



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: September 20, 2023

Re: Internal Audit Report

Since the last report to the Audit Committee on June 1, 2023, three internal audit projects were completed – (1) Succession Plan; (2) Electronic Funds Transfers; and (3) Accounts Payable.

2023 Succession Plan (advisory)

Background:

Succession planning is an important tool for ensuring that organizations maintain regular operational levels and continue to meet high performance standards. By having a formal, effective succession plan across all departments, HDC can proceed with minimal disruption in the event of a key employee's departure. While HDC has had informal succession plans in place, management recognizes the need to formalize succession plans to ensure that capable individuals are identified and prepared to assume key responsibilities should a vacancy arise.

Objective:

Our objective was to assist the Corporation with formalizing an effective succession plan across all departments.

Results:

Internal Audit began its review by examining departmental organizational charts, job descriptions, and employee tenure data provided by HDC's Human Resources department. Internal Audit then developed a template to help guide department heads with formalizing their succession plans. After careful thought and review, department heads completed these templates and formalized their respective succession plans. Internal Audit reviewed these plans and determined that key roles have been identified, and strategies are in place to ensure that capable individuals are prepared, or will be prepared (either through additional training or hiring plans), to assume key responsibilities should a vacancy arise. Internal Audit gathered the completed templates from all HDC departments and assembled into a formal succession plan for the Corporation. Internal Audit

intends to perform an annual review of succession planning in conjunction with the annual review of business continuity plans going forward.

2023 Electronic Funds Transfers (advisory)

Background:

Electronic funds transfers (EFT) have increasingly become a target for fraudsters and scammers seeking to illegally divert funds. A request from HDC's Cash Management department to examine best practices in EFT prompted the Internal Audit department to research and review.

Objective:

Our objective was to research and report back to the HDC Cash Management team best practices around EFT.

Results:

Internal Audit reviewed the last audit report for EFT that was conducted in 2019. At that time, Internal Audit determined that HDC had effective controls around EFT activity. Internal Audit further researched industry best practices around EFT and communicated this information to the Cash Management team. As Cash Management has always been proactive around EFT security, they noted that they will retain the best practices document and that many of the industry best practices have been long-standing practices at HDC.

2023 Accounts Payable (assurance)

Objective:

Our objectives were: (1) to determine whether there are adequate Accounts Payable procedures; (2) to ensure that the selected check and wire disbursements are made in compliance with Accounts Payable policies and procedures, and (3) to determine whether all the payments processed were properly recorded in the General Ledger.

Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weaknesses.

Accounts Payable (AP)

Objective:

There are three objectives of this audit:

- Determine whether there are adequate AP procedures.
- Ensure that the selected checks are made in compliance with AP policies and procedures.
- Determine whether all the payments processed were properly recorded in the General Ledger.

Scope & Methodology:

This audit reviewed payments made in the current fiscal year (November 1st, 2022- July 31st, 2023).

In conducting this audit, we were guided by our objectives. As part of our evaluation to determine adequate AP procedures, we tested Accounting and Cash Management’s formalized policies. To ensure that the selected checks were made in compliance with AP policies and procedures, audit performed four tests:

- Supporting document testing to confirm OTPS payments had appropriate invoices and forms.
- Purchase order testing to verify the amounts paid were aligned to invoices.
- Approved vendor testing to check that all payments were sent to certified HDC vendors.
- Check register testing to review proper sign-off for payments above and below \$20,000.

Lastly, to determine whether all the payments processed were properly recorded in the General Ledger, we compared bank reconciliations, GL line entries, and the Statement of Account from the Bank of New York Mellon. The audit exclusively examined OTPS payments.

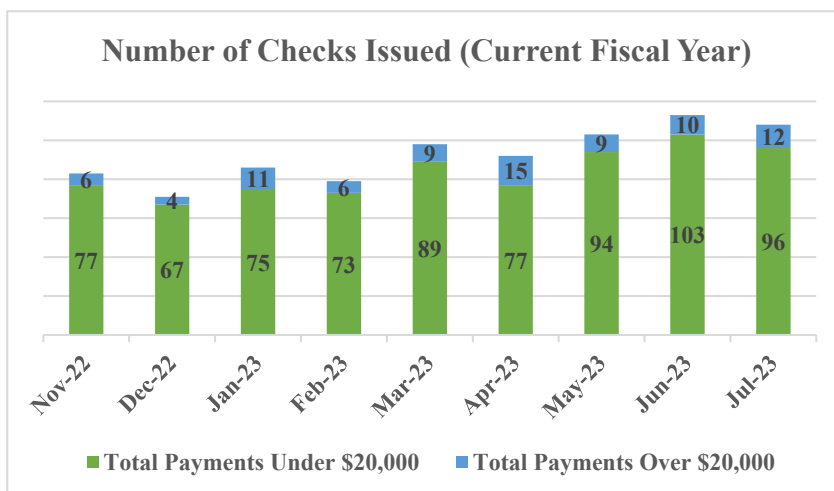
Background:

The Accounts Payable (AP) function within the Cash Management division is responsible for processing payments for vendor invoices that are entered into Oracle. AP generates check payments from Oracle. For payments made from the Corporate/Other Than Personnel Services (OTPS) accounts, AP ensures that all invoices are matched to a Purchase Order (PO), verifies the accuracy of the amounts charged by the vendors, and ensures authorization by the appropriate approvers.

After the checks are prepared, AP prepares the payment registers. For payments \$20,000 and above, the payment register is sent to the President. For payments under \$20,000, the payment registers are sent to the CFO, EVP of Asset Management, and AVP of Cash Management. The registers are sent through Adobe Sign along with the invoices. After AP receives the signed registers, the checks are finalized and mailed using AvidPay.

Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weaknesses.



Internal Controls

- ✓ Segregation of duties.
- ✓ HDC’s Procurement Policy.
- ✓ Additional sign off on payments \$20,000 and above.
- ✓ Levels of sign-off across divisions/departments.
- ✓ Documents uploaded to KnowledgeLake.
- ✓ A range of tools to process/submit payments.
- ✓ Annual review of AP’s Policy and Procedures.
- ✓ Bank reconciliations are prepared every month by Accounting.
- ✓ AP’s reports can be accessed in Oracle to promote transparency.