



Hudson River Park Trust

To: Madelyn Wils, President & CEO

From: Noreen Doyle as Internal Controls Officer

Re.: Required Internal Controls Assessment

CC: Dan Kurtz, Bill Heinzen, Sikander Zuberi, Sharmila Baichu

Date: June 30, 2014

Pursuant to Section 2800(1)(a)(9) of the Public Authorities Law, the Hudson River Park Trust (Trust) is required to complete an annual assessment of the effectiveness of our internal control structures and procedures. As you know, I have been designated as the Trust's Internal Controls Officer.

This will confirm that to satisfy this requirement, Executive Staff (you, Bill Heinzen, Dan Kurtz and I) met earlier this year in preparation for our Board Audit and Finance Committee meeting. We reviewed last year's risk assessment as well as the staff-wide assessment conducted in 2011, and discussed the current state of the Park. As part of this discussion, we reviewed the five major risks identified last year:

- (1) maintenance of aging park buildings/infrastructure, particularly at Pier 40;
- (2) insufficient capital maintenance budget;
- (3) compliance with procurement requirements and other governmental mandates
- (4) back-up plans for IT infrastructure
- (5) emergency preparedness

As has been much discussed over the last two years both with HRPT's Board of Directors and with the general public, the first two risks – maintaining aging infrastructure and inadequacy of capital maintenance budgets – have continued to grow since last year. Preliminary results from an in-water pile inspection of Pier 40 being conducted by an outside marine engineering firm indicate that pile conditions have continued to deteriorate. In addition, while HRPT's Board has authorized use of some of the Trust's limited financial reserves to repair elevators, stairwells and approximately 40 percent of the roof over the past two years in order to prevent large scale building closures, other portions of Pier 40, including the roof section on the southern shed in particular, are still in very poor condition. In addition, a preliminary inspection of the bulkhead at Morton Street has lead the Trust to conclude that a substantial repair of the bulkhead is necessary. As has been discussed repeatedly with our Board and the public, the

Trust does not have the financial capacity to make all of the needed repairs to Pier 40 and other “legacy assets”, nor has funding been provided by the State or City.

In 2013, the NYS Legislature approved an amendment to the Hudson River Park Act that took effect in November after being signed by Governor Cuomo. The new legislation will provide some immediate financial relief through cost savings. It also gives the Trust a new tool – the ability to sell unused park development rights (“air rights”) subject to a future zoning mechanism to be created by New York City. While significant public process and environmental review must occur before such a mechanism can be created, this seems like the most feasible way to generate revenue for urgent capital repairs at Pier 40. Revenue from air rights sales could also be used to help pay for new park construction now that new funding has slowed so significantly. However, even once the mechanism is in place, the process would still require a private sector partner’s interest in using and then paying for the air rights before any funding could be forthcoming. Thus, the future of Pier 40 in particular, remains at real risk and the outcome cannot yet be predicted.

Another continued area of risk relates to staying current with the ever expanding governmental requirements regarding compliance for procurement, MWBE participation, reporting and oversight, and increasingly for revenue and sponsorship contracts. While the Trust’s Finance, Legal, Human Resources and Executive staff monitor procurement, ethics, and transparency processes carefully and have provided training to staff involved in procurement in all departments, some staff still struggle with procurement processes, particularly as the requirements for compliance with M/WBE reporting and monitoring have evolved and become more onerous. We are still working towards remain current with the emerging requirements related to compliance. Accordingly, we are considering hiring a full or part-time employee in either our Finance or Legal Department whose sole duties relate to aspects of compliance. In light of our limited budget as well as our small size, we have been meeting as a team to try to prioritize needs prior to preparing a job determination.

Recovering from Hurricane Sandy has continued to occupy a huge amount of staff time for our Finance, Legal, Design and Construction, Operations and Maintenance, and IT Departments. Only in the past few months has our IT staff been able to begin devoting attention to upgrading aged IT infrastructure to keep our networks and back-up systems running. These efforts, now in progress, will take another few months. After that, our IT staff must devote its attention to finding an affordable solution to ensuring that the Trust has adequate back-up plans and systems for our phone or data in the event another catastrophe occurs at Pier 40. Last, and related, the Trust has still not finalized its draft emergency staffing plan in the event of a citywide or major park infrastructure crisis at Pier 40. This must be addressed in the coming year. Leadership from our Operations & Management and IT Departments will take the lead in developing recommendations for Executive staff’s review.

Separately, part of our outside auditor’s scope entails assessing the Trust’s internal controls. I have reviewed the Audited Financials dated June 30, 2014 including the attached “Report on Internal Control Over Financial Reporting and On Compliance with Other Matters ...” and participated in the Audit Committee’s review of this and other components of the Audit, and do not have any concerns regarding the safeguards for our financial procedures. The Trust appears to have appropriate checks, balances and redundancies in place.