



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: March 24, 2023

Re: Internal Audit Report

Since the last report to the Audit Committee on January 13, 2023, three internal audits were completed. A copy of each report is attached, and a summary is as follows:

2022 Employee Expenses

Objective(s):

Our audit objectives were to:

- (1) Determine whether adequate controls exist to ensure that employee expenses and other related expenses were appropriate, properly authorized, and accurately recorded; and
- (2) Evaluate and test compliance with HDC's policies and procedures relating to employee and other related expenses.

Audit Results:

We found the Corporation's guidelines to be effective and found no matters involving internal controls and its operation that we consider to be material weaknesses.

2022 President's Office Expenses

Objective(s):

Our audit objectives were to:

- (1) Evaluate the accuracy of the President's Office expenses recorded in Oracle and ensure they were accurately reflected in the General Ledger; and
- (2) Evaluate whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements.

Audit Results:

We found the Corporation's guidelines to be effective and found no matters involving internal controls and its operation that we consider to be material weaknesses.

REMINDER: The Employee Expenses and President's Office Expenses audits are required to be performed each year pursuant to the 2003 Memorandum of Understanding between HDC and the City's Department of Investigation.

2022 Investments (continuous monitoring)

Objective(s):

The objectives were to:

- (1) Determine whether the HDC investment portfolio complies with all aspects of HDC's Investment Guidelines; and
- (2) Determine whether investments were accurately recorded on custodial bank statements.

Audit Results:

We monitored the investment portfolio throughout the year on a quarterly basis and found that the HDC investment portfolio complied with all aspects of the HDC Investment Guidelines. Additionally, the investment portfolio was supported by custodial bank statements and regularly reconciled.

EMPLOYEE EXPENSES AUDIT 2022

Background

The Corporation's employees may incur expenses related to various policies outlined in the HDC Employee Handbook. The major policy initiatives where employees incur expenses are:

- *Travel* (local or out-of-town transportation, lodging, meals, and other expenses associated with attendance at relevant training, conferences, and seminars)
- *Employee Development* (continuous learning by encouraging participation in work-related training classes, workshops, seminars, and tuition reimbursement; also includes professional memberships and work-related events)
- *Employee Health* (providing a 50% allowance toward the cost of health club membership or health-related programs, up to a maximum of \$250 per calendar year, per employee)

All employees are jointly responsible with HDC's Treasury Department for the administration of, and compliance with, the Corporation's policies and procedures. Department and Division Head approvals are required on all forms and vouchers seeking reimbursement and/or payment to vendors to ensure that incurred expenses have been verified, validated, and adhere to established policies and procedures.

Objective(s):

- Evaluate the effectiveness of internal controls over employee expense reimbursements and other related expenses to ensure they were appropriate, properly authorized, and accurately recorded; and
- Evaluate and test compliance with the Corporation's policies and procedures relating to employee and other related expenses

Scope:

The audit period covered transactions from November 1, 2021 through October 31, 2022.

Results:

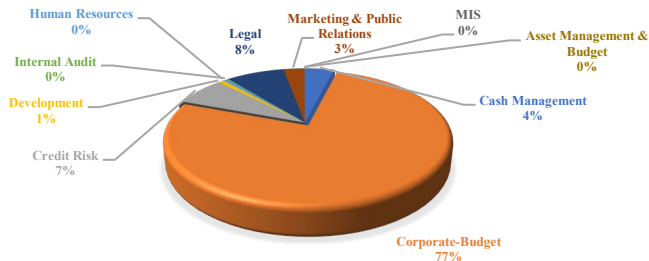
We noted no matters involving internal controls and its operation that were considered material weaknesses. Opportunities were identified to enhance expense reimbursement policies and forms to improve process controls. This would include attention to the process of submitting reimbursement forms to verify compliance with HDC policies and updates to policies for reimbursements from ride sharing apps. In summary, we found the Corporation's guidelines were effective and that employee expenses were generally processed with supporting documentation and correctly recorded according to the policies in the Employee Handbook.

Internal Controls:

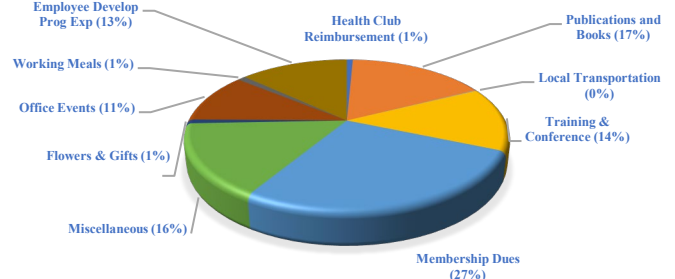
- *Policies & Procedures*
- *2003 Memorandum of Understanding with the NYC Department of Investigation (DOI)*
- *Approval hierarchy*
- *Detailed expense reports required*
- *Original receipts required*

Category	2021	2022	% Change
Health Club Reimbursement	\$4,182.39	\$3,129.11	-25.18%
Publications and Books	\$48,320.43	\$49,144.38	1.71%
Local Transportation	\$1,649.59	\$487.44	-70.45%
Training & Conference	\$14,455.99	\$40,171.84	177.89%
Membership Dues	\$68,037.21	\$80,157.34	17.81%
Miscellaneous	\$13,799.00	\$45,880.24	232.49%
Flowers & Gifts	\$2,845.00	\$2,441.02	-14.20%
Office Events	\$10,947.90	\$31,256.18	185.50%
Working Meals	\$4,502.64	\$2,875.95	-36.13%
Employee Develop Prog Exp	\$45,478.77	\$38,523.11	-15.29%
Grand Total	\$214,218.92	\$294,066.61	37.27%

EXPENSES BY DEPARTMENT



EXPENSE BY CATEGORY



PRESIDENT'S OFFICE EXPENSES AUDIT 2022

Background:

The President's Office expenses are required to be audited by Internal Audit on an annual basis pursuant to a Memorandum of Understanding between HDC and the City's Department of Investigation that was adopted by the HDC Board in 2003. President's Office expenses are governed by employee expense guidelines and, where applicable, the guidelines of the Corporation's Travel Expenses Policy in the Employee Handbook.

Objective(s):

- Evaluate accuracy of the President's Office expenses recorded in Oracle and ensure they are accurately reflected in the General Ledger; and
- Evaluate whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements.

Scope:

The audit period covered transactions from November 1, 2021 through October 31, 2022.

Results:

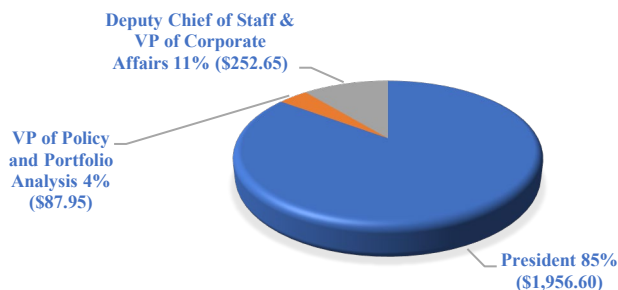
We noted no matters involving internal controls and its operation that were considered material weaknesses. Opportunities were identified to enhance expense reimbursement policies and forms to improve process controls. This would include attention to the process of submitting reimbursement forms to verify compliance with HDC policies when using wires as a form of payment. In summary, we found the Corporation's guidelines were effective and that the President's Office expenses were generally processed with supporting documentation and correctly recorded according to the policies in the Employee Handbook.

Internal Controls:

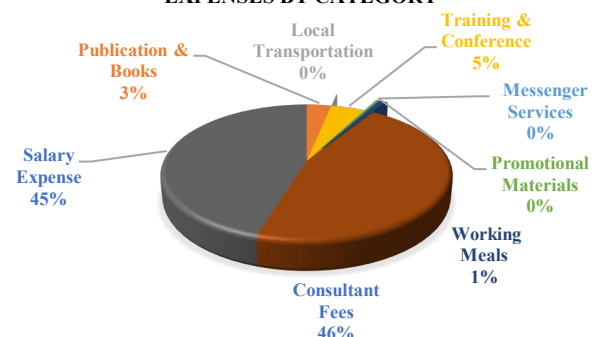
- Expense reimbursement policies & procedures
- Required detailed expense reports
- Expense report review and approval authority
- Requirement of original receipts
- Established timeframes for use of car service after regular business hours
- 2003 Memorandum of Understanding with DOI

Category	2021	2022	% Change
Publication & Books	\$ 7,990	\$ 7,990	0%
Printing & Photograph	\$ 139	\$ 0	-100%
Local Transportation	\$ 0	\$ 11	100%
Training & Conference	\$ 5,870	\$ 10,916	86%
Messenger Services	\$ 626	\$ 146	-77%
Promotional Materials	\$ 0	\$ 590	100%
Working Meals	\$ 1,362	\$ 2,287	68%
Consultant Fees	\$ 0	\$ 112,500	100%
Salary Expense	\$ 0	\$ 110,978	100%
Grand Total	\$ 15,987	\$ 245,418	1,535%

EXPENSES BY EMPLOYEE



EXPENSES BY CATEGORY



INVESTMENTS (Continuous Monitoring)

Objective(s):

- To determine investment portfolio complies with all aspects of HDC’s Investment Guidelines (the “Guidelines”), particularly with respect to:
 - Approved investment instruments
 - Diversification of investment holdings
 - Qualifications of financial counterparties
 - Reporting of investment activities
- To determine investments are accurately recorded on custodial bank statements

Audit Period:

Quarterly review (February/May/August/November) of investment activities for the 2022 calendar year.

Background:

Investment activities are made and monitored by the Corporation’s Investment Committee (the “Committee”). The Committee is comprised of the following members:

- EVP-Capital Markets & Investments (Chair)
- EVP-Chief Financial Officer
- SVP-Controller
- Director-Cash Management
- AVP-Cash Management
- Senior Cash Management Administrator

The Director-Cash Management is responsible for the daily supervision of investment activities. The Committee meets on a regular basis (bi-weekly) to determine funds available for investment and the appropriate investment instruments for those funds based on market conditions, length of time the funds are available for investment purposes, investment restrictions imposed by related bond or note resolutions, and diversification considerations. Any funds derived from the issuance of bonds is invested pursuant to the related bond resolution, as approved by the Members. The Committee shall determine the Corporation’s need for funds based on anticipated construction advances, dates of debt service payments on the Corporation’s debt obligations, and other financial requirements.

Audit Scope and Summary:

Scope Item	Review Description	Compliance	
		Yes	No
Monitoring & Reporting	-Committee prepares quarterly report of investment activities -Committee meets on a regular basis to discuss and monitor investment activities	✓	
Authorized Investments	-Investments are comprised of only approved investment instruments as noted in the Guidelines	✓	
Concentration Limits	-Investments do not exceed the concentration limits noted in the Guidelines	✓	
Investment Duration	-Investments are held in accordance with the timeframes noted in the Guidelines	✓	
Reconciliation of Custodial Statements	-Investment portfolio is supported by custodial statements and regularly reconciled	✓	
Authorized Financial Counterparties	-Investment transactions are with financial counterparties that meet the requirements noted in the Guidelines	✓	

Internal Controls:

- Investment Guidelines (Annual review and approval by the Board)
- Investment Committee (Bi-weekly meetings)
- Mark-to-Market (daily)
- Reconciliation (monthly)
- Credit Risk (Monthly review of investment portfolio/Approval of all financial counterparties)
- Internal Audit (Quarterly review)
- Audit Committee (Quarterly report from EVP)
- Segregation of duties