



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: March 8, 2022

Re: Internal Audit Reports

Since the last report to the Audit Committee on January 14, 2022, three internal audits were completed. A copy of each report is attached, and a summary is as follows:

2021 Employee Expenses

Objective:

The objectives of this audit were to:

- 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.

Audit Results:

We determined that management has effective controls in place to ensure employee reimbursement and vendor payments are properly authorized, appropriate, and accurately recorded. Our review of the selected expenses determined that employees generally complied with the policies and procedures for processing employee reimbursements and vendor payments.

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

2021 President’s Office Expenses

Objective:

The objectives of this audit were to:

- Determine accuracy of the President’s Office expenses recorded in Oracle and ensure they are accurately reflected in the General Ledger, and

- Determine whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements.

Audit Results:

Upon completion of this audit, we noted no major matters involving internal control and its operation that we consider to be material weaknesses. 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.

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

2021 Procurement (Agile)

Audit Tests:

We performed the following audit tests:

- Verify that purchases were expensed to appropriate accounts
- Determine if receipts of materials and supplies were recorded accurately and timely
- Determine if purchase orders that were processed during remote working environment were accurate, complete, done timely, and properly authorized in accordance with corporate policies and procedures

Audit Results:

We noted no material misstatements or inaccuracies in the data reviewed. We found that purchase orders were completed, and invoices were properly approved and accurately recorded to the appropriate expense accounts.

EMPLOYEE EXPENSES AUDIT 2021

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
- 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, 2020 through October 31, 2021.

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.

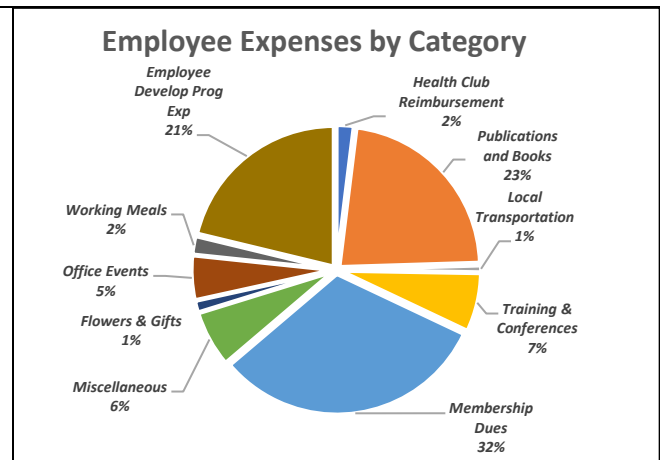
Results:

We determined that management has effective controls in place to ensure employee reimbursement and vendor payments are properly authorized, appropriate, and accurately recorded. Our review of the selected expenses determined that employees generally complied with the policies and procedures for processing employee reimbursements and vendor payments. The recommendations from last year have not been addressed due to COVID-19 and the prioritization of other initiatives. These recommendations were considered minor enhancements regarding airline travel policy and tightening the timeline for submission of business meal reimbursements. We will follow up with management the next time changes are made to 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	2020	% Change
Employee Develop Prog Exp	\$45,479	\$44,062	3%
Flowers & Gifts	\$2,845	\$1,210	135%
Health Club Reimbursement	\$4,182	\$5,978	-30%
Local Transportation	\$1,650	\$2,068	-20%
Membership Dues	\$68,037	\$69,185	-2%
Miscellaneous	\$13,799	\$8,409	64%
Office Events	\$10,948	\$8,975	22%
Publications and Books	\$48,320	\$59,250	-18%
Training & Conferences	\$14,456	\$34,574	-58%
Working Meals	\$4,503	\$8,540	-47%
Total	\$214,219	\$242,251	-12%



PRESIDENT’S OFFICE EXPENSES AUDIT 2021

Objective(s):

•To determine the accuracy of President's Office Expenses, and ensure applicable policies and procedures were adhered to when submitting and approving expense reimbursements.

Scope:

The audit period covered transactions from November 1, 2020 through October 31, 2021.

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.

Results:

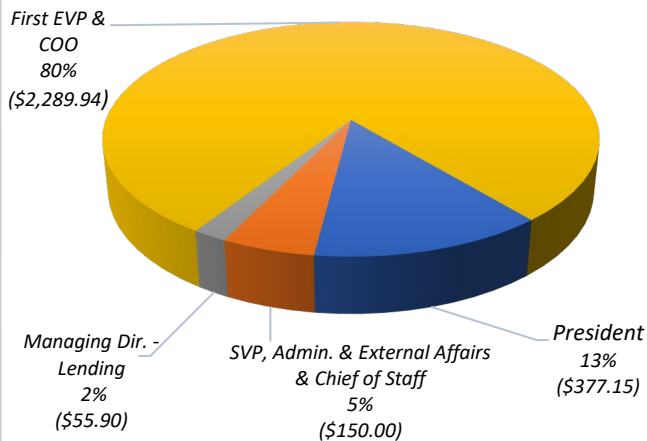
We noted no matters involving internal controls and its operation that were considered material weaknesses. In summary, we found the Corporation’s guidelines were effective and that the President’s Office expenses were generally processed with supporting documentation and correctly recorded according to the policies in the Employee Handbook.

Internal Controls:

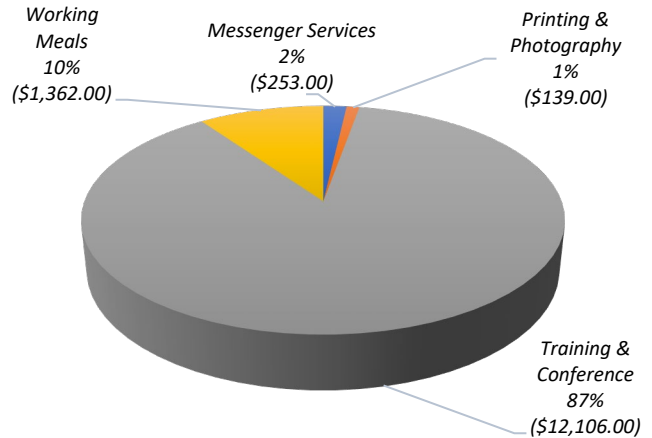
- ✓ Expense reimbursement policies & procedures
- ✓ Required out-of-town travel approval
- ✓ Required detailed expense reports
- ✓ Established timeframes and amount limits for working meals
- ✓ Expense report review and approval authority
- ✓ Requirement of original receipts
- ✓ Established timeframes for use of car service after regular business hours
- ✓ Limitations per department to attend the same conference
- ✓ 2003 Memorandum of Understanding with DOI
- ✓ Approval by two senior officers
- ✓ Approval by the Treasurer

Categories	2021	2020	% Change
Legislative Travel	\$0	\$1,768	-100%
Local Transportation	\$0	\$188	-100%
Messenger Services	\$253	\$127	99%
Printing & Photography	\$139	\$328	-58%
Training & Conference	\$12,106	\$2,376	410%
Working Meals	\$1,362	\$3,460	-61%
Total	\$13,860	\$8,247	68%

President's Office - Reimbursed Expenses By Employee (2021)



President's Office - Expenses By Category (2021)



Agile Audit	PROCUREMENT	
Audit Tests	<ol style="list-style-type: none"> To verify that purchases were expensed to appropriate accounts To determine if receipts of materials and supplies were recorded accurately and timely To determine if purchase orders that were processed during remote working environment were accurate, complete, done timely, and properly authorized in accordance with corporate policies and procedures 	
Scope	Procurement activity from March 1, 2020 through July 31, 2021	
Methodology	<ol style="list-style-type: none"> Methodology is limited to performing the stated audit tests on the selected sample of purchase orders to determine the completeness, accuracy, and validity of the information/data recorded, and provide testing results A sample of forty (40) purchase orders were selected for review 	
Audit Summary	<p>We noted no material misstatements or inaccuracies in the data reviewed. We found that purchase orders were completed, and invoices were properly approved and accurately recorded to the appropriate expense accounts. Opportunities exist to further enhance controls for purchases that are shipped directly to employees. The following testing results provide insight to what was found, any associated risks, and recommendations to mitigate those risks.</p>	
Testing Results		
<u>Audit Test</u>	<u>Result</u>	<u>Recommendation</u>
Verify that purchases were expensed to appropriate accounts	From the sample selected, all purchases were expensed to the appropriate accounts.	N/A
Determine if receipts of materials and supplies were recorded accurately and timely	Typically, purchases for computer equipment and/or supplies would be shipped to corporate offices at 110 William Street; however, during the COVID-19 pandemic and remote work environment, there were times where items were shipped directly to employees' homes. Additional procedures have been established and were followed.	N/A
Determine if purchase orders that were processed during remote working environment were accurate, complete, done timely, and properly authorized in accordance with corporate policies and procedures	From the sample selected, all purchases made during remote working environment were properly authorized and accurately recorded.	N/A