



MEMORANDUM

To: Audit Committee

From: Mary Hom *MH*
Chief Risk Officer

Date: September 24, 2026

Re: Internal Audit Report

Since the last report to the Audit Committee on June 4, 2026, two internal audit projects were completed – AvidPay and Corporate Credit Card.

2026 AvidPay (assurance)

Objective(s):

To determine if adequate controls are in place to ensure that payments processed through AvidPay are disbursed accurately and in accordance with HDC policies and procedures. Specifically, this audit sought to:

1. Review and evaluate the processes and controls in place for vendor payment authorization and validation;
2. Ascertain that AvidPay system access and payment processing functions are appropriately assigned and appropriate segregation of duties is in place;
3. Ascertain that the general ledger accounts for AvidPay disbursements are reconciled with bank statements and AvidPay records on a timely basis; and
4. Ascertain that void and returned payments processed through AvidPay are accurately recorded in the Accounts Payable system, properly reflected in the General Ledger, and evidenced in monthly bank reconciliations.

Audit Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered to be material weaknesses. We found that key aspects of Cash Management guidelines around AvidPay were followed, tested payment transactions were properly authorized and supported, general ledger and bank reconciliations were performed accurately and on a timely basis, and the overall control environment was operating effectively. Internal Audit recommended enhancement opportunities to strengthen internal controls, including formalizing governance elements in the procedures document and further strengthening user access management procedures.

2026 Corporate Credit Card (assurance)

Objective(s):

To determine if adequate controls are in place to ensure that corporate credit card transactions are processed appropriately and in accordance with HDC's Corporate Credit Card Policy. Audit methodology included:

1. Review and evaluate the processes and controls in place for corporate credit card authorization and documentation to ensure transactions were appropriately approved and supported by required documentation;
2. Verify that corporate credit card charges are accurately recorded in the General Ledger and reconciled to American Express bank statements on a timely basis; and
3. Confirm that card access was restricted to authorized personnel and that the Corporate Credit Card Policy contained adequate controls over eligible use, separation of duties, and monitoring.

Test Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered to be material weaknesses. The Corporate Credit Card Policy was found to be substantially complete and effectively addresses key control attributes. All sampled transactions were properly authorized, supported by adequate documentation, and accurately recorded in the General Ledger with no exceptions identified.

Objectives: To determine if adequate controls are in place to ensure that payments processed through AvidPay are disbursed accurately and in accordance with HDC policies and procedures. Specifically, this audit sought to:

1. Review and evaluate the processes and controls in place for vendor payment authorization and validation to ensure payments are made to the correct vendors and mitigate the risk of misdirected or unauthorized disbursements.
2. Ascertain that AvidPay system access and payment processing functions are appropriately assigned and appropriate segregation of duties is in place.
3. Ascertain that the general ledger accounts for AvidPay disbursements are reconciled with bank statements and AvidPay records on a timely basis.
4. Ascertain that void and returned payments processed through AvidPay are accurately recorded in the AP system, properly reflected in the General Ledger, and evidenced in monthly bank reconciliations.

Scope: The audit period covered AvidPay payment activities processed from November 2025 – March 2026.

Background: HDC utilizes AvidPay, a module within the AvidXchange platform, to facilitate the processing and payment of invoices as part of its accounts payable disbursement activities. AvidPay serves as the electronic payment execution system through which approved invoices are converted into payments and disbursed to vendors via check, ACH, or virtual card. Given the volume and frequency of payments processed through AvidPay, as well as the inherent risks associated with electronic disbursements, including unauthorized payments, duplicate payments, vendor fraud, and improper approvals, Cash Management has established procedures to ensure that all payments are properly initiated, reviewed, authorized, recorded, and released in accordance with HDC internal policies and controls. The AvidPay payment process involves multiple departments/individuals, including:

1. Cash Management (CM)
2. Accounts Payable (AP)
3. Requesting Departments
4. Authorized Signers
5. Banking Institution

Results: Upon completion of the audit, we noted no matters involving internal controls that we considered to be material weaknesses. We found that key aspects of Cash Management guidelines were followed, tested payment transactions were properly authorized and supported, general ledger and bank reconciliations were performed accurately and on a timely basis, and the overall control environment was operating effectively. Internal Audit identified two instances in which user access remained active for employees who no longer required access to the AvidPay system; in both instances, access was brought to management's attention and has since been removed. We recommended enhancement opportunities to strengthen internal controls over the AvidPay payment process, which include formalizing governance elements in the AvidPay Policies and Procedures, documenting eligible and excluded payment types, expanding the stop payment procedure, and documenting and strengthening user access management procedures.

Cash Management Staff:

- Managing Director
- Vice President
- Assistant Vice President
- Senior Cash Management Administrator
- Cash Management Administrator
- Senior Accounts Payable Administrator

Payment Testing, General Ledger and Bank Reconciliation

Thirty transactions were reviewed and reconciled against amounts in the general ledger, bank statements, and AvidPay postings, with all items fully reconciled. All sampled transactions were properly authorized and supported. No material exceptions were identified.

Metric	Count
Transactions Reviewed	30
Transactions Reconciled	30
Enhancement Opportunities	0
Exceptions Identified	0
Success Rate	100%

User Access Testing

Twenty-eight active HDC users were reviewed for appropriateness of access, role alignment, and segregation of duties. All user access levels were confirmed consistent with job function. No material exceptions were identified.

Metric	Count
Total Active HDC Users	28
Transactional Users (Initiate Payments)	7
- of which, Approval Rights (Approve Payments)	2
Read-Only Users	21
Enhancement Opportunities	4
Exceptions Identified	0

Internal Controls:

- Policies and Procedures document that defines roles, responsibilities, and controls governing the payment disbursement process, ensuring all payments are properly initiated, reviewed, authorized, and recorded in accordance with internal policies.
- Payment Authorization: A structured approval process requiring independent verification of invoices and designated approver sign-off prior to any disbursement being submitted through AvidPay.
- Segregation of Duties: System-enforced controls within AvidPay ensure that no single individual has the ability to both initiate and approve a payment.
- Monthly Reconciliation: Cash Management performs a monthly reconciliation of AvidPay disbursements against both the Oracle General Ledger and the Bank of New York Mellon bank statement.
- Limited User Access: Access within AvidPay is restricted to designated authorized users, with batch approval authority limited to specific Cash Management personnel.

Corporate Credit Card

Objectives:

To determine if adequate controls were in place to ensure that corporate credit card transactions were processed appropriately and in accordance with HDC's Corporate Credit Card Policy. Audit methodology included:

1. Reviewed and evaluated the processes and controls in place for corporate credit card authorization and documentation to ensure transactions were appropriately approved and supported by required documentation.
2. Verified that corporate credit card charges were accurately recorded in the General Ledger and reconciled to American Express bank statements on a timely basis.
3. Confirmed that card access was restricted to authorized personnel and that the Corporate Credit Card Policy contained adequate controls over eligible use, separation of duties, and monitoring.

Scope:

The audit period covered corporate credit card transactions processed from November 1, 2025 through April 30, 2026.

Background:

HDC maintains one corporate American Express credit card used primarily for out-of-town travel and conference fees. Cards may also be used for purchases where a credit card is the only accepted form of payment, or where the time-sensitive nature of the expense requires immediate payment. To use the card, an employee completes the Corporate Credit Card Transaction Request form and obtains required approvals from their Division Head, Department Head, EVP-CFO, and President. The approved form is provided to the Executive Assistant to the President's Office, who makes the booking or purchase on the employee's behalf. Individual employees do not hold cards or make purchases directly. The corporate credit card process involves multiple departments/individuals, including:

1. Treasury (Executive Vice President-Chief Financial Officer – Card Holder & Approver)
2. President's Office (Executive Assistant to the President's Office – Booking Coordinator)
3. Human Resources (Vice President of Compensation, Benefits and Payroll – Statement Receipt)
4. Accounting (Senior Accountant Supervisor – Reconciliation)
5. Cash Management (Accounts Payable Manager – Payment)

This audit evaluated the effectiveness of internal controls governing the corporate credit card program to ensure that all transactions are properly authorized, supported by appropriate documentation, and accurately recorded in accordance with HDC's Corporate Credit Card Policy. Additionally, the audit verified that charges are correctly reflected in the General Ledger.

Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered to be material weaknesses. The Corporate Credit Card Policy was found to be substantially complete and effectively addresses key control attributes. All sampled transactions were properly authorized, supported by adequate documentation, and accurately recorded in the General Ledger with no exceptions identified.

Employees Involved in the Corporate Credit Card Process:

- Cathleen Baumann, Executive Vice President and Chief Financial Officer – Card Holder & Approver
- Susan Tso, Executive Assistant to the President's Office – Booking Coordinator
- Adam King, Vice President of Compensation, Benefits and Payroll – Statement Receipt
- Mohammad Zaman, Senior Accountant Supervisor – Reconciliation
- Paulette Todman, Accounts Payable Manager – Payment Processing

Key Metrics:

Thirteen transactions were reviewed and fully reconciled: ten out-of-town and three non-out-of-town. No exceptions were identified.

Metric	Count
Sample Total	13
Transactions Reconciled	13
Flagged for Review	0
Exceptions	0
Success Rate	100%

Total \$ Amount of Corporate Credit Card Transactions During the Scope Period:
\$6,427.05

Internal Controls:

- **Policy and Procedures Document** – Corporate Credit Card Policy
- **Prior Written Authorization** – All charges require prior written authorization via either an Out-of-Town Travel Form (with the corporate credit card use checkbox selected) for travel-related expenses, or a Corporate Credit Card Transaction Request Form for non-travel purchases.
- **Centralized Booking** – All transactions are made by the Executive Assistant to the President's Office on behalf of the employee, reducing the risk of unauthorized card use.
- **Reconciliation** – The Senior Accountant Supervisor reconciles the American Express bill against the backup documentation, verifying that all required documentation is present and that receipt amounts match the statement.