



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: May 21, 2020

Re: Internal Audit Reports

Since the last report to the Audit Committee on January 27, 2020, the 2019 President's Office Expenses, 2019 Employee Expenses, 2019 Petty Cash, and 2020 Bond Issuance Process Audits were completed. A copy of each report is attached, and a summary follows:

2019 President's Office Expenses

Objective(s):

- (1) To determine accuracy of the President's Office expenses recorded in Oracle and ensure they are accurately reflected in the General Ledger; and
- (2) To 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. Opportunities were identified to enhance expense reimbursement policies to improve process controls. 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.

2019 Employee Expenses

Objective(s):

- (1) 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
- (2) To 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.

2019 Petty Cash

Objective(s):

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. With respect to the specific audit results, we established that the petty cash disbursements were in compliance with policies and procedures; the petty cash on hand was kept in a secured lockbox and maintained in the proper amount; and all expenditures were properly authorized, processed, and reconciled.

2020 Bond Issuance Process

Objective(s):

- (1) To ensure there are effective debt issuance practices, proper oversight, and governance;
- (2) To determine accuracy of bond proceeds and the initial transfers at debt issuance and closing;
- (3) To ensure compliance with volume cap regulations and the use of such source as part of the bond issuance; and
- (4) To analyze the cost of issuance and assess reasonableness.

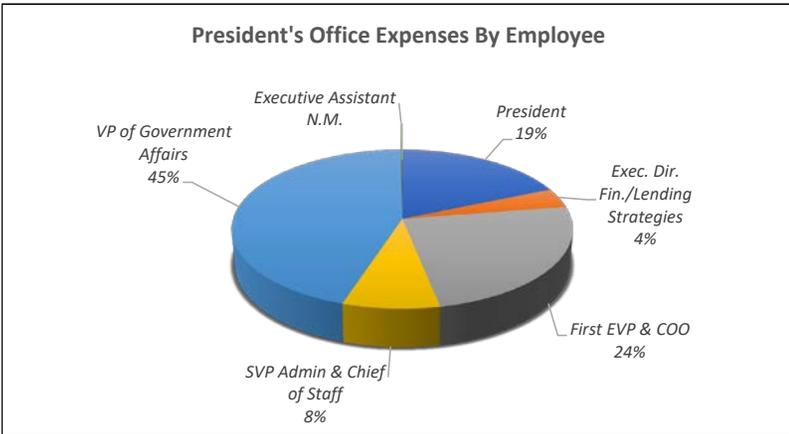
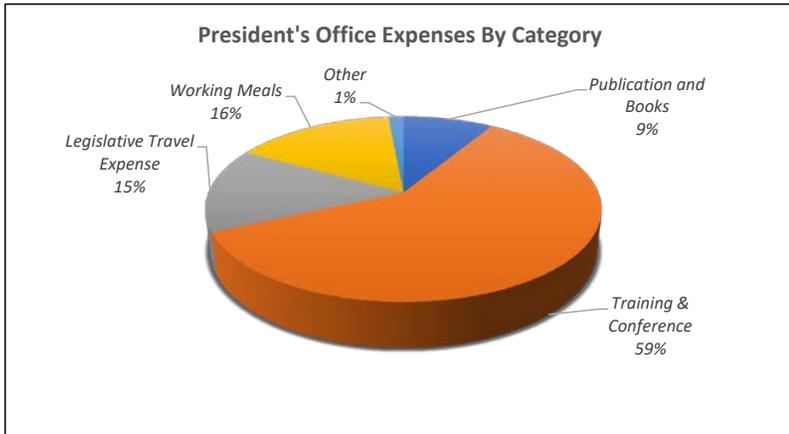
Audit Results:

For the selected bonds reviewed, we determined that HDC had adequate controls and procedures in place over the bond issuance process, and there was proper oversight and governance. Specifically:

- The HDC Board approved the bonds prior to issuance, and the amounts, ratings and interest rates that were approved agreed to the corresponding bonds' Official Statements.
- All third parties (banks, underwriters, rating agencies, etc.) associated with the bonds, were properly approved prior to the bond issuance.
- Bond Purchase Agreements (BPA) were signed by authorized principal officers, and signed NYC Comptroller certifications were on file.
- Volume cap allocation and the listing of projects were properly declared and filed in IRS Form 8038.
- Bond issuance proceeds were confirmed and recorded in the General Ledger and deposited in the corresponding BPA bank account.
- Data analysis showed that the average Cost of Issuance (COI) for the five (5) Open Resolution bonds issued during the audit scope period was within a reasonable range relative to similar bond issuers.

PRESIDENT'S OFFICE EXPENSES 2019

Objective:	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:	Audit period covered the period of November 1, 2018 through October 31, 2019.
Background:	The President's Office expenses are governed by the guidelines of the Corporation's Travel Expenses policy in the Employee Handbook. The purpose of the Corporation's travel expense policy is to provide employees who travel locally or out-of-town to conferences, training and seminars with adequate transportation, lodging, meals and other services that are a necessary part of doing business.
Results:	We noted no matters involving internal controls and its operation that were considered material weaknesses. Opportunities were identified to enhance expense reimbursement policies to improve process controls.
Recommendations:	<p>(1) Centralizing and/or using a third party to coordinate related expenses for training/conferences (e.g. travel, meals, lodging, etc.)</p> <p>(2) Including correspondence (e.g. e-mail, texts, phone conversations, etc.) with the outside parties that are attending a working meal and documenting the specific purpose and/or topic of discussion</p> <p>(3) Establish policies for timeframes of when requests for expense reimbursements must be submitted by, along with approval requirements for requests that are submitted past the established deadline</p> <p>(4) Other than boarding passes, revise policies to include alternative methods (e.g. electronic boarding pass) for certifying employee travel expenses</p> <p>(5) Establish a corporate credit card program and policy which can enhance transparency and reduce processing time</p>



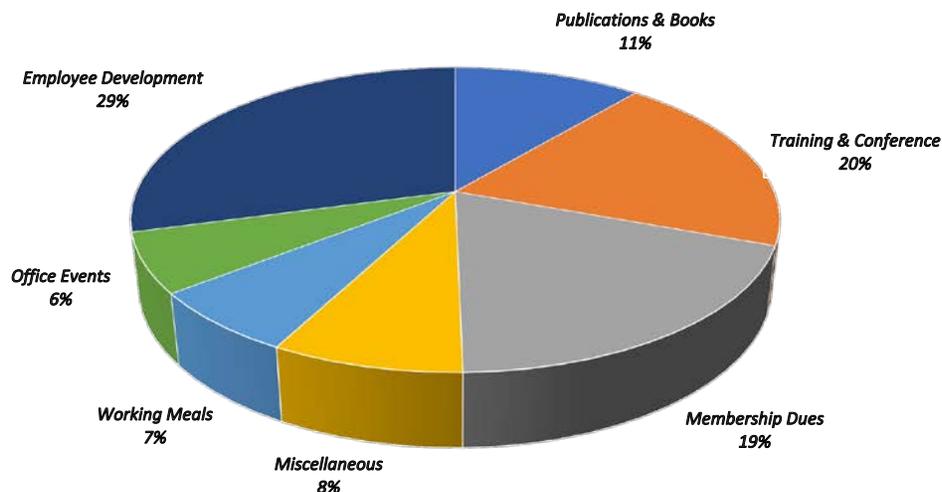
- Internal Controls**
- ✓ Expense reimbursement policies & procedures
 - ✓ Required out of town travel approval
 - ✓ Required detailed expense reports
 - ✓ Established timeframes and amount limits for working meals
 - ✓ Expense report review and approval authority
 - ✓ Requirement of original receipts
 - ✓ Established timeframes for use of car service after regular business hours
 - ✓ Limitations per department to attend the same conference

EMPLOYEE EXPENSES AUDIT 2019



Objective(s):	<ul style="list-style-type: none"> • 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, 2018 through October 31, 2019.
Background:	<p>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:</p> <ul style="list-style-type: none"> • 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) <p>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.</p>
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
Enhancement Opportunity:	<ul style="list-style-type: none"> -Management should consider updating the policy to reflect current airline travel practices -Management should consider adding a deadline for reimbursement requests -Management should consider use of a corporate credit card to enhance transparency
Internal Controls:	<ul style="list-style-type: none"> -Policies & Procedures -2003 Memorandum of Understanding with DOI -Approval hierarchy -Detailed expense reports required -Original receipts required

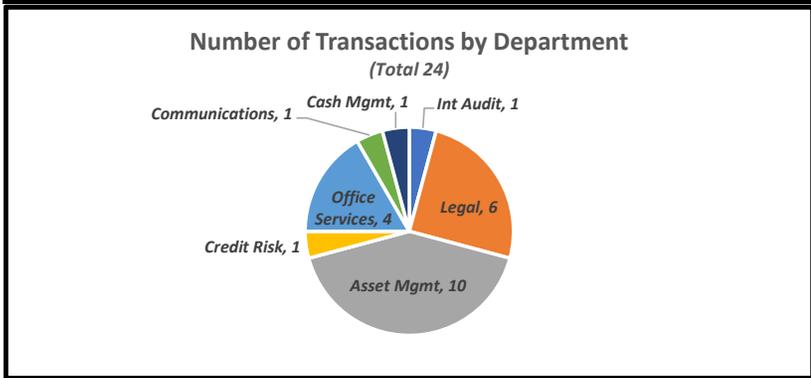
Payments by Expense Category (%)



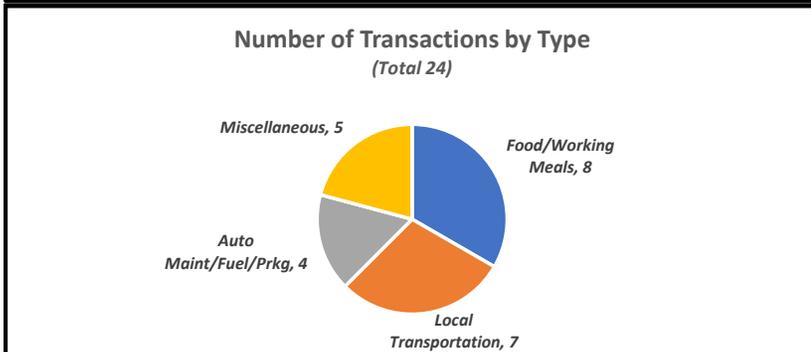
PETTY CASH AUDIT 2019



Objective:	To determine whether adequate internal controls exist to ensure that: <ul style="list-style-type: none"> •The cash asset was safeguarded and maintained in the proper amount; and •Petty cash disbursements were in compliance with the Corporation’s policies and procedures; and •The Imprest Fund was properly authorized, processed and reconciled.
Scope:	The audit period covered transactions from March 12, 2019 through December 13, 2019.
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. 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



BOND ISSUANCE PROCESS AUDIT 2020



Objective:	To determine if adequate controls are in place and have been operating effectively for the bond issuance process.
Scope:	Audit period covered the period of November 1, 2018 through October 31, 2019.
Background:	HDC was established in 1971 under laws of the State of New York as a public benefit corporation for the purpose of financing affordable multi-family housing in New York City. To achieve this stated purpose, HDC issues tax-exempt and taxable bonds, the proceeds of which are used to make mortgage loans for the purpose of preserving and/or building multi-family affordable housing. When issuing tax-exempt bonds, HDC utilizes state-allocated volume cap and recycled volume cap as the primary resources for issuance.
Results:	We noted no matters involving internal controls and its operation that were considered material weaknesses. For the selected bonds reviewed, we determined that HDC had adequate controls and procedures in place over the bond issuance process, and there was proper oversight and governance.

Bonds Outstanding

As of October 31, 2019, HDC had bonds outstanding in the aggregate principal amount of approximately \$12.4 billion.

Credit Ratings

Standard & Poor's - AA/Stable (general obligation)
Moody's - Aa2/Stable

Internal Controls

- ✓ Segregation of duties
- ✓ Authorized list of Principal Officers/signatories
- ✓ Effective Board oversight
- ✓ Reconciliation of bond proceeds/initial transfers with the general ledger and closing memos
- ✓ Approval of third parties facilitating a bond issuance
- ✓ Completeness of bond issuance transaction
- ✓ Regulatory compliance

