**NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION**

**MEMORANDUM**

To:         Audit Committee

From:       Mary Hom
            Chief Risk Officer

Date:       October 21, 2022

Re:         Internal Audit Reports

Since the last report to the Audit Committee on June 1, 2022, three internal audits were completed. A copy of each report is attached, and a summary is as follows:

**2022 Office Card Access (Agile)**
Audit Tests:
We performed the following audit tests:
- Verify all active key card access is valid
- Determine if key card access was removed on a timely basis for terminated employees or individuals no longer requiring access
- Determine if adequate procedures and appropriate oversight of key card activity is in place
- Determine inventory of stored inactive/active cards for future use are safekept

Audit Results:
We noted no matters involving internal controls that we considered a material weakness. We found key card access was only provided to active employees, building management, and affiliates that required access. Terminated employees' key cards were de-activated in a timely manner, and inventory of stored access cards was appropriately secured. Internal Audit provided management with a list of best practices to consider as the Corporation moves to new office space in 2023.

**2022 Construction Loan Monitoring**
Objective:
The objectives of this audit were to:
- Determine if there are written construction loan policies and procedures
- Assess the accuracy, validity, and adequacy of documentation for construction loan draw requests

- Determine if appropriate general ledger accounts have been set up to accurately record construction loan disbursements, and bank reconciliations are maintained for accounts used to fund disbursements

Audit Results:
Upon completion of this audit, we noted no matters involving internal control and its operation that we consider to be material weaknesses. Responsibilities for monitoring construction, disbursing funds to borrowers, and maintaining bank reconciliations are adequately segregated with sufficient reporting to monitor all activities. Documentation supporting draw requests was accurate with appropriate signatures recorded. Enhancement opportunities were presented to management, and management is reviewing the feasibility of these proposed enhancements.

**Payroll/Timekeeping and Employee Benefits Administration**
*Outsourced to BDO USA LLP*
Background:
BDO USA LLP was selected in September 2021 through the Request for Proposals ("RFP") process to perform an internal audit of HDC's Payroll/Timekeeping and Employee Benefits Administration. The audit commenced in February 2022, and the final report was issued in May 2022.

Audit Summary:
BDO assisted HDC with comprehensive reviews of HDC's payroll and timekeeping (including supporting systems and technology) and employee benefits administration with the goal of making strategic recommendations that are in alignment with HDC goals and objectives, as well as to best practices.

Results:
BDO reported no "significant" or "high" risk factors that need to be addressed. In the area of payroll and timekeeping, BDO noted three areas of "moderate" risk regarding systems and access, and management has since addressed these risks by taking the necessary action to mitigate these risks. In addition, two process improvements were suggested, and management is examining both suggestions for implementation. In the area of employee benefits administration, BDO noted no observations and made no additional recommendations.

| Agile Audit | Office Services – Office Card Access | |
|---|---|---|
| **Audit Tests** | 1. To verify all active key card access is valid<br>2. To determine if key card access was removed on a timely basis for terminated employees or individuals no longer requiring access<br>3. To determine if adequate procedures and appropriate oversight of key card activity is in place<br>4. To determine inventory of stored inactive/active cards for future use are safekept | |
| **Scope** | Key Card activity from January 1, 2022, through June 22, 2022 | |
| **Methodology** | 1. Methodology is limited to performing the stated audit tests on the selected sample of key card activity to determine the completeness, accuracy, and validity of the information/data recorded, and provide testing results<br>2. A sample of six (6) days of card activity were selected for review<br>3. Total population of Active Employees, Terminated Employees as of June 22, 2022, and Active Key Card Report was used for review | |
| **Audit Summary** | We noted no material misstatements or inaccuracies in the data reviewed. We found that key card access was only provided to active employees, building management, and individuals affiliated with HDC that require access (e.g. cleaning personnel, Keyscan, IT advisor, etc.). Terminated employees' key cards were de-activated, and inventory of stored inactive/active cards for future use were safekept and locked within the Office Services department. The following testing results provide insight to what was reviewed, any associated risks, and recommendations to mitigate those risks. | |

**Testing Results**

| Audit Test | Result | Recommendation |
|---|---|---|
| Validity of key card access | From the current active key card report, all key card access was verified against the HR report of current employees, and management confirmation for non-employee issued key cards. | N/A |
| Timely removal of key card access for terminated employees or individuals no longer requiring access | From the HR report of employees terminated for 2022, all employees that appeared on the report were not listed on the current active key card report. Additionally, from the card activity reports reviewed, terminated employees did not appear on the activity reports after date of separation. | N/A |
| Adequate procedures and oversight of key card activity is in place | The Office Services and HR departments have adequate procedures and oversight in place when adding/changing/removing card access for all individuals with access to HDC offices. This is done primarily through e-mail exchanges and completion of "Action Notification Forms" for onboarding and "Separation Action Forms" for separations. | N/A |
| Inventory of key cards are safekept | On June 30, 2022, Internal Audit performed an inventory count of key cards on hand, along with inspecting the safekeeping of the inventory. There were forty-four (44) cards on hand that were stored in a locked draw in the Office Services department. | N/A |

*July 21, 2022*

**CONSTRUCTION LOAN MONITORING AUDIT 2022**

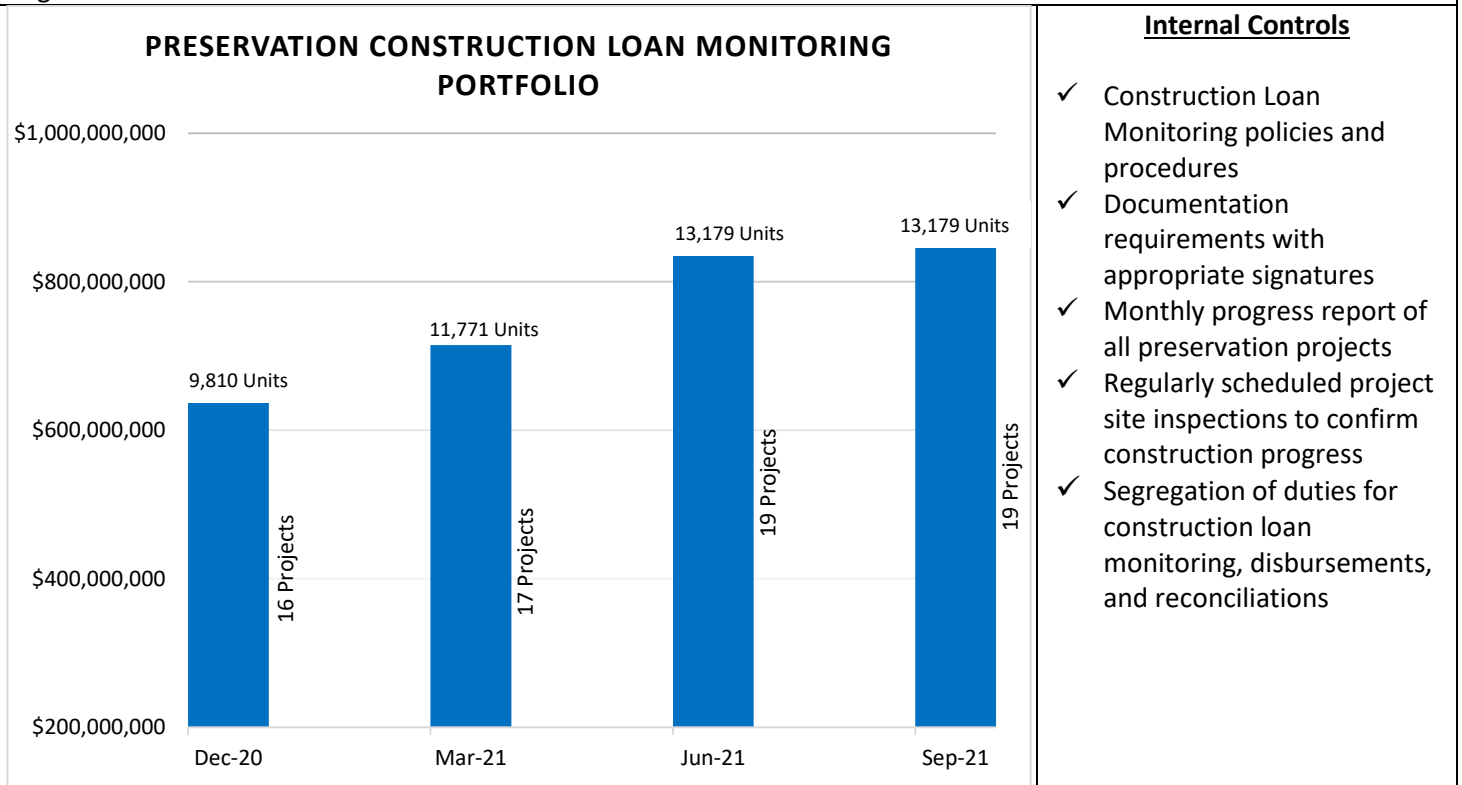| |
|---|
| **Objective(s):** |
| • To determine if there are written construction loan monitoring policies and procedures |
| • To assess the accuracy, validity, and adequacy of documentation for construction loan draw requests |
| • To determine if appropriate general ledger accounts have been setup to accurately record construction loan disbursements and bank reconciliations are maintained for accounts used to fund disbursements |
| **Scope:** |
| The audit period covered transactions from November 1, 2020 through October 31, 2021. |
| **Background:** |
| Preservation guidelines have been established to clarify HDC's monitoring process and requirements through the various phases of construction. Eligibility for funding under the Preservation program shall include moderate and substantial rehabilitations. After the closing of a project, construction loan monitoring begins. An internal meeting will take place within Asset Management to finalize and discuss open issues or significant changes during closing pertaining to the construction documents. Once all information is agreed upon, HDC Engineers coordinate and review all payment applications to ensure the work was completed as described and to ensure all invoices, lien waivers, and payment applications are accurate, and then approve the payment request. |
| **Results:** |
| We noted no matters involving internal controls that we considered material weaknesses. Responsibilities for monitoring construction, disbursing funds to borrowers, and maintaining bank reconciliations are adequately segregated with sufficient reporting to monitor all activities. Additionally, documentation supporting the construction loan draw requests reviewed were accurate with appropriate signatures recorded. Opportunities exist to strengthen controls for the construction loan monitoring process. This would include enhancing policies and procedures to include protocols when using a third party to perform construction monitoring services for HDC, and implementing additional controls for the Engineer's memo document. |

**PRESERVATION CONSTRUCTION LOAN MONITORING PORTFOLIO**



**Internal Controls**

- ✓ Construction Loan Monitoring policies and procedures
- ✓ Documentation requirements with appropriate signatures
- ✓ Monthly progress report of all preservation projects
- ✓ Regularly scheduled project site inspections to confirm construction progress
- ✓ Segregation of duties for construction loan monitoring, disbursements, and reconciliations

August 30, 2022

# Payroll & Timekeeping Audit - Results Summary

In-scope areas are highlighted below with testing results across processes and sub-processes

| In-scope Processes | Sub-processes | Testing Results |
|---|---|---|
| Payroll & Timekeeping | New Employee Processing and Setup | ✓ |
| | Payroll Changes | 🟢 |
| | Employee Terminations | ✓ |
| | Time Recording and Payroll Processing | ✓ |
| | Vacation, Sick and Holiday Time Accruals | ✓ |
| | Payroll Funding and Disbursements | ✓ |
| | Management Reporting | ✓ |
| Entity Level/IT Governance | Policy and Procedures | 🟢 |
| Logical Security | System Password  Configuration | 🟣 |
| | User Access Provisioning | ✓ |
| | Privileged Access | ✓ |
| | User Access Revocation | ✓ |
| | User access Recertification | 🟣 |
| Computer Operations | • SOC Report Review | 🟣 |

✓ - No observations(s) noted;  🟢 - Opportunities for improvement identified;  - 🟣 Moderate Priority Observation(s) noted.

# Employee Benefits Administration Audit - Results Summary

In-scope processes are highlighted below were assessed and no observations were noted across all testing areas.

| In-scope Processes | Sub-processes | Testing Results |
|---|---|---|
| Employee Benefits Administration | Benefits Policies & Procedures | ✓ |
| | Benefits Authorization and Changes | ✓ |
| | Benefits Eligibility and Disbursements | ✓ |
| | Monitoring / Service Level Agreements | ✓ |
| | Benefit Disputes and Investigation Resolution | ✓ |

✓ - No observations(s) noted