



KPMG LLP
515 Broadway
Albany, NY 12207

March 22, 2010

Hugh L. Carey Battery Park City Authority
New York, NY

Ladies and Gentlemen:

We have audited the financial statements of the Hugh L. Carey Battery Park City Authority (the Authority), for the year ended October 31, 2009, and have issued our report thereon dated March 22, 2010. In planning and performing our audit of the financial statements of the Authority, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses, as defined above.

During our audit we noted certain observations involving internal control and other operational improvements that are presented for your consideration. These observations and recommendations have been discussed with the appropriate members of management, and are summarized in Appendix I.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, the audit committee and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Schedule of Observations

Bank and Investment Account Reconciliations

Background

The Authority maintains numerous bank and investment accounts as part of the statutory responsibilities. Reconciliations from the bank and investment statements to the general ledger are prepared on monthly basis and subject to management review.

Observation

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 investments, the management review of these accounts reconciliations remains undocumented.

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.

Outstanding Checks

Background

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.

Observation

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.

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 stale checks not required to be remitted to the Office of the State Comptroller be presented as a liability versus an outstanding check.

External Service Provider SAS 70

Background

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.

Observation

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.

Recommendation

We recommend that the Authority integrate the review of service organization SAS 70 reports into their internal control processes.