



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: November 21, 2023

Re: Internal Audit Report

Since the last report to the Audit Committee on October 10, 2023, two internal audit projects were completed – IT Third-Party Vendor Management and Petty Cash.

2023 IT Third-Party Vendor Management (assurance)

Objective:

The objective was to determine if IT is effectively managing vendor relations in the context of security, contracts, HDC policies, and all other supporting documentation.

Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weaknesses. Opportunities exist to enhance controls for third-party vendor management, including updating policy and procedure documents to reflect current practices, formalizing a vendor close-out protocol, and strengthening the tracking of vendor information in the Oracle database.

2023 Petty Cash (assurance)

Objective:

The objectives were to determine whether adequate controls exist to ensure that: (1) the cash asset was safeguarded and maintained in the proper amount; (2) petty cash disbursements were in compliance with HDC policies and procedures; and (3) the Imprest Fund was properly authorized, processed, and reconciled.

Results:

We found HDC guidelines to be effective and found no matters involving internal controls that we consider to be material weaknesses. We established that: (1) the petty cash disbursements were in compliance with HDC policies and procedures; (2) the petty cash on hand was kept in a secured

lockbox and maintained in the proper amount; and (3) all expenditures were properly authorized, processed, and reconciled.

NOTE: The Petty Cash audit is required to be performed each year pursuant to the 2003 Memorandum of Understanding between HDC and the City's Department of Investigation.

Objective:

To determine if IT is effectively managing vendor relations in the context of security, contracts, HDC policies, and all other supporting documentation.

Scope:

This audit reviewed contracts active during the period of November 1st, 2021 through October 31st, 2022. Focusing on the organizational aspect of the vendor management cycle, the scope was limited to active contracts exceeding \$5,000.

In addition, this audit focused on IT management of active vendor contracts. This included, but was not limited to, review of vendors who had access to HDC data and the security provisions in their contracts, the termination of contracts and data retrieval processes, and the systems used to track vendors. This audit did not focus on the vendor selection function which is part of the Procurement Process.

Background:

To support HDC’s mission, IT provides technology services to all departments by purchasing and maintaining the digital infrastructure. IT uses various vendors for purchasing hardware, software, servers, security, applications, and more.

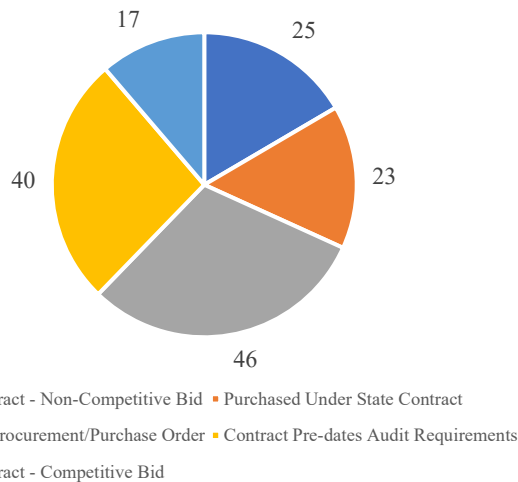
The Corporation provides an in-depth Procurement Policy that supports IT while the department seeks service solutions. Depending on the nature of the purchase (ex. ordering items, corporate purchases varying on cost, competitive bidding or noncompetitive bidding, internet purchases, purchasing vs. leasing, and competitive proposal process), IT works with the Legal department to utilize a range of different methods to limit risk while maximizing resources.

In addition, the Corporation has a comprehensive Vendor Management Policy and Procedure meant to ensure ongoing maintenance and that products are relevant and up to date. IT works closely with the vendor to address potential issues and sustain clear and comprehensive communication.

Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weaknesses. Opportunities exist to further enhance controls for Third Party Vendor Management to ensure completeness and accuracy of vendor information. This would include updating the 2018 Policies and Procedures document to reflect current practices, developing and formalizing vendor close-out protocol, strengthening the tracking of vendor information in Oracle including data points around contract renewal.

IT Vendor Award Process



Internal Controls

- ✓ IT Vendor Management Policies and Procedures.
- ✓ Legal and IT review of contracts.
- ✓ CFO and General Counsel sign-off on all contracts.
- ✓ Cyber insurance to protect against data threats.
- ✓ Annual Maintenance Schedule that tracks vendor services.
- ✓ IT-designated point-of-contact with the vendor.
- ✓ Required bidding process.

PETTY CASH AUDIT 2023

Objective:

To determine whether adequate internal controls exist to ensure that:

- (1) the cash asset was safeguarded and maintained in the proper amount;
- (2) petty cash disbursements were in compliance with the Corporation's policies and procedures; and
- (3) the Imprest Fund was properly authorized, processed and reconciled.

Scope & Methodology:

This audit period covered transactions from December 8th, 2022, to October 18th, 2023.

In conducting this audit, we were guided by our objectives. As part of our evaluation to determine adequate internal controls, we conducted a count of petty cash, reconciled receipts with documentation, and reviewed petty cash disbursements to ensure they were business related and under \$50.

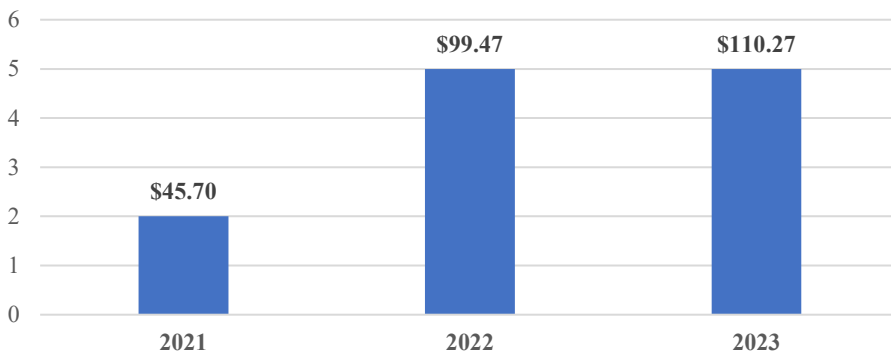
Background:

The Corporation has an in-house Petty Cash Fund with a maximum balance of \$700.00 that is used for reimbursement of minor expenses incurred in daily business operations and is periodically replenished. The Chief of Office & Facilities Management serves as the petty cash custodian. The custodian is responsible for safeguarding, disbursing, and replenishing the Petty Cash Fund. The Petty Cash Fund is replenished periodically from the Imprest Fund checking account held at Atlantic Bank (a subsidiary of New York Community Bank). This account was established to cover minor miscellaneous/petty cash expenses and to replenish the Petty Cash Fund. Disbursements from this account generally follow Accounts Payable procedures established by the Cash Management division.

Results:

We found the Corporation's guidelines to be effective and found no matters involving internal controls that we consider to be material weaknesses. We established that: (1) the petty cash disbursements were in compliance with policies and procedures; (2) the petty cash on hand was kept in a secured lockbox and maintained in the proper amount; and (3) all expenditures were properly authorized, processed, and reconciled.

Number of Transactions/\$ Amount per Year



Internal Controls

- ✓ HDC's policies & procedures.
- ✓ Segregation of duties.
- ✓ Retained in a fire-proof safe box.
- ✓ Unannounced petty cash count.
- ✓ Maximum balance of \$700.
- ✓ Maximum reimbursement from petty cash is \$50 per transaction.
- ✓ Reimbursements to the Petty Cash Custodian must be approved by another HDC officer.
- ✓ All money disbursed and received must be recorded on the Summary of Petty Cash Report.

2023 Transactions by Type
(Total of 5 Transactions)

