

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
AUDIT COMMITTEE MEETING
One World Financial Center – 24th Floor
New York, NY 10281
May 14, 2008

Members Present

Frank J. Branchini, Chairman
Robert J. Mueller, Member
Charles J. Urstadt, Member (by telephone)
James F. Gill, Ex-Officio Member

Authority Staff in Attendance: James Cavanaugh, President and Chief Executive Officer
Alexandra Altman, Executive Vice President and General Counsel
Debra Bogosian, Controller, Finance
Lauren Brugess, Administrative Assistant
Megan Churnetski, Assistant Corporate Secretary
Luis Garcia, Assistant Treasurer, Finance
Neresa Gordon, Network Administrator/Technology Unit Manager, MIS
Antigona Hajdaraj, Special Assistant to the President
Carl Jaffee, Senior Development Counsel and Corporate Secretary
Wilson Kimball, Senior Vice President, Operations
Lisa Miller, Vice President, Internal Audit and Compliance
Elisha Rodriguez, Senior Accounting Manager, Finance
Robert M. Serpico, Senior Vice President, Finance and Treasurer/Chief Financial Officer
Roy Villafane, Director, Internal Audit
Katie Slack, Accounting Manager, Finance

The meeting, called on public notice in accordance with the New York State Open Meetings Law, convened at 1:40 p.m.

The first item on the agenda was approval of the minutes of the February 4, 2008 meeting.

Upon a motion made by Mr. Urstadt and seconded by Mr. Mueller, the minutes of the February 4, 2007 meeting were unanimously adopted.

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The next item on the agenda was a follow-up report on Internal Control matters. Ms. Miller began by reminding the Members that they requested an update on certain findings that KPMG, the Authority's public accountant, and MacDonald Page, the Authority's outside auditor, found with respect to Internal Controls, specifically with respect to financial expenditures, revenues and Management Information Systems ("MIS").

Mr. Serpico then presented to the Members the expense and revenue findings from MacDonald Page's review of the Authority's financial and accounting systems. He explained that the Authority will implement many of MacDonald Page's recommendations with respect to expenses. He specifically noted that the Authority will use the bank reconciliation module within the Great Plains system. The Authority has also filled an open accounting position. Additionally, it will begin billing employees who are out on disability for the employee portion of their benefit package. Further, he continued, all payroll and benefit information will be provided by employees to Human Resources.

Next, Mr. Serpico noted MacDonald Page's recommendation that the Finance Department have both FRX and Crystal capabilities. Ms. Bogosian explained that Finance believes using outside consultants for this role will actually be more cost-efficient in the long term. Mr. Branchini pointed out that this was merely an efficiency recommendation. Ms. Bogosian explained that in the event the Authority needed an emergency report it would use its outside Great Plains consultant to create it. Mr. Serpico noted that the Authority is now in compliance with the Paris software system, which was recently implemented by New York State.

Mr. Serpico then presented MacDonald Page's revenue findings. The first finding he described was a recommendation that all spreadsheets used by the Authority should be maintained within the same software package. Mr. Serpico stated that he did not agree with this finding because the Authority's systems already work in the most organized fashion possible. Mr. Branchini stated the important thing is that there are sufficient controls to catch any breakdown in the system.

Ms. Miller stated that part of MacDonald Page's review was to look for process improvements. Therefore, she continued, even if nothing was technically wrong, MacDonald Page made suggestions on how to make that process more efficient. In response to inquiry from Mr. Branchini, Mr. Serpico stated that MacDonald Page did not find any errors in the Authority's invoices.

Mr. Serpico continued explaining that MacDonald Page made an efficiency recommendation that the lease revenue calculations should be linked to the Great Plains Accounts Receivable Module. He stated that this finding does not suit the Authority due to the added complications of PILOT. Therefore, the Authority's system is already working at its most efficient level, he asserted.

Next, Mr. Serpico explained that the Authority will implement MacDonald Page's recommendation that the President and CFO sign off on all revenue budgets to create verifiable evidence of approvals. Although MacDonald Page recommended that retail tenants' sales tax

returns be annually submitted to the Authority, Mr. Serpico stated, the tenants' leases do not require them to provide such documentation, therefore the Authority cannot require this.

Mr. Branchini noted that the Authority should request that KPMG examine MacDonald Page's findings and note for the record that they do not consider any findings to be high risk. Further, he added, KPMG should review how the level of risk is measured. Mr. Serpico stated that all of MacDonald Page's findings are immaterial and not significant in nature.

Next, Mr. Serpico noted MacDonald Page's recommendation that the Senior Accounting Manager and Senior Accountant use separate user accounts in the Tracking Pro deficiency system. Ms. Bogosian explained that the two positions do not share the same user account. Every user to this system has an individual name and password. Mr. Serpico added that the Authority does not see any risk in the current system.

In response to inquiry by Mr. Urstadt, Mr. Cavanaugh explained that a similar review will also be done for the Conservancy. Further, he explained, KPMG will likely include the Conservancy into the Authority's overall audit on a yearly basis going forward. Mr. Urstadt declared that the Conservancy's review should have taken place at the same time as the Authority's.

Mr. Cavanaugh noted that a review of the Conservancy will likely be less complex because 80% of the Conservancy's expenditures are payroll. He also stated that because the review will likely cost more than \$15,000, the Authority will have to run an RFP and advertise in the Contract Reporter.

Next, Mr. Serpico explained that the final two revenue findings were repetitive of expense related findings, previously discussed.

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Next, Ms. Kimball presented the findings from both MacDonald Page's and KPMG's reviews of the Authority's MIS systems by highlighting some of the more notable findings. She stated that the Authority has nearly hired a Chief Information Officer ("CIO"), as MacDonald had recommended. MacDonald Page's report also noted that the job descriptions for the MIS staff contained overlapping roles to which Ms. Kimball explained that the Authority cross-trains MIS staff because the department's small size necessitates that staff members be able to cover for one another. Mr. Branchini remarked that this is actually a positive attribute for which the Authority should be commended.

Ms. Kimball continued by stating that the Authority is developing a new and more comprehensive MIS policy. She explained that there are also some new State requirements such as holding monthly penetration testing and hiring an Information Security Officer, which the Authority has complied with.

Ms. Kimball then highlighted KPMG's report on MIS. She specifically noted that MIS had used a generic "SA" password for the Great Plains system which was immediately changed

in order to achieve better accountability, as recommended by KPMG. She explained that other findings, such as keeping the server room locked, were not followed because the Authority already has several of its own controls in place to prevent an outsider from getting into the Authority's network. In response to inquiry by Mr. Branchini, Ms. Kimball explained that when an employee leaves the Authority, Human Resources, Finance and MIS work together to remove or disable that person from the system.

Ms. Kimball stated that KPMG found the Authority's purchase of IT software and hardware to be beyond the Authority's needs. She explained that because the Authority will be adding the Conservancy into the same set of servers, the extra server capacity is desirable.

Next, Mr. Urstadt inquired whether the Sarbanes-Oxley Act requirements wherein the CEO and the CFO have to certify a company's financials are also required by another body of law. Ms. Miller explained that this accountability is now required by the Public Authorities Law and is therefore required of the Authority.

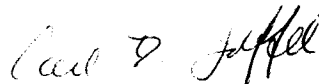
Mr. Mueller then requested that the Members receive a regular agenda for Audit Committee objectives for the rest of the year. Mr. Cavanaugh responded that there is a yearly audit plan which includes approximately eight audits. As Ms. Miller completes those audits, he explained, the Members may determine whether they want to meet to discuss them. Therefore, there are always potential agenda items which are dependent on those audit results.

Mr. Branchini noted his concern that there must be oversight into how harassment and workplace compliance issues are handled by the Authority. Ms. Miller stated that the Authority will report on such issues to the Members if they so desire. She also explained that the Authority has a whistleblower policy in place for any employee who feels they are being harassed.

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There being no further business, the meeting thereupon adjourned at 2:50 p.m.

Respectfully submitted,



Carl D. Jaffee
Corporate Secretary