". Curley stated that the HPA had between \$9 and \$10 million in improvements on the pier. Curley stated that TD never considered the pier as collateral and would not have made the loan without the guarantee from the Authority.

Matheussen started with the Authority on 4/1/03 and the loan guarantee was approved on 3/19/03. Matheussen advised that pier improvements totaled approximately \$13 million.

3. Allegation: TD Bank Representative Michael Carbone is a full Trustee on the Board of "The Homeport Alliance for The USS New Jersey" and has already expressed a willingness to re-negotiate/restructure the loan guarantee/collateralization should the DRPA guarantee not be extended at this DRPA Board Meeting. If DRPA Board says "NO" to loan guarantee extension, contrary to Mr. Hanson & Mr. Brown, DRPA will not have to come up with \$900,000. TD Bank would first have to exhaust all remedies with "The Homeport Alliance for the USS New Jersey."

Investigation:

Investigation revealed that Michael Carbone left the HPA Board in the fall of 2011. Investigation also revealed that Carbone recused himself from loan discussions at both TD and the HPA.

During the investigation, von Zwehl claimed that Hanson and Brown's statements at the 1/11/12 Finance Committee meeting were incorrect. Von Zwehl acknowledged that he did not review the loan guarantee documents and never attempted to speak to anyone at TD.

A review of the loan guarantee documents clearly indicated that TD has direct recourse against the Authority.¹⁰ According to Curley, TD does not consider the pier to be an asset. Curley stated that "any statement that HPA has sufficient assets to serve as collateral is inaccurate". Curley also stated that TD would not have made the loan without the Authority's guarantee. Curley advised that the loan guarantee is **unlimited and unconditional** and noted that TD has direct recourse against the Authority. Investigation also confirmed with Hanson and Brown that TD has direct recourse against the Authority.

Findings:

This allegation is **not supported** by the facts. TD has direct recourse against the Authority,¹¹ which was confirmed by Curley, Hanson, and Brown. Interviews revealed that Carbone recused himself from any loan discussions at TD and the HPA. Curley also advised that TD was not interested in restructuring/renegotiating the HPA loan.

¹⁰ Loan Guarantee Documents, page 1, Section 2.B. Enforcement of Guaranty.

¹¹ Loan Guarantee Documents, page 1, Section 2.B. Enforcement of Guaranty.

4. Allegation: Vice Chairman Nash should have recused himself from the 11JAN Finance Committee discussions as that Committee's Chair with regard to extending the loan guarantee as he, Like DRPA CEO/Homeport Alliance Board Chair John Matheussen, sits on the Board of Trustees for "The Homeport Alliance for the USS New Jersey" and has a vested interest in the outcome of this vote.

Investigation:

Investigation revealed that Commissioner Nash is an ex-officio member of the HPA Board. Commissioner Nash is an ex-officio member due to his position as the Vice Chairman of the Authority.

Commissioner Nash advised that he never attended any HPA Board meetings, was never invited to meetings, never reviewed minutes, etc. Investigation confirmed that Commissioner Nash did not attend any HPA meetings. Authority staff, such as David Murphy, did attend HPA meetings. Commissioner Nash spoke with Matheussen immediately after the 1/18/12 Board meeting about being on the HPA Board. Upon learning he was an ex-officio member, Commissioner Nash designated an alternate to the HPA Board (Commissioner Charles Fentress). Commissioner Nash stated that any conflict of interest was unintentional. Commissioner Nash advised that a review of Board actions involving Camden County matters will reveal that he abstained from voting on those matters.

The allegations also stated that Commissioner Nash had a vested interest in the outcome of the vote. Both Matheussen and Commissioner Nash are on the HPA Board, a non-profit organization. Von Zwehl provided no evidence to support this statement during his interviews.

Investigation reviewed the Authority's Ethics Policy and the Ethics requirements for Commissioners in connection with this allegation. This review revealed that there is not a uniform Ethics policy for all Commissioners. Compliance by the Commissioners is based on the requirements of the state from which they are appointed.

Findings:

The allegation that Commissioner Nash should have recused himself **is supported** by the facts. Commissioner Nash **should have recused** himself from any discussion of the HPA and the loan guarantee. However, several mitigating factors were noted. Investigation determined that the conflict of interest was **unintentional** and **would not have affected** the outcome of the vote supporting an extension of the loan guarantee.

The allegation that Commissioner Nash had a vested interest in the outcome of the vote is **not supported** by the facts. Von Zwehl provided no evidence to support this statement during his interview.

Recommendation:

All commissioners are required to file an Ethics form, for the state from which they are appointed, to be in compliance with **Reform Resolution 10-051**. However, the Ethics requirements for PA and NJ Commissioners are not uniform. Under Executive Order #41, NJ Commissioners take online Ethics training and complete a training form. Compliance is then certified by the CEO and sent to the State of NJ. The forms are maintained in the CEO's Office. Under Executive Order #24, NJ Commissioners are also required to complete a Financial Disclosure Statement. Copies of these statements are not maintained by the Authority.

PA Commissioners are governed by the PA Public Official and Employees Act, as amended in 2006. PA Commissioners file a Statement of Financial Interest with the State's Ethics Commission. Copies of these statements are not maintained by the Authority. There is no Ethics training requirement for PA Commissioners. Ethics training for PA Commissioners is optional.

A uniform Ethics Policy for both PA and NJ Commissioners should be adopted by the Board. A uniform Ethics Policy for the Commissioners would be consistent with the intent of this 2010 Reform Resolution. Once a uniform policy is developed, the Ethics forms should be completed annually and maintained in either the CEO or General Counsel's Office. Once adopted, this reform resolution should be incorporated into the Authority's Bylaws and Standard Operating Procedures (SOPs).

This recommendation may not have addressed Commissioner Nash's situation since he was unaware of his HPA position. However, the implementation of this recommendation would eliminate the different Ethics requirements that currently exist between the PA and NJ Commissioners.

5. Allegation: "The Homeport Alliance for the USS New Jersey" CEO testified in March, 2011 to the NJ State Senate Finance Committee that if NJ cut off the \$1.74 million in state aid they received the prior year, they would be insolvent by the end of 2011, and the State of New Jersey did cut off that aid, almost 50% of the Homeport Alliance's revenue. DRPA will NOT see another \$100,000 in 2012 shaved off the TD Bank loan guarantee as Mr. Hanson stated, reducing DRPA's exposure. The Homeport Alliance is projecting a \$1million plus operating deficit in 2012, owes another \$1million plus and the ship museum is currently closed.

Investigation:

Investigation determined that the HPA did lose aid from the State of NJ in 2011.

Philip Rowan, President, HPA, confirmed that the HPA missed a \$50,000 principal payment in November 2011 to TD. Rowan advised that the HPA is developing a new business plan and is seeking to restore its state aid. Rowan advised that the HPA plans to make a \$100,000 principal payment in 9/12.

Findings:

The HPA's current financial condition and any projections about the future of it's financial condition were **outside the scope** of this investigation. Competing political agendas will influence whether the HPA successfully restores aid from the State of NJ.

6. Allegation: DRPA has already directly invested As Economic Development" \$10.75 million in to the Battleship New Jersey from 2001 UBS credit/ cash swap costing DRPA almost \$20 million to date plus another \$8-10 million in improvements around ship. DRPA's projected total cost/exposure by CPA general accounting practice standards for the USS New Jersey is over \$40 million. A full audit should be forthcoming. This is in total contradiction to Finance Committee Chairman Nash's comments in the meeting minutes from 12JAN where he is quoted saying that "DRPA has not paid any money for this project as it is simply a guarantor of the loan."

Investigation:

A review of the minutes of the 1/11/12 Finance Committee indicated that Commissioner Nash did make the statement that "DRPA has not paid any money for this project as it is simply a guarantor of the loan". The minutes revealed that Commissioner Nash also conceded that the Authority will have to pay the loan if the HPA does not. When interviewed, Commissioner Nash stated that he did not realize the extent of the Authority's funding to the HPA for the Battleship. Commissioner Nash started at the Authority in 2002 after most of the funding to the HPA was provided. Commissioner Nash recalled the State of NJ being the driving force behind the Battleship project.

The Maroney Chart shows approximately \$2.5 million in grants going to the Battleship/HPA from the Authority. Another \$8 million was given to the HPA and reimbursed by the State of NJ. However, \$6 million and \$2.5 million were advanced/granted to the HPA by the Authority at two (2) separate Board meetings. Interviews with Authority staff revealed that these resolutions were prepared without staff assistance. The \$6 million reimbursable grant was approved on 3/1/01 at what was referred to as a "special meeting". The \$2.5 million reimbursable advance was approved on 7/18/01. These funding items were to be reimbursed by the State of NJ. The Finance Department conducted a review of the Authority funding to the HPA/Battleship in early 2005. The purpose of the review was to ensure that the SOFs were properly identified and in compliance with the bond covenants. During this review, the Finance Department could not locate reimbursement agreements with any State of NJ agency for these two (2) funding items. These advances/grants were written off in 2005 as a result of this review. The Authority is still responsible for the debt service on the \$8.5 million.

During his interview, von Zwehl indicated that his figures above included Authority funding to projects in the area surrounding the Battleship and questioned whether the projects were done in support of the HPA.

Findings:

Part of the allegation **is supported** by the facts. Commissioner Nash did make the statement as described above. Commissioner Nash stated he was unaware of the extent of the Authority's funding to the HPA/Battleship. Commissioner Nash recalled the State of NJ being the driving force behind the Battleship project. Commissioner Nash started in 2002 at the Authority after the majority of funding to the HPA/Battleship had occurred. Commissioner Nash

was also unaware that \$8.5 million was written off by the Authority because the NJ State agency responsible for reimbursement could not be identified by staff.

Overall, the Authority funding provided to the Battleship/HPA included \$2.5 million in grants and \$8.5 million in grants/advances that were written off, for a total of \$11 million. Another \$1 million was deposited in a Project Fund at TD to support the loan guarantee. These figures do not include amounts reimbursed by the State of NJ.

The accuracy of the financial figures provided in the Foundation's packet is difficult to determine. The packet does not provide any details on how the total cost figures were calculated. The figures also include improvements to the waterfront area of Camden, NJ, in addition to those pertaining to the HPA/Battleship.

Regardless of the accuracy of the Foundation's figures, the Authority has already incurred these bond obligations and is responsible for debt service on these obligations.

Recommendation:

Authority staff should ensure that reimbursement agreements are executed and retained. The SOFs should be identified by staff prior to any Board action. The reform resolutions approved in 2010 should eliminate the factors that led to the \$8.5 million being written off since the Chair, Vice Chair and CEO, or their designees, are prohibited from placing an item on the agenda with less than 48 hours' notice to the Commissioner, the public and the media (**Reform Resolution 10-097**). This resolution does contain an override provision.

7. Allegation: DRPA and "the Homeport Alliance for the USS New Jersey" have the same:

- CEO and Chairman John Matheussen since 2003. John is also the Co-founder of "The Homeport Alliance"
- Board Vice Chairman & Trustee Jeffery Nash, Fellow Camden County Freeholder
- Patricia Jones is Vice Chair & Co-founder of "The Homeport Alliance"
- Auditor (Bowman & Company) *recently changed
- Engineering Company (S.T. Hudson Engineers) *one of several for DRPA
- A full audit over the last ten years will show that vendors, contractors, employees, police, materials, etc. have been used outside the Board's prevue to the benefit of "The Homeport Alliance for the USS New Jersey" at a significant cost to DRPA's bond holders, toll payers and PATCO riders and to the State of Pennsylvania's and New Jersey's taxpayers, at the direction of CEO.

Investigation:

Investigation confirmed that Matheussen was one of the founders of the HPA. Matheussen started at the Authority on 4/1/03 and his involvement with the HPA was disclosed to the Board at that time. Matheussen recused himself from the HPA matters and delegated Authority responsibility for the HPA to Brown.

Matheussen also knew that Commissioner Nash was an ex-officio member of the HPA. Matheussen thought that Commissioner Nash's position was a function of Nash being the Freeholder Director, Camden County. When Commissioner Nash stepped down as Freeholder Director, both Matheussen and Commissioner Nash lost track of Nash's HPA position.

When interviewed, von Zwehl advised that Matheussen was spending considerable time working on HPA matters while employed at the Authority to include fundraising activities. Matheussen stated that he attended the HPA executive meetings during lunch hours. As CEO, Matheussen frequently attends meetings of various organizations to represent the interest of the Authority.

As noted above, the relationship between the Authority's vendors and the HPA was questioned. Von Zwehl suggested that the Authority's vendors were assisting the HPA in exchange for being awarded Authority contracts. Von Zwehl provided no evidence to support his statement. Von Zwehl also questioned whether Authority resources were diverted to benefit the Battleship such as the use of police officers. Von Zwehl observed that the Battleship was repainted recently and noted that the same paint is used for the bridges operated by the Authority. Von Zwehl felt that the Authority, Matheussen and/or Commissioner Nash, arranged for the HPA's electric and insurance bills to be paid as well. Von Zwehl provided no evidence to support these statements.

Recently, von Zwehl provided a list of Battleship donors via email and again questioned whether Matheussen and/or Commissioner Nash exerted influence over Authority vendors to support the HPA. Von Zwehl provided no evidence in support of his statement.

Findings:

The above statements and those made during the interview of von Zwehl are **not supported** by the facts. Matheussen advised that he never asked vendors to do business with the HPA. David McClintock, Chief of Police, advised that he never authorized the use of police officers at the Battleship. McClintock stated that the marine unit does patrol the river in the area of the Battleship. In addition, Authority police officers are placed on the ferry during high volume events as a safety precaution. McClintock noted that the ferry is an asset of the Authority. The third party operator of the ferry reimburses the Authority for the use of the police officers.

Investigation determined that Matheussen's attendance at the HPA meetings was **not an abuse of time**. Matheussen stated that executive meetings occurred over the lunch hour. Matheussen is given discretion by the Board in representing the interest of the Authority. Any fundraising activities conducted at the Authority were addressed by the **Reform Resolution 10-114**.

Investigation determined that the allegations involving the vendors were **not supported** by the facts and no further investigation was warranted.

Matheussen Response:

Through the end of 2011, the electric bill was paid in part by a grant from the State of NJ with the HPA responsible for the balance of the bill. The HPA is responsible for payment of its own insurance bills. Matheussen does attend HPA Board meetings which are held at night.

E. Additional von Zwehl Allegations

As this report was being finalized, von Zwehl sent an email on 3/13/12 which contained additional allegations and also included financial documents from the 11/30/11 Executive Committee Meeting of the HPA. In this email, von Zwehl stated, “please see attached for which is direct evidence of DRPA supporting the HPA outside of the TD Bank Loan”. Von Zwehl stated that the Authority appeared twice in the HPA financial documents. Von Zwehl also directed attention to the checks going to pay vendors and expenses. In conclusion, von Zwehl stated that “I have a good feeling that the DRPA is also ‘back-dooring’ monies to HPA to cover expenses through appropriations by the DRPA to the Cooper’s Ferry Development Corporation” (Cooper’s).

A review of the HPA financial documents revealed that Authority is mentioned twice in the statements. The Authority is listed as a line item in a cash flow document but the amount is blank. On the HPA balance sheet as of 11/30/11, the Authority is listed on page 2 under current liabilities. The account number, 2100.02, entitled “Accounts Payable-DRPA Cons” is listed in the amount of \$49,812.71. The review did not reveal any funding from Cooper’s and/or the Authority to the HPA. The Accounts Payable (A/P) Aging Summary showed two (2) payments totaling \$6,607.64 due to Cooper’s for an events director.

On 3/15/12, von Zwehl provided two (2) emails. In one email, Von Zwehl questioned how the \$1 million was spent in 2003 by the HPA. Attached to this email was a separate email from Glen Blue to von Zwehl which questioned activities at the HPA. In the other email, Blue provided von Zwehl with a link to a 3/7/12 article that appeared in the NY Times. The article dealt with layoffs at the Camden, NJ Police Department. Von Zwehl forwarded the article and stated “Please check to see DRPA police logs about use of their forces to patrol around ship, especially during major events at ship without Authority getting reimbursed”. The 3/15/12 emails provided no support for their allegations. Authority police patrols in the vicinity of the Battleship were addressed earlier in this report. How the HPA spent the \$1 million in 2003 was outside the scope of this investigation.

On 3/15/12, von Zwehl advised that he reviewed the 2010 IRS Form 990 for the HPA. It was pointed out to von Zwehl that salaries on this filing were missing. Von Zwehl saw reimbursements from the HPA to Cooper’s. Von Zwehl recalled seeing money going from the Authority to Cooper’s for marketing which included the Battleship. Von Zwehl thought the money came from Economic Development funding. Von Zwehl advised that he reviewed the HPA financial documents and saw the Authority as a line item with no dollar amount listed. This raised questions for von Zwehl who wondered why the Authority was listed without a dollar amount.

Rowan was interviewed again concerning the allegations described above. Rowan advised that the Authority was shown as a line item on the cash flow document with no dollar amount since an account for the Authority was created during construction on the project. Rowan spoke with Jim Schuck, former CEO, HPA. According to Schuck, the HPA last received \$1500 from the Authority in 2004 for sponsorship of an event.

Rowan explained that the Authority administered funds during the construction of the Battleship project. For the last ten (10) years, the HPA has disputed an invoice from AP Construction (APC), Blackwood, NJ pertaining to the pier. Since the Authority administered the funding for the construction of the Battleship project, the HPA bookkeeper classified it as monies owed to the Authority. Rowan stated that the money is owed to APC and not the Authority.

A review of the HPA financial documents indicated that APC was due \$49,796.71 on the A/P Aging Summary as of 1/3/12. There was no line item on the A/P Aging Summary showing an amount due to the Authority. The Finance Department does not have a receivable from the HPA listed on its books and records.

CONFIDENTIAL

F. Summary of Investigation

There has been a long running battle between northern and southern NJ over the location of the Battleship. The political activities of von Zwehl are noted in order to provide an understanding of the competing interests involved with the Battleship. The following is an overview of the Battleship situation and the investigation.

The Commission was created in 1980 under NJ law for the purpose of facilitating the donation of the ship for use as a museum and an application was submitted in 1996. The Navy decided that uncertainties over the availability of the ship existed and the application was not fully evaluated. The mooring site selected by the Commission was Liberty State Park. In 1998, when it appeared the ship would be available, the Commission selected Bayonne, NJ as the mooring site. However, the HPA had stated its intention to submit an application with Camden, NJ, as the mooring site. The Governor of NJ expressed neutrality over the USN's selection decision.¹²

On 10/20/00, the Secretary of the Navy approved the selection of the HPA to receive the Battleship.

In the late 1990s and early 2000s, there was a flurry of Economic Development funding activity at the Authority. PDP bonds were issued for the first time in 1998, again in 1999, and also in 2001. In addition, there was a costly Bond Swap done in 2001 which generated approximately \$40 million for Economic Development projects: \$20 million each for PA and NJ. The Authority held two (2) Board meetings in 2001 where **discrepancies** were noted. The Board awarded a \$6 million reimbursable grant to the HPA on 3/1/01 and a \$2.5 million reimbursable advance to the HPA on 7/18/01. Interviews with staff revealed that reimbursement agreements with the State of NJ were not executed and/or maintained by the Authority. In fact, investigation revealed that staff was not consulted on the SOFs prior to the Board meetings.

Investigation of the Authority funding to the HPA revealed other **discrepancies**. **Discrepancies** were noted concerning which PDP Bond issue was used as the SOFs and/or whether the General Fund was used.

In 2005, Hanson, the Finance Department, and outside counsel sought to properly identify the SOFs for each disbursement to the HPA. This was done to ensure that the Authority was in compliance with its bond covenants. At that time, a decision was made to write off the \$6 million and \$2.5 million as uncollectible since reimbursement agreements could not be located. Hanson stated that the auditors would not allow the receivables to remain on the books of the Authority. The Authority is still responsible for debt service on these amounts.

Von Zwehl acknowledged that he had a political agenda and wanted the Battleship moved to Northern NJ. Von Zwehl advised that he had no interest in embarrassing the Authority but he wanted Governor Corbett to demand that Matheussen and Commissioner

¹² GAO report, pages 3 and 4.

Nash decide what Board they wanted to sit on (the Authority or the HPA) since they cannot serve “two (2) masters”.

Von Zwehl acknowledged that he met with political officials from PA and NJ concerning the Battleship. Von Zwehl stated that he met with Governor Corbett in the cafeteria in the Authority building. Von Zwehl stated that he “wanted to help the Authority get out of the Battleship business”. Von Zwehl was sitting with David Reiner, NJ Authorities Unit, when he approached Governor Corbett. Von Zwehl informed Governor Corbett of Commissioner Nash’s conflict of interest with respect to the loan guarantee and the HPA. Von Zwehl attempted to give the Foundation packet to Governor Corbett but was intercepted by an individual he believed was Commissioner Teplitz. Commissioner Teplitz advised that he was alone when von Zwehl provided the Foundation packet to him and that he did not intercept any packet intended for Governor Corbett. Based on established security protocols, investigation concluded that a member of Governor Corbett’s security detail or staff took possession of the Foundation packet.

Von Zwehl stated that he met with NJ Governor Chris Christie, Lt. Governor Kimberly Guadagno, and members of the Christie administration. Von Zwehl also stated that his group met with other NJ politicians, including State Senate President Stephen Sweeney and State Senator Donald Norcross. During his interview, von Zwehl attributed several comments to these officials reportedly in support of his group’s efforts to move the Battleship from Camden, NJ. Investigation did not attempt to confirm any of these comments since they had no relevance to the loan guarantee or activities/statements of Authority staff and Board.

Investigation determined that most of von Zwehl’s allegations and statements were **assumptions** and were **not supported** by the facts. Von Zwehl’s allegation that Commissioner Nash should have recused himself during the 1/11/12 Finance Committee meeting was **supported** by fact. Commissioner Nash is an ex-officio member of the HPA Board. Several mitigating factors were noted and discussed previously in this report.

Investigation determined that this conflict of interest was **unintentional** and was remedied by Commissioner Nash. Commissioner Nash appointed an alternate to the Board, HPA (Commissioner Fentress). Investigation determined that the conflict of interest had **no material effect** on outcome of the vote to extend the loan guarantee.

It should also be noted that Matheussen stepped down as Chairman, HPA but remains on its Board.

During the course of the investigation, the OIG referred to the Reform Resolutions passed in 2010. Most of the discrepancies identified during the investigation have been addressed by these reforms. However, it is noted that some of the 2010 reforms have not been incorporated into the Authority’s Bylaws and/or SOPs. This is discussed in more detail in **Section G, Recommendations**.

G. Recommendations

During the course of this investigation, the OIG reviewed the 2010 Reform Resolutions on several occasions. Interviews with Authority staff revealed considerable confusion and frustration with the lack of guidance in implementing these reforms. As noted throughout this report, most of the reforms have not been incorporated into the Authority's Bylaws and SOPs. There has been no training provided to Commissioners/staff on the new reforms. Authority staff noted that the terminology used in several reform resolutions was inconsistent with the terminology used in practice at the Authority. Authority staff also noted their involvement was not requested as the reform resolutions were being prepared. It is **recommended** that these reforms be reviewed, clarified, and consolidated so that the reforms are clearly understood by the Commissioners/staff. It is further **recommended** that these reforms should be incorporated into the Authority's Bylaws and SOPs. It is also **recommended** that training on these reforms be provided to the Commissioners/staff. The following is offered in support of these recommendations:

1. Commissioners are required to file an Ethics form, for the state from which they were appointed, to be in compliance with **Reform Resolution 10-051**. The requirements for PA and NJ Commissioners are not uniform. Under Emphasize Ethics and Transparency, page 25, of the Authority's 2012 Strategic Plan, Commissioners are required to sign an acknowledgment of the Authority's Ethics policy. This requirement has not been implemented. It is **recommended** that this requirement be adhered to and a consistent policy be developed to ensure compliance on an annual basis. Under Executive Order #41, NJ Commissioners take online Ethics training and complete a training form. Compliance is certified by the CEO and sent to the State of NJ. The certifications are maintained in the CEO's Office. Under Executive Order #24, NJ Commissioners are also required to complete a Financial Disclosure Statement. Copies of these documents are not maintained at the Authority.

PA Commissioners are governed by the PA Public Official and Employees Act, as amended in 2006. PA Commissioners file a Statement of Financial Interest with the PA's Ethics Commission. Copies of these statements are not maintained by the Authority. PA Commissioners are not required to complete Ethics training. Ethics training is optional for PA Commissioners.

A uniform Ethics Policy, with the same requirements for all Commissioners, should be adopted by the Board. This would be consistent with the intent of the 2010 Reform Resolutions.

2. The Authority staff should ensure that the SOFs are clearly identified prior to any Board action. The reform resolutions approved in 2010 should eliminate the factors that led to the \$8.5 million being written off since Chair, Vice Chair and

CEO, or their designees, are prohibited from placing an item on the agenda with less than 48 hours' notice to Commissioners, the public and media (**Reform Resolution 10-097**). There is an override provision in this reform.

3. **Reform Resolution 10-045** required the disclosure of political contributions by vendors. This requirement has been incorporated into some RFPs and contracts. Until recently, Authority policy required that the disclosures be submitted in a sealed envelope, placed on file in the General Counsel's Office, and not reviewed. This does not appear to be the intent of this reform resolution. General Counsel has advised that there are a number of issues with this resolution. Further clarification from the Board and a specific procedure for the use of this information needs to be developed. It is **recommended** that the Inspector General review the disclosure forms and that the forms be maintained in the General Counsel's Office.
4. Three (3) **Reform Resolutions 10-044, 10-046, and 10-098** deal with contracting and procurement. From interviews with Authority staff, there appears to be considerable confusion with respect to these reforms. It is **recommended** that these reforms should be reduced to one (1) clearly defined resolution and specific procurement SOPs be developed and adopted.

It should be noted that Authority senior staff has begun a review of the reform resolutions with the intent to provide recommendations to the Board for improvements to the reforms resolutions.

H. Required Board Action

The major focus of the allegations found in the Foundation's packet involve the loan guarantee which was initially approved by the Board on 3/19/03 and recently extended for a three (3) month period. The Foundation wants the Authority to stop guaranteeing the HPA loan. Investigation confirmed the following facts with respect to the loan guarantee which are offered for the Board's consideration:

1. Exposure to the Authority on the loan guarantee is currently \$900,000.
2. TD has direct recourse against the Authority for any outstanding loan balance.
3. The HPA missed a scheduled \$50,000 principal payment in November 2011 and was in default until the three (3) month extension was approved.
4. The HPA has financial difficulties and is redeveloping a new business plan to include making a \$100,000 principal payment in September 2012.
5. TD does not consider the pier, HPA's major asset, as collateral for the loan.
6. TD would not have made the loan to the HPA without the loan guarantee.
7. Without the loan guarantee extension, TD will call the loan and have direct recourse against the Authority for the outstanding balance. The current loan guarantee expires 6/30/12.

Based on the facts above, the Board has the following two (2) options:

1. **Extend** the loan guarantee since TD has direct recourse against the Authority. This will provide the HPA with additional time to rectify its financial problems and further reduce the outstanding principal. Any determination as to the likelihood of an improved financial situation at the HPA was outside the scope of this investigation. The \$1 million has been in a Project Fund at TD for an extended period of time. Debt service on this amount is partially offset by the interest earned (0.19% currently).
2. **Not extend** the loan guarantee. TD will call the loan and have direct recourse against the Authority and deduct the balance owed (\$900,000) from the \$1 million in the Project Fund. The remaining balance of \$100,000 can be used by the Authority for capital expenditures.

The Authority will remain responsible for the debt service on the \$1 million regardless of the Board's decision. The Board should anticipate public reaction on this issue regardless of its decision.

Note: On 3/29/12, the Authority received an email from TD after the ninety (90) loan guarantee extension, approved by the Board on 1/18/12, was signed. It stated that TD was “going to meet with the Battleship to discuss a long term plan. We (TD) will iron out the details with them and then reach out to you (the Authority) for the next steps”.

CONFIDENTIAL

I. Index of Interviews Conducted

1. Christina Maroney on 2/10/12, 2/14/12, 2/23/12 and 3/29/12.
2. James White on 2/13-14/12.
3. John T. Hanson on 2/13/12, 2/21/12, 2/23/12, 3/2/12, 3/19/12 and 5/3/12.
4. Richard L. Brown on 2/21/12.
5. Philip Rowan on 2/21/12, 2/28/12, 4/30/12 and 5/10/12.
6. Jeffrey L. Nash on 2/27/12 and 4/30/12.
7. Robert Curley on 2/27/12.
8. Christopher von Zwehl on 2/24/12, 2/28/12, 3/2/12, 3/6/12, 3/13/12, and 3/15/12.
9. Thomas J. Gorman on 3/2/12.
10. David McClintock on 3/2/12.
11. John J. Matheussen on 2/21/12, 3/1/12 and 5/10/12. Response to report on 5/11/12.
12. Ronnie Gilbert on 2/14/12, 2/21/12 and 3/21/12.
13. Karen McCarthy Jacobson on 2/14/12.
14. Fran DiCicco on 2/22/12.
15. Robert F. Teplitz on 5/10/12.

J. Index of Documents Reviewed

1. Original Foundation packet provided on 2/8/12 by Hanson.
2. Copy of Foundation packet and related documents provided 2/9/12 by Brown.
3. Economic Development funding spreadsheet to HPA provided on 2/14/12 by Gilbert.
4. Minutes of 1/11/12 Finance Committee meeting provided on 2/14/12 by Jacobson.
5. Memorandums concerning write off of \$68.5 million provided on 2/21/12 by Hanson.
6. Five (5) Summary Statement and Resolution(s) (SS&R) provided on 2/22/12 by DiCicco.
7. Email with list of donors to Battleship provided on 3/6/12 by von Zwehl.
8. Trust documents for \$1 million at TD provided on 2/14/12 by White.
9. Copy of USN contract for Battleship dated 7/20/00 provided on 3/2/12 by von Zwehl.
10. Copy of letter from Division of Community Affairs, NJ Attorney General's Office, dated 1/16/12 provided on 2/28/12 by von Zwehl.
11. Funding chart and file marked "Loan Guarantee" provided on 2/10/12 by Maroney.
12. GAO Report dated 10/2000 for the Selection Decision on USS New Jersey.
13. HPA financial documents provided on 3/13/12 by von Zwehl.
14. Two emails with attachments provided by von Zwehl on 3/15/12.
15. Email from TD dated 3/29 /12 concerning loan extension provided on 4/9/12 by White.
16. Two contact voucher payments totaling \$50,000 to HPA provided on 5/3/12 by Hanson.