

Date: January 25, 2011

To: The Audit File of the Hugh L. Carey Battery Park City Authority (the "Authority")

From: Marks Paneth & Shron LLP

Re: **Observations and Recommendations Resulting From the October 31, 2010 Audit**

Matters in this memorandum are as of the date above. If matters should arise between this date and the date of our audit report on the financial statements, we will communicate them to you in a separate letter.

Exhibit I of this memo lists items that we noted during our audit of the Authority's October 31, 2010 financial statements. Included in Exhibit II are those observations and recommendations from the prior year's audit that appear not to require further attention.

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Exhibit I – Current Year Recommendations

1. FIXED ASSETS MODULE

Observation: The Authority's project assets, consisting of land, site improvements and the residential building and condominium with a combined net book value of approximately \$470 million as of October 31, 2010, are manually entered into the fixed assets module within Great Plains when they are placed in service. The fixed assets module serves as the basis for the calculation of the depreciation that is reflected in the Authority's financial statements.

As part of our audit procedures applied to project assets, we reviewed the reasonableness of the useful lives of project assets and recalculated depreciation on certain assets. Based on this analysis it was noted that the useful lives for certain of the site improvements are for a period greater than the term of the ground lease, which expires in 2069. As a result, such site improvements may be under-depreciated on an annual basis and would not be fully depreciated upon the expiration of the ground lease when the assets will need to be removed from the general ledger. Management has advised us that it believes there are other assets which are over-depreciated, offsetting the financial statement impact of the under-depreciated assets that we tested.

Recommendation: We recommend the Authority review the useful lives of its project assets and if necessary revise their estimates of the useful lives to ensure that the assets are fully depreciated at the end of the lease term.

Management's Response: Management will review the Fixed Asset Module to ensure assets are fully depreciated at the end of the lease term which ends June 2069 and make appropriate modifications to asset lives.

****END OF NEW RECOMMENDATIONS****

Exhibit II – Prior Year Recommendations That Appear to Not Require Further Attention

2. BANK AND INVESTMENT ACCOUNT RECONCILIATIONS

Prior Year Observation: The Authority maintains numerous bank and investment accounts as part of its statutory responsibilities. Reconciliations from the bank and investment statements to the general ledger are prepared on a monthly basis and are subject to management review. We obtained bank and investment account reconciliations and noted they were prepared on a timely basis. Although the Finance Department has certain processes in place to mitigate the risk of a material misstatement as it relates to bank and investment accounts, the management review of these account reconciliations remains undocumented.

Prior Year Recommendation: We recommend that management of the Authority formalize their controls over bank and investment reconciliations by evidencing their reviews with a signature/initial and date.

Current Year Status: MP&S noted that the review of the bank and investment reconciliations was properly documented through the initialing and dating of the reconciliations by the Controller.

3. OUTSTANDING CHECKS

Prior Year Observation: The Authority prepares bank reconciliations on a monthly basis. Bank balances are adjusted for reconciling items, including outstanding checks to arrive at the balance per the general ledger. We obtained bank reconciliations as part of our audit procedures. During our review, we noted stale outstanding checks dating back as far as 2003. Checks outstanding greater than 6 months are considered void and cannot be cashed. New York State Abandoned Property law requires negotiable instruments, including outstanding checks to vendors (Accounts Payable), be remitted to the Office of the State Comptroller.

Prior Year Recommendation: We recommend the Authority review New York State Abandoned Property law to determine whether any outstanding checks should be remitted to the Office of the State Comptroller. In addition, we recommend state checks not required to be remitted to the Office of the State Comptroller be presented as a liability versus an outstanding checks.

Current Year Status: The Authority has reviewed New York State Abandoned Property law and determined that the provisions referred to in the recommendation are not applicable to public authorities such as the Authority.

4. EXTERNAL SERVICE PROVIDER SAS 70

Prior Year Observation: The Authority utilizes a service organization to process payroll for its employees. Service organizations, although external, are considered an extension of an organization for internal controls purposes. The use of a service organization does relieve an organization of related internal controls. Generally, large service providers release a Type II SAS 70 report, which lists all the relevant controls related to the services they provide. These reports are audited by an external CPA firm, whose report is included with the SAS 70 report.

As part of our audit procedures over payroll, we obtained the Type II SAS 70 report issued by Automatic Data Processing Inc. ("ADP"). We reviewed the report noting the controls identified and performed by ADP appeared commensurate with those necessary had payroll been processed in-house by the Authority. In addition, we did not identify any control deficiencies, which would preclude an organization from relying on the SAS 70 and that the external CPA firm issued an unqualified opinion.

We noted that management of the Authority does not review SAS 70 reports for their payroll service organization. Exceptions to the SAS 70 report could result in the need for the Authority to modify existing processes and controls.

Current Year Status: The Authority has reviewed its existing processes and controls related to payroll processing and found them to be adequate and operating effectively.

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