



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: January 7, 2022

Re: Internal Audit Reports

Since the last report to the Audit Committee on November 30, 2021, two internal audits were completed. A copy of each report is attached, and a summary is as follows:

2021 Petty Cash

Objective:

Our audit objectives were 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.

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. 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.

2021 Month-End Reconciliation

Objective:

Our audit objectives were as follows:

- (1) To evaluate the adequacy of the controls over the end of period financial process;

- (2) To ensure that the Accounting staff has the requisite knowledge and training to perform their duties;
- (3) To ensure that policies and procedures governing Accounting month-end financial closing and reporting is up-to-date;
- (4) To determine data interfaced into the General Ledger (GL) from various feeds (i.e., Benedict, AP, Investments and Bonds) is complete and accurate and recorded in the appropriate accounting period through sample testing;
- (5) To ensure that a formal close checklist has been established detailing each step in the end-of-period close;
- (6) To ensure that the Financial Statement accounts within scope agree to the applicable GL account and research any material deviations; and
- (7) To determine whether the Corporation's financial performance is monitored by senior management and the Audit Committee.

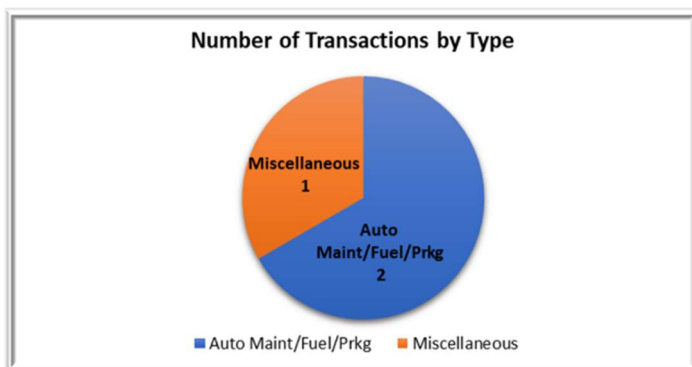
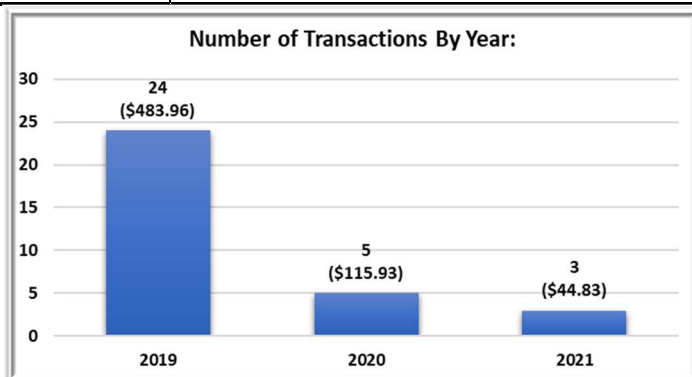
Audit Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weakness. We found the following:

- (1) Key aspects of the month-end closing guidelines were followed;
- (2) Data recorded in the GL is complete and accurate;
- (3) The month-end reconciliation process is reviewed by senior staff;
- (4) The corporate financial statement is monitored by senior management and the Audit Committee;
- (5) Confirmed that recommended tasks in Accounting month-end closing were followed; and
- (6) Accounting month-end functions were properly segregated.

PETTY CASH AUDIT 2021

Objective:	To determine whether adequate internal controls exist to ensure that: <ol style="list-style-type: none"> 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:	The audit period covered transactions from October 20, 2020 through November 19, 2021
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 Vice President, Office Services is 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 and its operation 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.



Internal Controls:

- ✓ 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

MONTH-END RECONCILIATION

Objective:	<ol style="list-style-type: none"> To evaluate the adequacy of the controls over the end of period financial process. To ensure that the Accounting staff has the requisite knowledge and training to perform their duties. To ensure that policies and procedures governing Accounting month-end financial closing and reporting is up to date. To determine data interfaced into the General Ledger (GL) from various feeds (i.e., Benedict, AP, Investments and Bonds) is complete and accurate and recorded in the appropriate accounting period through sample testing. To ensure that a formal close checklist has been established detailing each step in the end-of-period close. To ensure that the Financial Statement accounts within scope agree to the applicable GL account and research any material deviations. To determine whether the Corporation's financial performance is monitored by senior management and the Audit Committee.
Scope:	Audit scope covered the 1st, 2nd, and 3rd quarters of Fiscal Year 2021.
Background:	<p>The HDC Accounting (AC) Department is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). Accounting ensures that by month-end all transactions are accurate and up to date before closing. All financial data is maintained in the Oracle GL. Data flows into the GL from various sources: revenue billing/accrual from the Benedict System; cash receipt transactions from the Oracle Accounts Receivable (AR) module; disbursement transactions from the Purchasing and Accounts Payable (AP) modules; investment activity from the Emphasys Investment module; and debt service activity from the Emphasys Debt Service module. Data is interfaced from the respective subsystems into the GL for posting on a daily basis and again at month-end. The interfaced data is validated for completeness through imbedded system checks and independent verification to the source by the designated accountants. The month-end procedure requires that account balances be reviewed and reconciled to the bank statement, source document, or schedule (e.g., amortization, debt, etc.) on a monthly basis. The accounting period is closed (no transactions can be recorded in a closed period) at the end of each fiscal quarter. Through the financial statement preparation process, the accountants prepare quarterly financials for all programs which are combined to represent the financial position of HDC and its subsidiaries. The quarterly statements are reviewed by executive management and presented to Members of the Audit Committee.</p>
Results:	<p>Upon completion of the audit, we noted no matters involving internal controls that we considered material weakness. We found the following:</p> <ul style="list-style-type: none"> •Key aspects of the month-end closing guidelines were followed •Data recorded in the GL is complete and accurate •The month-end reconciliation process is reviewed by senior staff •The corporate financial statement is monitored by senior management and the Audit Committee •Confirmed that recommended tasks in Accounting month-end closing were followed •Accounting month-end functions were properly segregated
<p>Accounting Staff</p> <ul style="list-style-type: none"> ▪ EVP/Treasurer ▪ SVP/Controller ▪ Deputy Controller ▪ 2 Chief Accountants ▪ 9 Senior Accountants ▪ 7 Accountants ▪ 2 Bookkeepers/Administrative Assistants 	<p>Internal Controls:</p> <ul style="list-style-type: none"> ✓ Segregation of duties ✓ NYCHDC Financial Statement Close Process ✓ Accounting Division Financial Transaction Processing Guidelines ✓ Complete reconciliations of GL cash and bank balance within 10 business days of the month end ✓ Financial statements by program are prepared by staff and Senior Accountants, and reviewed on combined summary level by Chief Accountants and the Deputy Controller ✓ Accounting periods are closed every month in the GL ✓ Balance Sheet, Revenue and Expenses, Cash Flow are prepared every quarter for Executive Staff. ✓ The corporate financial statements are monitored by senior management and the Audit Committee
<p>Major tasks in month-end closing process</p> <ol style="list-style-type: none"> Record daily operational transactions Reconcile Accounting system and subsidiary ledger Record monthly accruals and journal entries Reconcile balance sheet accounts Review revenue and expense accounts Prepare financial statement Management review Close accounting system for the month 	