



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: January 26, 2021

Re: Internal Audit Reports

Since the last report to the Audit Committee on December 2, 2020, the following audit projects were completed and copies of the reports (where applicable) are attached:

- Project Loan Setup
- President's Office Expenses
- Code of Ethics – Annual Employee Certification

A summary of each audit project is as follows:

2020 Project Loan Setup

Objective:

The objectives of the Project Loan Setup audit were:

- To determine if there are current and effective project loan setup policies and procedures;
- To assess efficiency of department processes for setting up and managing project loans;
- To determine if users have appropriate setup and restrictions to Benedict software in accordance with their job responsibilities; and
- To determine accuracy of loan data on origination documents, Benedict software, and loan data reports.

Audit Results:

Upon completion of the audit, we noted no matters involving internal controls that we considered material weaknesses. We found that the project loan setup process was properly assigned and segregated. Opportunities exist to further enhance controls for the project loan setup process, and we have communicated with the various departments that participate in the process to determine the feasibility of these enhancement opportunities.

2020 President's Office Expenses

Objective:

The objectives of the President's Office Expenses audit were to:

- (1) Determine accuracy of the President's Office expenses recorded in Oracle and ensure they are accurately reflected in the General Ledger; and
- (2) Determine whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements.

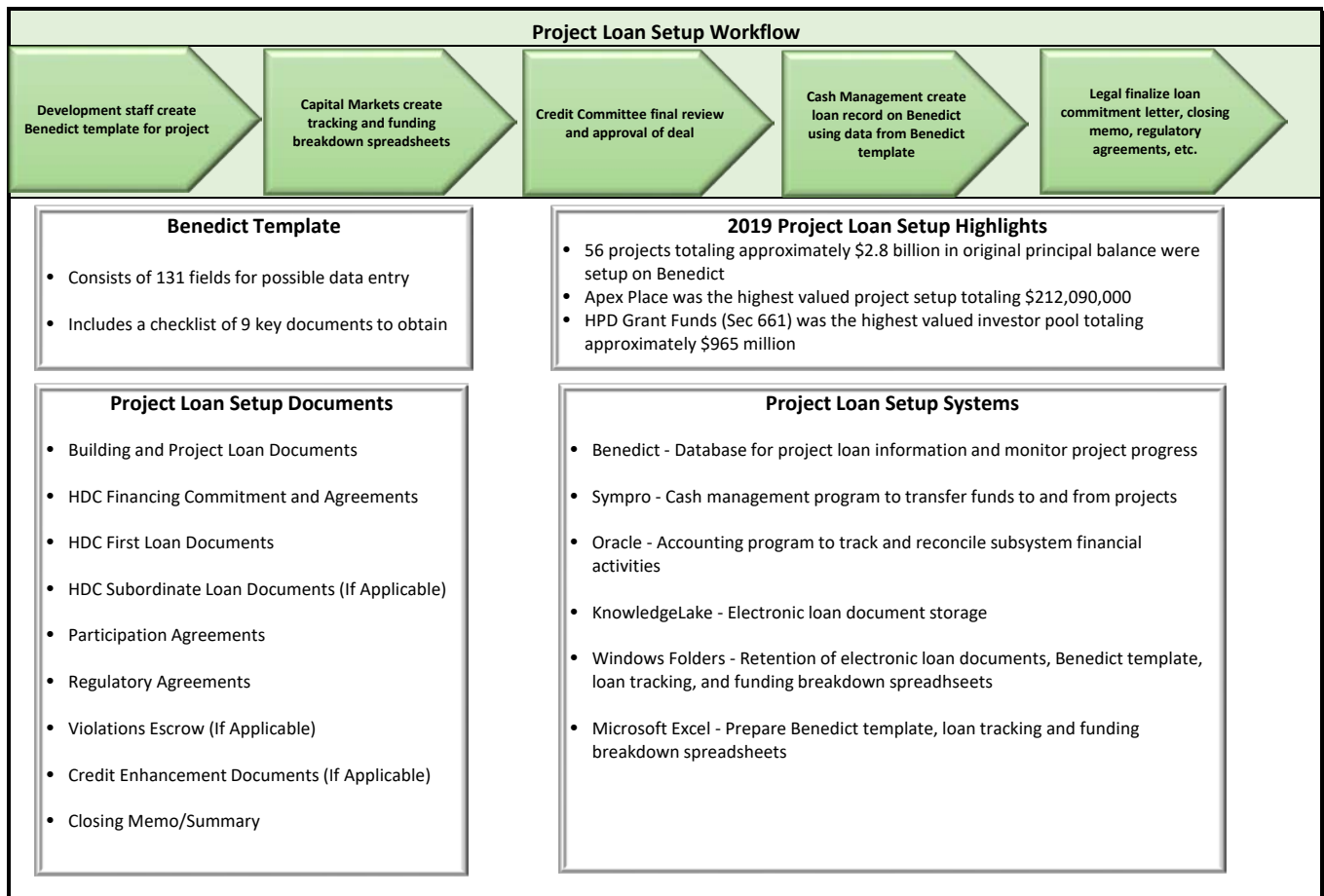
Audit Results:

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. (Reminder: This audit is required to be performed each year pursuant to the 2003 Memorandum of Understanding with the New York City Department of Investigation (DOI).)

2020 Code of Ethics – Annual Employee Certification

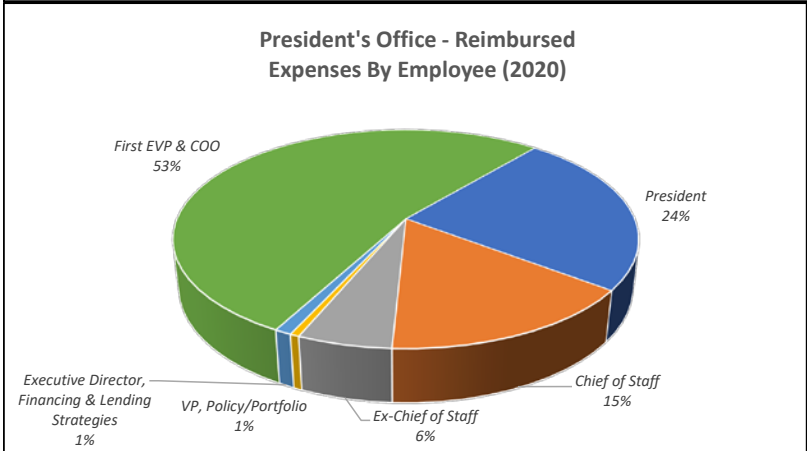
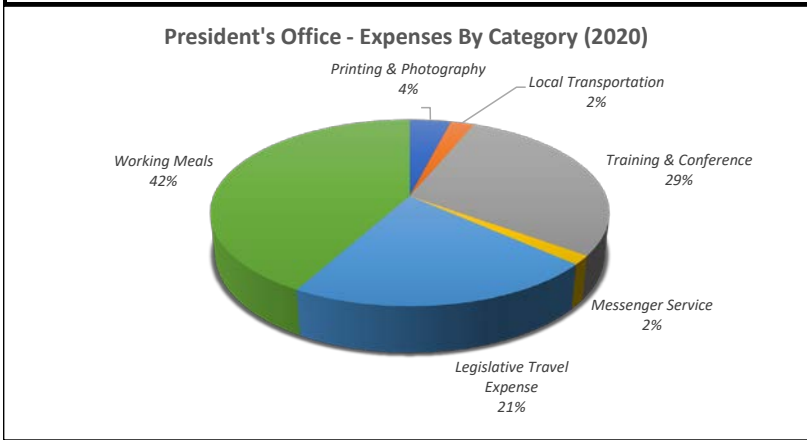
Pursuant to the HDC Audit Committee Charter, Internal Audit is required to provide the Audit Committee with an annual report attesting that each HDC employee has affirmed or reaffirmed acknowledgement of the Corporation's Code of Ethics and Conflicts of Interest policy. I am pleased to report that this process was completed, and Internal Audit received and examined a detailed report from the Corporation's Human Resources department on January 14, 2021 supporting this affirmation.

Objective:	<ol style="list-style-type: none"> 1. To determine if there are current and effective project loan setup policies and procedures 2. To assess efficiency of department processes for setting up and managing project loans 3. To determine if users have appropriate setup and restrictions to Benedict software in accordance with their job responsibilities 4. To determine accuracy of loan data on origination documents, Benedict software and loan data reports
Scope:	Audit period covered the period of January 1, 2019 through December 31, 2019.
Background:	HDC administers projects and loans that provide financing for multifamily affordable housing. Financing activities are organized in the Development, Cash Management, Capital Markets and Legal departments. These groups are involved in the origination, approval, closing and disbursement of loans, and handle monitoring and reporting on loan portfolios. HDC loans are managed primarily using the Benedict system, which is designed to be a database and tool to manage loans and other HDC activities such as loan portfolio reporting. Departments may use additional tools to manage their portion of work and data relevant to the project loan setup.
Results:	Current processes and the use of Benedict software together with the Benedict template are effective for setting up and monitoring projects. We noted no matters involving internal controls and its operation that were considered material weaknesses. While management has been effective at managing the varied and unique loan structures that HDC mortgages present, a few opportunities exist to further enhance controls for the project loan setup process.
Recommendations:	<ol style="list-style-type: none"> 1. While project loan setup responsibilities are delineated by department, each department should develop a written set of procedures outlining their respective responsibilities <i>(NOTE: Each department with responsibilities has committed to work on this)</i> 2. Set appropriate restrictions on access to all electronic files and folders related to the project loan setup process that are located on any shared or public drives <i>(NOTE: This is being addressed through coordination with the IT department)</i>
Enhancement Opportunities:	<ol style="list-style-type: none"> 1. Standardize and develop a naming convention for all verbiage and abbreviations used on the Benedict template <i>(NOTE: Management will examine and assess)</i> 2. Develop and implement a process to organize and centrally retain electronic loan documents <i>(Note: This is being addressed with KnowledgeLake)</i> 3. Use of all data fields may help inform project progress and status <i>(NOTE: Management will examine and assess)</i> 4. Single data entry point may help minimize redundancy <i>(NOTE: This is being addressed through the corporate-wide data warehouse initiative)</i>

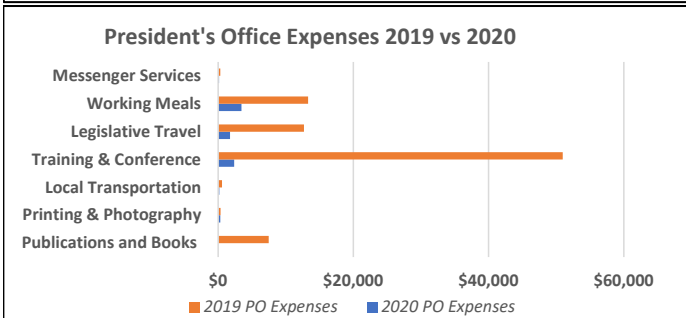


PRESIDENT'S OFFICE EXPENSES 2020

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, 2019 through October 31, 2020.
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 Expenses 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. 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	2020	2019
Publications and Books	\$0	\$7,475
Printing & Photography	\$328	\$351
Local Transportation	\$188	\$584
Training & Conference	\$2,376	\$50,945
Legislative Travel	\$1,768	\$12,677
Working Meals	\$3,460	\$13,291
Messenger Services	\$127	\$327
Total	\$8,247	\$85,650