



**MEMORANDUM**

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To: Audit Committee

From: Mary Hom  
Chief Risk Officer

Date: September 18, 2024

Re: Internal Audit Report

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Since the last report to the Audit Committee on March 27, 2024, four internal audit projects were completed. A copy of each report is attached, and a summary is as follows:

**2023 Bank Token Management (assurance)**

**Objective(s):**

The objectives of this audit were to:

- To determine if user access to banks that require tokens is appropriate and up-to-date;
- To determine if administration of tokens (which includes provisioning, removing/updating, and distributing of physical/virtual tokens) is performed in accordance with best practices; and
- To determine if policies, procedures, and proper training is provided to employees that administer tokens, and users who are authorized to perform token required activities.

**Audit 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 Bank Token Management to ensure completeness and accuracy of token users and inventory, and authorization of new users. This would include the development of a token authorization form and token inventory. Management has commenced development of a semi-annual review process of user access to banks.

**2024 Month-End Reconciliation (assurance)**

**Objective(s):**

The objectives of this audit were to:

- Evaluate the adequacy of the controls over the end-of-period financial reconciliation process;
- Ensure that a formal close checklist has been established detailing each step in the end-of-period close;
- Ensure that Accounting month-end financial closing and reporting policies and procedures are up-to-date;
- Determine that 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; and
- Ensure that the Financial Statement accounts within scope agree to the applicable GL account and research any material deviations.

Audit Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weakness. We found that key aspects of the month-end closing guidelines were followed, functions within Accounting were properly segregated, and data interfaced between source systems and Oracle GL was complete and accurate. We have recommended enhancement opportunities to strengthen internal controls over the month-end reconciliation process which include creating a final version of the month-end reconciliations with enhanced review and sign off protocols, and the development of a standardized checklist for Accountants when preparing a monthly reconciliation. Management has commenced implementation of protocols to further strengthen internal controls.

**2024 Fee Income (review)**

Objective(s):

- To assess fee income trends and the ability to cover operating expenses with fee income; and
- To compare HDC’s fee income metrics to other housing finance agencies’ (“HFA”) fee income metrics.

Findings:

- The margin between fee income and overhead expenses has shown some decline in recent years but remains healthy and covers overhead expenses at 1.7x at the end of 2023.
- Compared to peer HFAs, HDC’s fee income coverage of overhead expenses is high.
- Productivity metrics remain strong.

**2024 Succession Planning (advisory)**

Objective(s):

- Encourage teams to identify the critical responsibilities within our organization and develop action plans to address possible vacancies in critical positions;
- Take inventory of our current staff to build a holistic view of every division and inform future goals; and
- Identify future staffing needs and the people with the skills and potential to fill them.

Findings:

- Strong commitment to succession planning – All departments successfully updated their Succession Plans and self-identified as overall prepared or highly prepared for potential staff turnover/vacancy.
- Commitment to developing and advancing staff.
- Strong commitment to business continuity planning – All departments successfully updated their Business Continuity Plans.
- Overall employee turnover rate is lower.
- Demographics trending younger as older staff members retire and new hires skew on the younger side.

## Bank Token Management

### **Objectives:**

- To determine user access to banks that require tokens are appropriate and up-to-date
- To determine if administration of tokens which includes provisioning, removing/updating, and distributing of physical/virtual tokens is performed in accordance with best practices
- To determine if policies, procedures, and proper training is provided to employees that administer tokens and users who are authorized to perform token required activities.

### **Scope:**

The audit period covered activity from January 1, 2023 through October 31, 2023.

### **Background:**

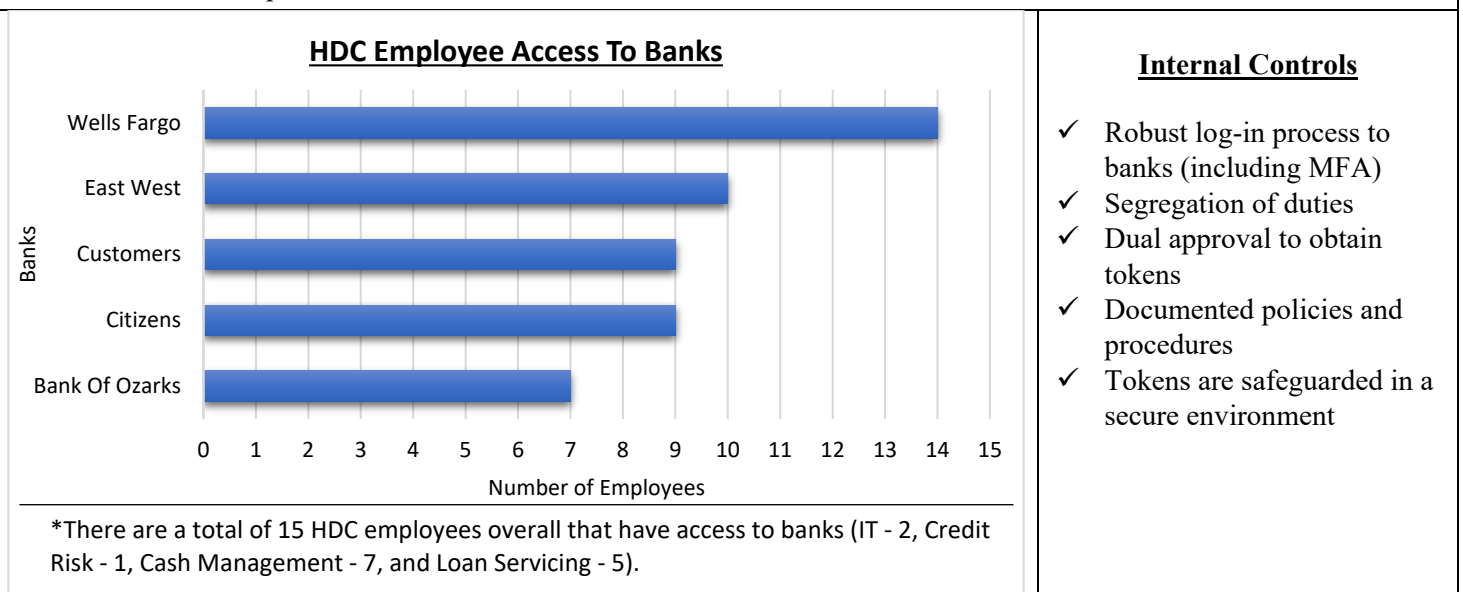
With the escalating threat of social engineering tactics, particularly phishing simulations aimed at instructing individuals to execute fraudulent wire transfers, financial institutions have enhanced their focus on implementing robust safeguards and controls to anticipate breaches. Among these measures, bank tokens and the expanded utilization of multi-factor authentication (MFA) stand out as effective defense mechanisms. Bank tokens are devices that help authenticate digital bank users. MFA involves the combination of knowledge-based factors, like passwords or PIN numbers, with possession-based factors, such as physical or virtual tokens, thereby increasing the security against cyber threats.

The importance of authenticating a user is critical when performing high risk activities such as executing wire transfers. As a result, HDC, in collaboration with the banks facilitating these transactions, has instituted MFA protocols, leveraging a user's personal password in conjunction with a one-time password generated through either a physical token device or a virtual token.

To oversee the management of tokens, administrators have been designated within the IT and Credit Risk departments of HDC. Presently, three administrators are assigned with overseeing token management across five partner banks. Their main roles and responsibilities include ordering tokens from banks, setting up users and role assignment, and releasing locks or resetting passwords. However, it's important to note that administrators lack the authority to authorize new user access. This responsibility lies with the Managing Director of Cash Management, who is required to notify the token administrators via email whenever a new user needs to be provisioned access for a specific bank.

### **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 Token Management to ensure completeness and accuracy of token users and inventory, and authorization of new users. This would include the development of a token authorization form and token inventory. Additionally, to ensure effective governance and oversight of tokens, management should continue to develop a semi-annual review process of user access to banks.



# Month-End Reconciliation Process



**Objectives:**

- To evaluate the adequacy of the controls over the end-of-period financial reconciliation process.
- To ensure that a formal close checklist has been established detailing each step in the end-of-period close.
- To ensure that Accounting month-end financial closing and reporting policies and procedures are 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 the Financial Statement accounts within scope agree to the applicable GL account and research any material deviations.

**Scope:**

The audit period covered activity for Fiscal 4<sup>th</sup> quarter end 2023 and fiscal 1<sup>st</sup> quarter end 2024.

**Background:**

The HDC Accounting Department is responsible for designing, implementing, and maintaining internal controls relevant to preparing and presenting the financial statements in accordance with generally accepted accounting principles (GAAP). Accounting ensures that all transactions are accurate and up-to-date by month-end 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.

**Results:**

Upon completion of the audit, we noted no matters involving internal controls that we considered material weakness. We found that key aspects of the month-end closing guidelines were followed, functions within Accounting were properly segregated, and data interfaced between source systems and Oracle GL was complete and accurate. We have recommended enhancement opportunities to strengthen internal controls over the month-end reconciliation process which include creating a final version of the month-end reconciliations with enhanced review and sign off protocols, and the development of a standardized checklist for Accountants when preparing a monthly reconciliation.

<b><u>Accounting Staff:</u></b>	<b><u>Tasks in the month-end closing process:</u></b>	<b><u>Internal Controls:</u></b>
<ul style="list-style-type: none"> <li>- EVP/Chief Financial Officer</li> <li>- VP/Controller</li> <li>- Director of Accounting</li> <li>- Chief Accountants (2)</li> <li>- Senior Accounting Supervisors (4)</li> <li>- Senior Accountants (5)</li> <li>- Staff Accountants (5)</li> </ul>	<ul style="list-style-type: none"> <li>- Recording transactions</li> <li>- Reconciling accounting systems and subsidiary ledger</li> <li>- Recording monthly accruals and journal entries</li> <li>- Reconciling balance sheet accounts</li> <li>- Preparing the financial statement</li> </ul>	<ul style="list-style-type: none"> <li>- There are comprehensive guidelines established for the month-end process.</li> <li>- Accounting month-end functions were segregated.</li> <li>- Month-end data is securely stored, accessible only to authorized users.</li> <li>- The month-end reconciliation process undergoes regular review and monitoring by senior staff.</li> </ul>
	<p><b><u>Variances:</u></b></p> <ul style="list-style-type: none"> <li>- % Reconciliations with variances exceeding \$100 (as of 1Q2024):               <ul style="list-style-type: none"> <li>o Mortgage 0.70% (19 of 2,732)</li> <li>o Bond 0.87% (2 of 231)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Accounts are required to be reconciled in a timely manner.</li> <li>- Financial statements are reviewed on a quarterly basis by senior staff and the Audit Committee.</li> </ul>



# New York City Housing Development Corporation: Analysis of Fee Income

August 2024

# Overview:

- **Objective:** The objective of this audit was to assess the fee income trends at HDC, focusing on the ability to cover operating expenses and its comparative performance with other Housing Finance Agencies (HFAs).
- **Scope:** Our analysis reviewed financial statements of four HFAs:
  - Illinois Housing Development Agency (IHDA)
  - Michigan State Housing Development Authority (MSHDA)
  - New York City Housing Development Corporation (NYCHDC)
  - Pennsylvania Housing Finance Agency (PHFA)
- The period covered five years (2019 through 2023).

# Methodology:

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**Financial Statements Review:** We collected and analyzed audited financial statements for the years 2019 through 2023 from HDC and the identified peer HFAs.



**Operational Metrics:** Data on fee income, operating expenses, and productivity metrics were extracted and compared across the selected HFAs.



**Peer Comparison:** A comparative analysis was conducted to benchmark HDC's fee income trends against those of other large HFAs: IHDA, MSHDA, NYCHDC, and the PHFA.



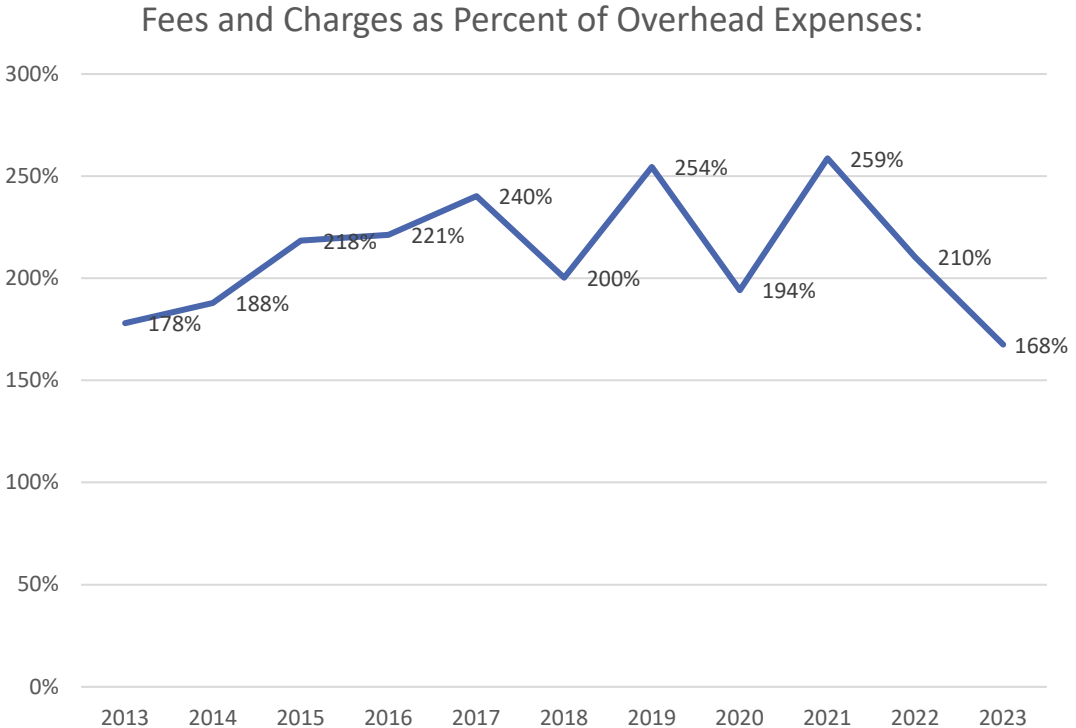
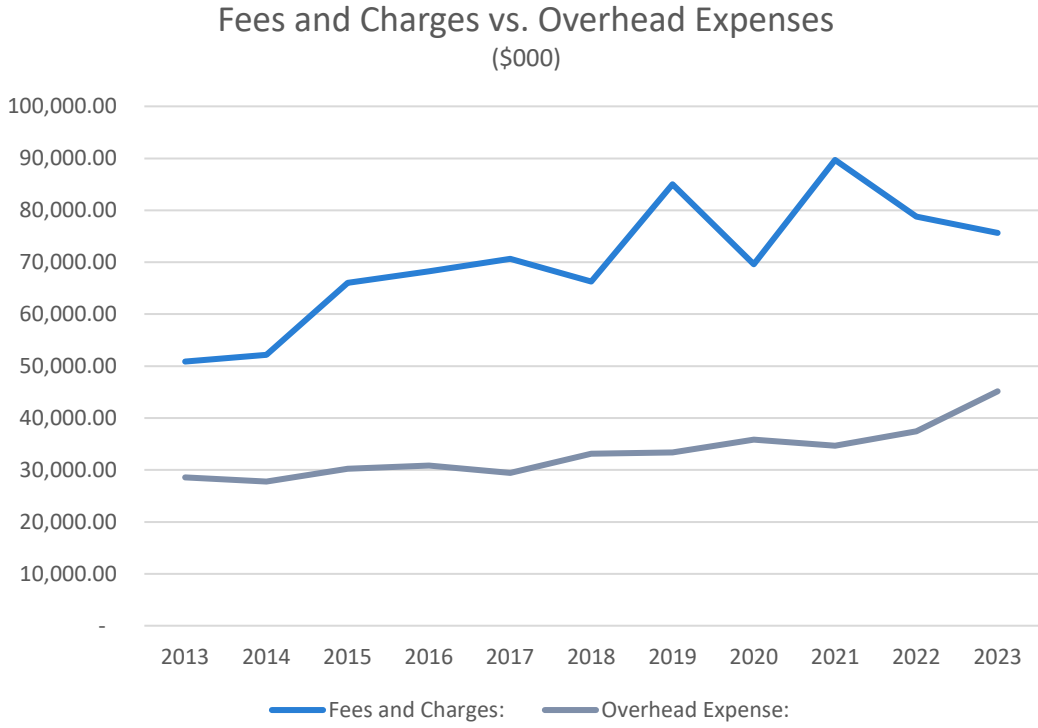
**Trend Analysis:** HDC's fee income trends, operating expenses, and related financial ratios were examined over the five-year period to identify patterns and changes.



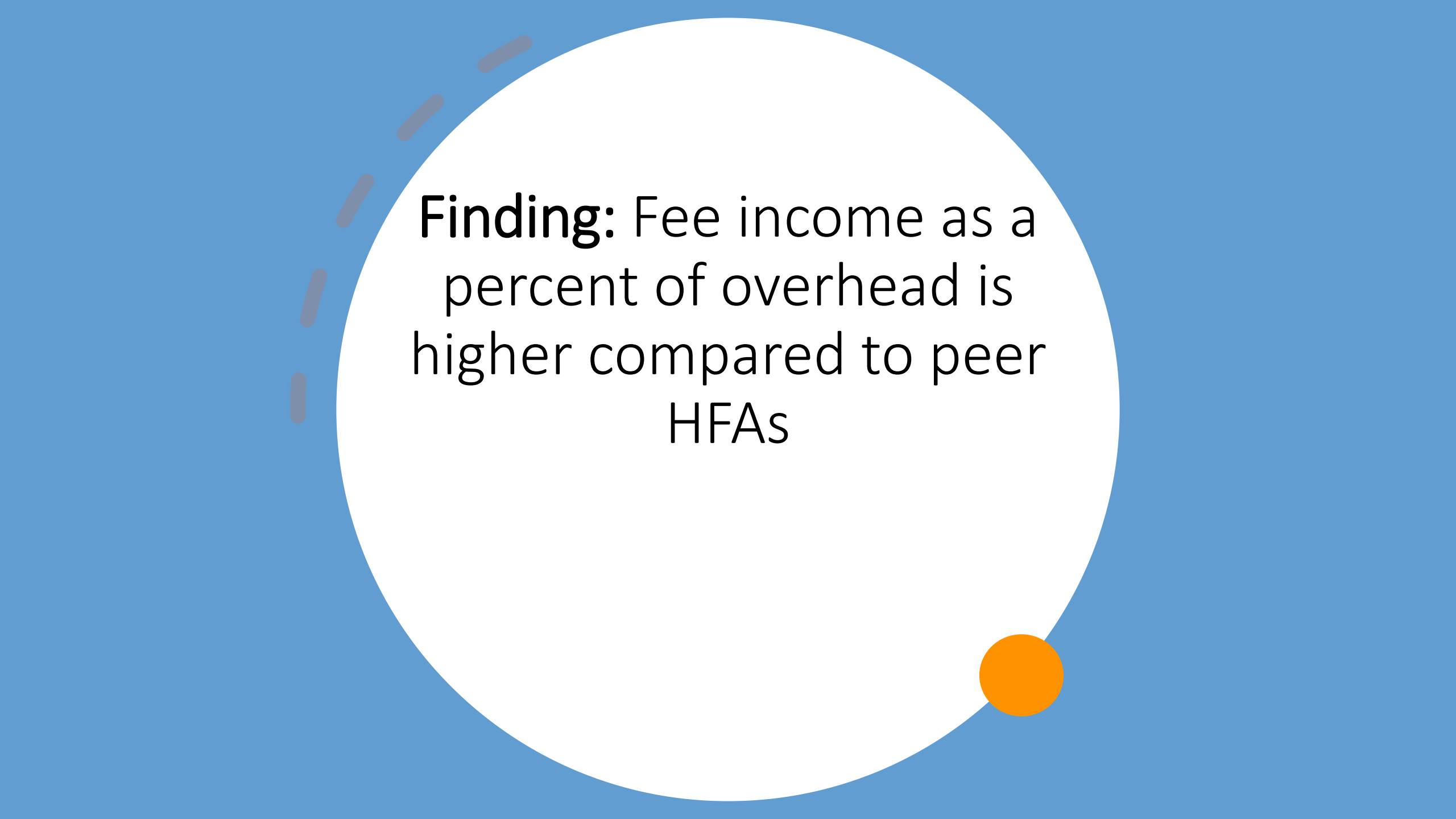


**Finding:** Decreasing  
Margin between  
Expenses and Revenues

# A look at the past 10 years:



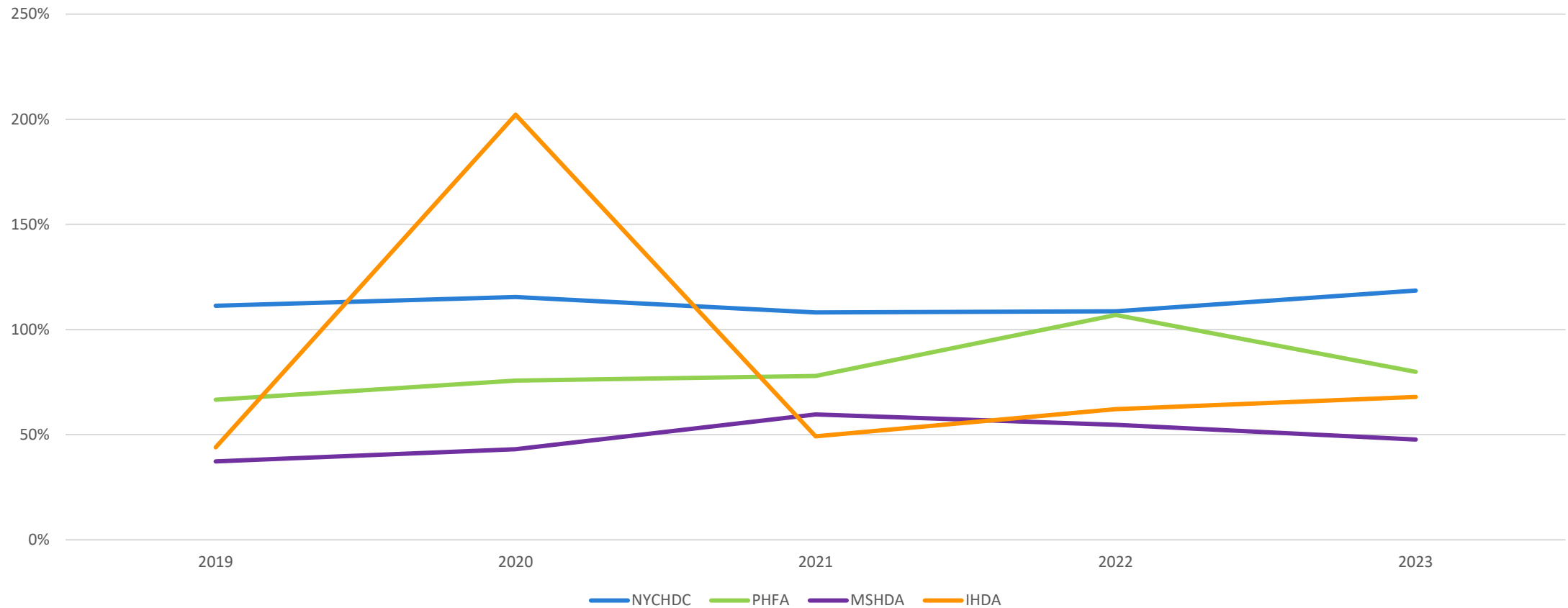
*\*Overhead Cost is Corporate Operating Expenses plus Personnel Expenses*




**Finding:** Fee income as a percent of overhead is higher compared to peer HFAs

# Comparison with peer HFAs:

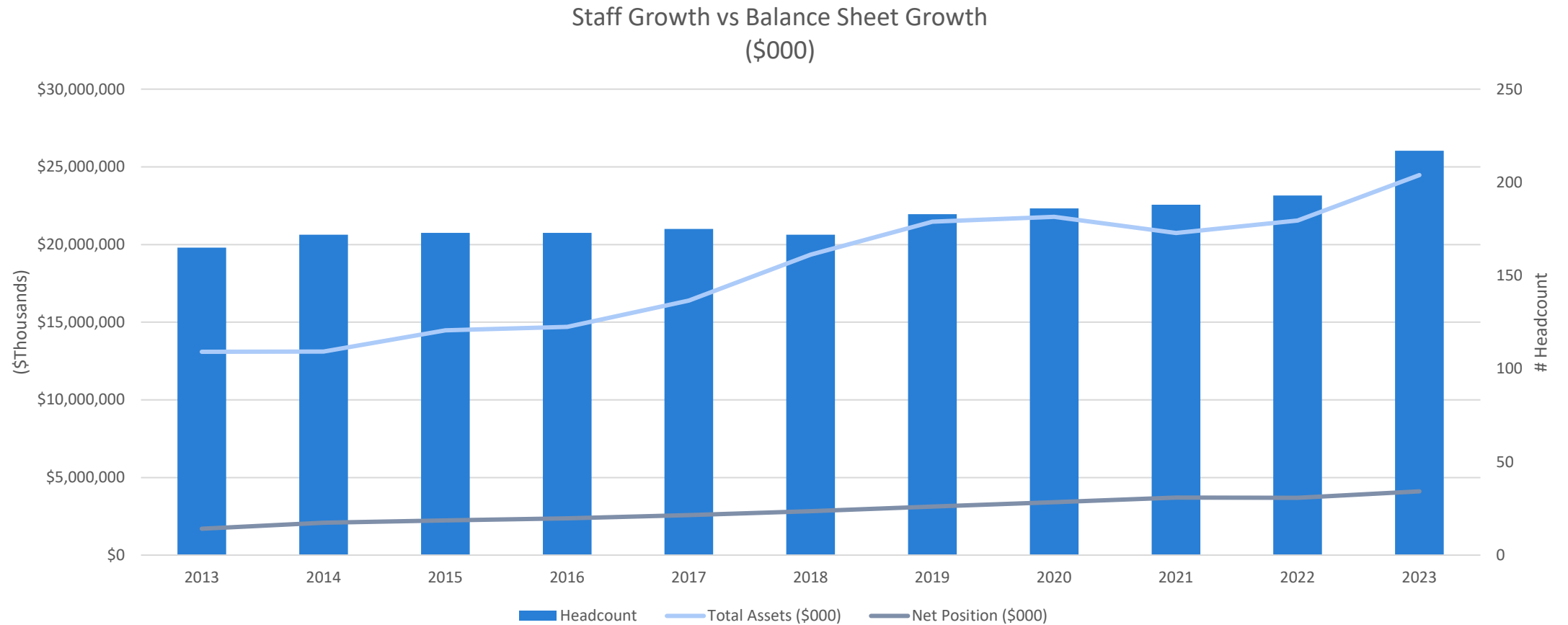
Fee Income as a Percent of Overhead Expenses



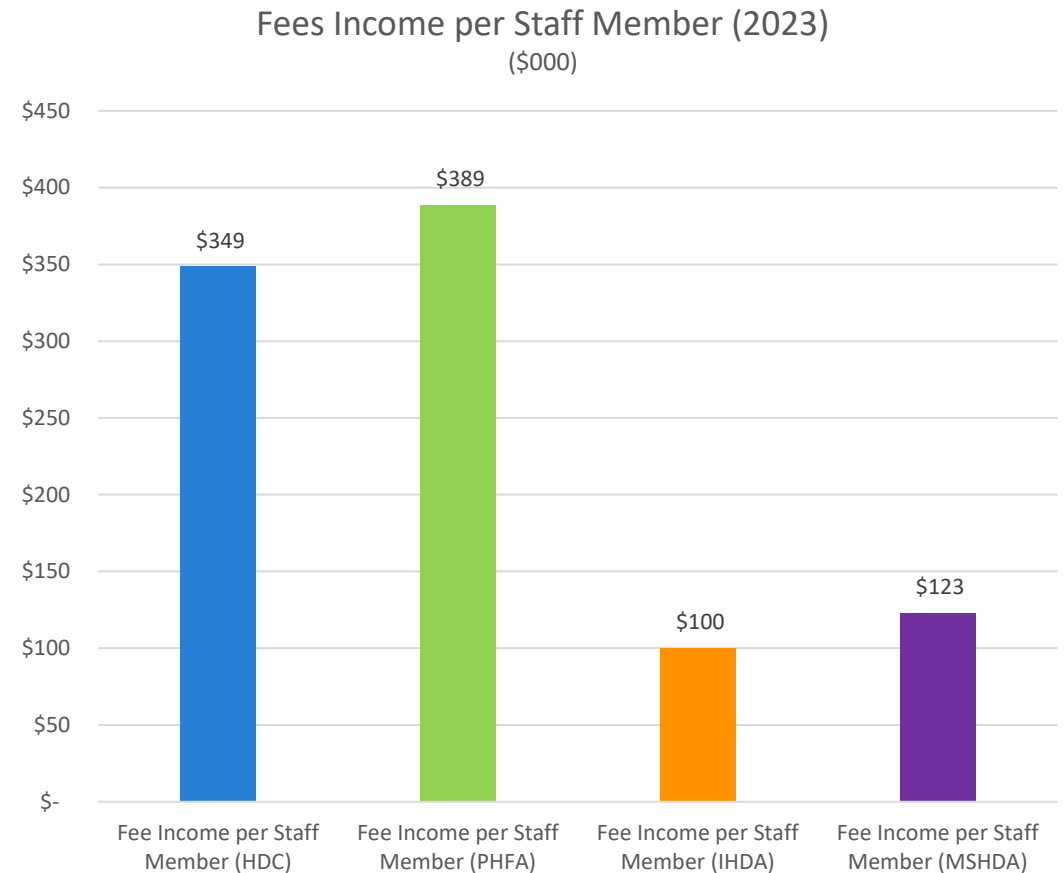
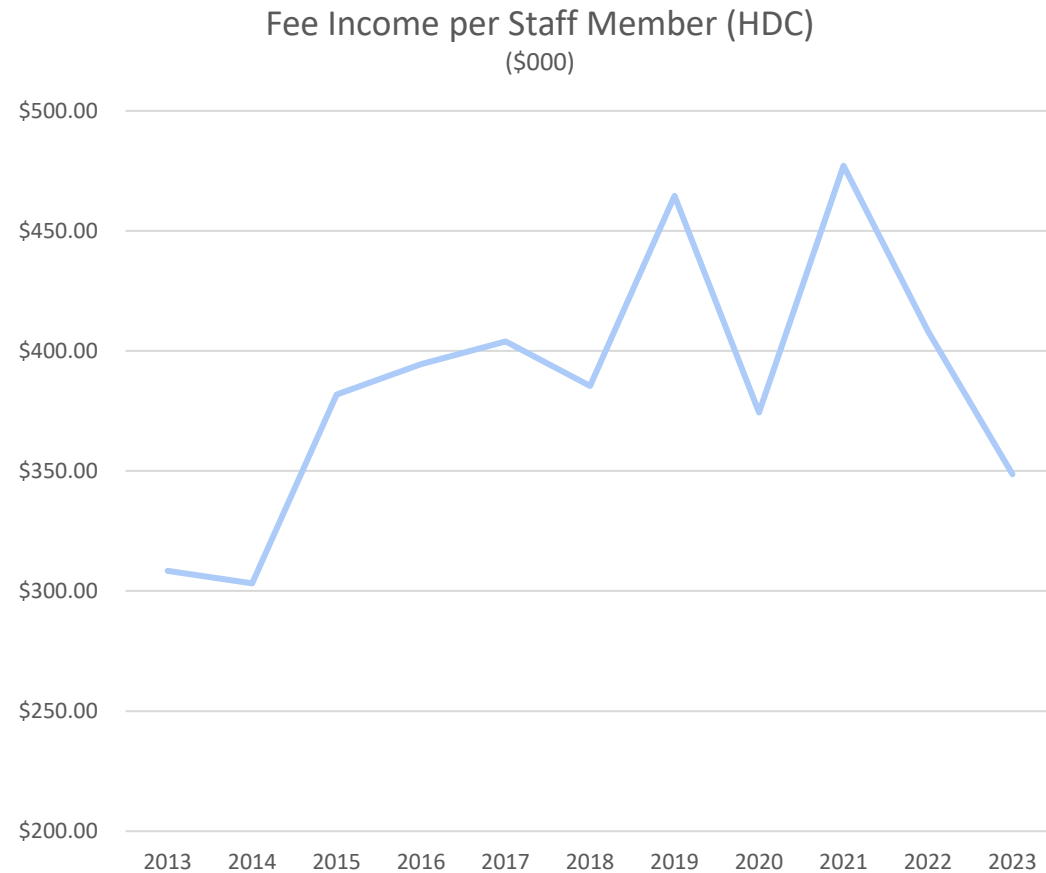


**Finding:** Productivity  
metrics remain  
strong

# Recent trends in productivity and hiring:



# Fees income per staff member – HDC vs. peers:



**Objectives:**

- Encourage teams to identify the critical responsibilities within our organization and develop action plans to address possible vacancies in critical positions
- Take inventory of our current staff to build a holistic view of every division and inform future goals
- Identify future staffing needs and the people with the skills and potential to fill them

**Scope:**

Leadership was asked to complete succession plan worksheets between February and March of 2024.

**Methodology:**

Succession Plan worksheets were sent via email to each department/division head (17 in total). The template included two sections: (1) a section to list each key staff member with their responsibilities, title, experience/skills requirements, impact of vacancy, risk of vacancy, short-term plan, and long-term plan; and (2) a section to reflect on overall division preparedness.

**Findings:**

- Strong commitment to succession planning – All departments successfully updated their Succession Plans and self-identified as overall prepared or highly prepared for potential staff turnover/vacancy. All departments demonstrated an understanding of the importance of identifying critical roles and responsibilities.
- Commitment to developing and advancing staff – 12% of staff were promoted in 2023 (versus 14% in 2022).
- Strong commitment to business continuity planning – All departments successfully updated their Business Continuity Plans.
- Overall employee turnover rate is lower (see Annual Turnover graph below). Management has made a concerted effort to retain talent with benefits enhancements in the last year (such as: backup child/elder care services; enhancements to short-term and long-term disability benefits, and mental health resources).
- Demographics trending younger as older staff members retire and new hires skew on the younger side (see Average Age graph below). 20% of staff at the end of 2023 were new hires (versus 15% in 2022).
- Ongoing attention will help ensure continuous alignment with organizational goals and address any emerging challenges in leadership transitions.

