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OFFICE OF THE STATE COMPTROLLER

February 8, 2008

Mr. James E. Cavanaugh
President and Chief Executive Officer
Hugh L. Carey, Battery Park City Authority
One World Financial Center
New York, NY 10281-1097

Re: Report 2007-F-24

Dear Mr. Cavanaugh:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution; and Section 2803 of the Public Authorities Law, we have followed up on the actions taken by officials of the Battery Park City Authority (Authority) to implement the recommendations contained in our audit report, *Internal Controls over Employee Compensation, Travel and Entertainment, and Community Expenditures* (Report 2004-S-8).

Background, Scope and Objective

New York State adopted the Battery Park City Authority Act in 1968, creating the Battery Park City Authority (Authority) under the Public Authorities Law as a public benefit corporation that would supervise the development of a 92-acre site on the lower west side of Manhattan. This site, which was created from landfill, is owned by the Authority and is known as Battery Park City. The site includes 8 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, 2 hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units, in addition to park land and open space. Construction at the site is almost complete, except for the development of approximately 1.8 million square feet of additional commercial space and 2,200 residential units. The Authority is governed by a Board consisting of seven members appointed by the Governor, with the advice and consent of the New York State Senate.

Our initial audit report, which was issued on September 20, 2004, determined the Authority has good internal controls in the area of employee compensation. However, we noted areas of non-compliance with Authority guidelines during our review of travel and entertainment vouchers. In particular, the Authority did not always obtain the required supporting documentation for these expenditures. We also determined that the Authority could improve controls over community events expenditures by developing and implementing written policy and procedures governing such expenditures. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of December 31, 2007, of the three recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Authority officials have made progress in correcting some of the problems we identified. However, additional improvements are needed. Of the three prior audit recommendations, one recommendation has been implemented, and two recommendations have been partially implemented.

Follow-up Observations

Recommendation 1

Ensure that all vouchers for travel and entertainment expenses, including credit card charges, have sufficient back-up documentation in accordance with the Authority's employee handbook, including itemized bills, the business reason, or nature of the business discussions, and a list of attendees, as well as comply with the Authority's reimbursement limits.

Status - Partially Implemented

Agency Action - Based on our review of 9 judgmentally-selected travel and entertainment expense vouchers representing 15 transactions submitted during fiscal year 2007, we conclude that the Authority needs to be more vigilant in ensuring that vouchers are supported properly. We found two transactions lacked sufficient back-up documentation in accordance with the Authority's employee handbook. These two vouchers did not include proof of the employees' payment of the expense.

Recommendation 2

Update the Authority's handbook regarding the use of credit cards to reflect changes authorized by the Authority's management.

Status - Implemented

Agency Action - The Authority's handbook has been updated to reflect changes authorized by the Authority's management regarding the use of credit cards.

Recommendation 3

Develop written policy and procedures for community events expenditures, requiring a documented approval process, written support that discloses the business necessity, and an assessment of benefits gained from Authority participation.

Status - Partially Implemented

Agency Action - The Authority developed a written policy and procedure regarding these types of expenditures. This policy addresses the approval process and sets forth general criteria related

to the type of organizations or functions that are eligible for Authority sponsorship. The policy generally provides for sponsorship for events if the sponsoring organization's mission and purpose are congruent to that of the Authority. This policy should be further strengthened to include requiring identification of the business necessity for Authority participation at the particular event under consideration.

Major contributors to this report were Myron Goldmeer, Alina Mattie, Katrina Lau, and Margarita Ledezma.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Battery Park City Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Cindi Frieder
Audit Manager

cc: Ms. Lisa Miller, Director of Internal Audit
Ms. Lisa Ng, Division of the Budget