

**HUDSON YARDS DEVELOPMENT CORPORATION  
INTERNAL CONTROLS POLICY AND PROCEDURE MANUAL**

**REVISED POLICY DATED SEPTEMBER 21, 2023**

**OVERVIEW**

Hudson Yards Development Corporation's ("HYDC") internal control objectives include, but are not limited to: the safeguarding of assets (including preventing the intentional or unintentional misapplication of funds), ensuring the accuracy and reliability of accounting data and financial reporting (including ensuring proper documentation of all transactions), promoting the effectiveness and efficiency of operations and ensuring compliance with applicable laws and regulations.

Internal controls exist in each area of HYDC where financial activities take place, and may be categorized as (A) controls related to funds received, held, invested and disbursed and (B) other control measures including record keeping activities. These types of controls are discussed in this Policy.

The control measures used by HYDC are periodically reviewed by HYDC's President, Vice President (VP), and Treasurer and updated as deemed necessary, and this Policy will be reviewed and, if appropriate, updated, at least annually. While not part of HYDC's system of internal control, HYDC is subject to an annual audit by independent auditors. Any comments or recommendations pertaining to HYDC's internal controls made by the independent auditors are reviewed by management and, if the value of the expected risk reduction is estimated to be greater than the additional cost, incorporated into HYDC's internal controls.

In accordance with the New York City Comptroller's Directive 1, HYDC prepares an annual Financial Integrity Statement based upon a current Directive 1 Checklist with respect to management's assessment of HYDC's internal control environment.

**ORGANIZATION**

Overseen by its Board of Directors ("Board") and directed by its President, HYDC's internal operations are carried out primarily by the Treasurer with oversight and coordination by the VP. In addition, budget and control of Hudson Yards Infrastructure Corporation's ("HYIC") grant funding to HYDC is strictly monitored and controlled by the NYC Office of Management and Budget ("OMB") and HYIC. While HYDC's operational staff is limited, a number of controls and monitoring practices are in place to ensure comprehensive oversight and control of the financial and administrative operations for HYDC. The following are the primary responsibilities of the President, VP and Treasurer as their responsibilities relate to internal controls:

1. President: The President is responsible to HYDC's Board and for all of HYDC's affairs and operations. The President provides oversight of HYDC's fiscal and administrative operations in addition to control over the Project management activities of HYDC. The President or VP's approval is required on banking operations including, but not limited to, opening of accounts, transferring of funds between accounts, and approving purchases and payments as further described herein. All purchases greater than \$5,000 must have the President's approval. The President is an authorized signatory on HYDC's checking accounts. The President is part of the approval process for all procurement activities.

2. Vice President: The VP provides support, direction and oversight on matters relating to fiscal and administrative operations. HYDC uses cloud based accounting software. The VP has query

access to all components of the software package. The VP is responsible for approval of all procurement activities and submission of quarterly funding requisitions to HYIC. The VP is also an authorized signatory on HYDC checking accounts. The President or VP's approval is required on bank operations including, but not limited to, opening of accounts, transferring of funds between accounts, and approving purchases and payments as further described herein. The VP is responsible for all legal affairs of HYDC, including providing support for all HYDC staff in project management and financial operations. VP, in coordination with the President and other HYDC staff, is responsible for the drafting and interpretation of all contracts and other legal documents and dissemination of Board-approved resolutions and policies.

3. Treasurer: Reporting to the President and VP, the Treasurer is responsible for the internal operations of HYDC including accounting, purchasing, and human resources. The Treasurer is responsible for maintaining the accounting books and records, preparing tax reporting documents (other than the annual Form 990), annual financial statements, and other financial reports. This includes the responsibility for all entries into the accounting software along with the preparation of cash flow projections and a quarterly funding requisition that is reviewed by the President or VP each time a funds requisition is processed. Monthly monitoring of accounts payable reports, trial balance and bank account reconciliations, as well as any other aspect of the fiscal operations are available for inspection by the President or VP at any time. The Treasurer also monitors account activity, maintains schedules and performs analysis necessary for the preparation of year-end financial statements and other recurring and ad-hoc financial reports.

#### **HYDC Involvement in HYIC Disbursements for Certain Project Expenses**

HYDC receives all of its project and administrative funding from HYIC, with very limited exceptions. Significant HYIC disbursements for the Hudson Yards Project that currently involve HYDC are addressed below.

1. Condemnation/Property Acquisition Expenses: HYDC President or VP coordinates and monitors property acquisition expenditures and prepares Certifications of Property Acquisition Payments ("Certification") that describe condemnation and other property acquisition or lease payments then due and payable to third parties according to property acquisition agreements and/or NYS Eminent Domain Procedure Law. Each Certification must be approved by the HYDC President or VP and is forwarded to HYIC and OMB with appropriate supporting documentation for approval and payment.

2. Non-Condemnation/Property Acquisition Expenses: HYDC consultants provide HYDC with invoices for review each month. Upon review and approval of the requisition, HYDC submits the approved requisition request to HYIC and OMB with appropriate supporting documentation for approval. Once approved, funding is disbursed by HYIC for non-operational non-Condemnation/Property Acquisition Expenses directly to the HYDC consultant.

#### **RECEIPTS**

##### **Funding Sources**

Hudson Yards Infrastructure Corporation: HYDC receives virtually all of its administrative and project funding from HYIC. The Treasurer prepares a quarterly administrative operating funding requisition based upon expenses to date, current cash balances, and operating expenses in accordance with HYDC's board approved budget, as set forth in HYDC's requisitions. The VP prepares project funding requisitions based on actual expenses incurred in accordance with HYDC's board approved budget, as set forth in HYDC's requisitions. Each HYDC requisition must be approved by HYDC's President or VP after which, the VP forwards all requisitions to

HYIC and OMB with appropriate supporting documentation for approval and wire transfer to an HYDC bank account (for operating expenses) and wire transfer instructions to remit payments for project expenses directly to the vendor(s) on HYDC's behalf.

### **Receipt of Funds**

HYIC funds are received via wire transfers made to HYDC. The Treasurer verifies the amount wired and the specific account, and makes the appropriate accounting entry to record the deposit. All source documentation is checked for correct deposit amount and bank account information, and then reconciled with the bank account statements.

### **Investment Income**

The Treasurer oversees the bank balances and spending. If a significant delay in spending deposited funds is anticipated, they may be invested per the Investment Guidelines approved by the Board. Earned income must be reported and may only be used for the same purpose as the invested principle. All investment income is reported in HYDC financial statements, to HYIC, on federal form 990 and other related entities as required.

See the Investments section of this policy for discussion of internal control procedures over the making of investments. See the Form 990 section of this policy for discussion of internal control procedures over the preparation and issuance of Form 990.

### **DISBURSEMENTS**

HYDC's budget for administrative and project expenses is approved prior to the start of the fiscal year by HYDC's Board.

### **HYDC Administrative Expenses**

The Treasurer reviews invoices and prepares check requests that are submitted to the VP for review and approval. Expense reimbursements for the VP are approved by the President. The Treasurer prepares accounting entries for regularly occurring administrative payments including payroll and pension and submits them to the VP for review and approval. All debit card expenses must be pre-approved by the President or VP. All employee development, memberships and training costs must be pre-approved by the President or VP but only the President can approve costs for the VP. Any expense that is not normally regularly occurring and is above \$1,000 and less than \$5,000 must have the President or VP's pre-approval. Any expense that is not regularly occurring and is above \$5,000 must have the pre-approval of the President. If any regular administrative expenses change during the fiscal year, these changes are reviewed with the President and/or VP prior to the Treasurer continuing to make the regular payment. All regularly occurring expenses are reviewed and approved for payment no less frequently than once a fiscal year.

Any expenses by the VP should be submitted to the President and Treasurer for approval. Any expenses by the President should be submitted to the VP and Treasurer for approval. Any representative of the Board shall have the right to review the approved reimbursable expenses made by the President or VP by providing a 7-day notice to the Treasurer.

HYDC uses a standard Purchase/Check ("P/C") Request form for detailing and pre-approval of expenses. The P/C Request form must identify the name of each payee, the stated purpose for the payment, and the dollar amount. There is one bank account set up for administrative expenses. The Treasurer reviews all requests and invoices received for mathematical accuracy, approval and proper backup. The invoices and P/C Requests are then submitted to the President or VP for review and approval. Once approved, the Treasurer enters them into the accounting

software. All invoices or P/C Requests entered are immediately and prominently marked to indicate that they have been entered in order to avoid duplicate entries. The accounting software produces a report of pending payments. The Treasurer performs a comparison of the pending payment report to the approved invoices for accuracy. After this review and after any discrepancies are resolved, payments are processed using the banking online payment portal weekly. After bill payments have been posted into the payment portal, the Treasurer compares the total payments pending release to the total approved by the VP for accuracy. After this review and after any discrepancies are resolved, the VP logs in to the online payment portal and approves the payments. Online approval by either the President or VP is required for every online banking transaction. Some vendor payments (ie Medical, Dental, FSA) are automatically withdrawn from HYDC's checking account. The Treasurer follows the same vendor payment procedure as with the preparation, approval and recording of non-automatically withdrawn vendor payments. Once paid, invoices are marked as such with the payment date by the Treasurer. A copy of the proof of payment is downloaded from the online payment portal, attached to the P/C request and invoice and filed electronically on the HYDC server.

All wire and direct debit payments are entered as manual checks in the accounting software, and are confirmed by the Treasurer by reviewing the bank account information online. The Treasurer also verifies the accuracy of transactions when performing the monthly bank account statement reconciliations. VP shall sign off and document his review and approval of the reconciliation prepared by the Treasurer on a monthly basis.

Every authorized HYDC signatory has a unique login, password and key FOB for the banking website.

#### **PAYROLL CHANGES AND PROCESSING**

Salary changes are approved by the Board. Title, hiring and terminations are approved by the President. Appropriate paperwork is prepared by the Treasurer and approved by the President.

On a bi-weekly basis, employees' gross wages are entered into the ADP payroll website by the Treasurer. ADP prepares a payroll register based upon the HYDC entries in the payroll system and sends HYDC such payroll register for review. ADP's payroll register is reviewed and confirmed against HR records by the VP. Payroll is entered into the accounting software using a specific Payroll Journal Entry form. The payroll journal entry preparation process is discussed in the Journal Entry section of this policy.

#### **FORM 1099-MISC PREPARATION AND ISSUANCE**

All payees, for both Project costs and other vendor payments, must complete and sign an IRS Form W-9 (or its equivalent) and send it to the VP and/or Treasurer before payment can be made. All vendors meeting the requirements for the issuance of a 1099-MISC are issued a 1099-MISC at the end of the year.

The form 1096 is used as a transmittal document when reporting 1099s to the Internal Revenue Service.

The Treasurer compiles a report showing all payments from January 1 to December 31, by vendor, from the accounting software. This report is checked for accuracy against the invoices and supporting documentation. The Treasurer then prepares the forms 1099-MISC and 1096. The forms 1099-MISC and 1096 are checked by the VP or a designee for accuracy before being signed by the Treasurer. All 1099 forms are mailed out to the vendors and the Internal Revenue Service on or prior to January 31.

## **FORM 990 PREPARATION AND ISSUANCE**

The Form 990 *Return of Organization Exempt from Income Tax* a record of HYDC accounting and business activities, is prepared annually. The accounting firm hired to perform HYDC's annual audit also prepares and files the annual Form 990 Return on HYDC's behalf. The Treasurer compiles the necessary reporting information of the previous fiscal year from the accounting software and related payroll tax documents to provide to the accounting firm who will prepare the Form 990. The final 990 form is reviewed by the President, VP and Treasurer, signed and mailed out prior to the due date of November 15, whenever possible.

## **INVESTMENTS**

All investments are made within the constraints imposed by the board approved Investment Guidelines then in effect.

If a significant delay in spending deposited funds is anticipated, an investment request form is prepared by the Treasurer, along with supporting documentation and a schedule of the delayed expenses. The investment request and proposed maturity date is reviewed by the VP. The request must receive President and VP approval prior to any actions being taken. Following HYDC Investment Guidelines, and with the authorized signatories, the Treasurer provides written instructions to the bank account representative to initiate the investment and instruct them regarding the required maturity date. Once the investment request has been processed by the bank the Treasurer checks online to confirm the accuracy of the transactions. Investment transactions are recorded in the accounting software by the Treasurer as an adjustment to cash. The investment transaction and support documentation are re-examined by the Treasurer when reviewing the monthly bank account statements.

## **FINANCIAL ACCOUNTING AND REPORTING**

The recording of HYDC's financial transactions into the HYDC's accounting software is performed using paid requisitions for Project costs, P/C Requests for administrative and operating expenses, and through adjustments or journal entries for all other transactions. No entries are made into the accounting software without proper approvals including authorized signatures, dated and approved invoices, and other related documentation. Contractor invoices are not entered into the accounting software without a fully executed agreement and all required compliance documentation on file in HYDC's contract files.

### **Journal Entries**

Journal entries to record all transactions other than those processed through A/P are prepared by the Treasurer on an as-needed basis, and as part of the process for entering payroll into the accounting software. Journal entry documentation is filed electronically.

Journal entries are prepared by the Treasurer on a Journal Entry input form after reviewing the supporting documentation and are forwarded to the VP for approval. Once approved, the entries are entered into the accounting software. The posted journal entry is examined by the Treasurer for accuracy and the journal entry number is noted. HYDC's VP reviews all transaction prepared by the Treasurer.

## **Fiscal Year End Closing and Financial Reporting**

Prior to the fiscal year-end, the Treasurer contacts all general vendors and the VP contacts all Project vendors and service providers to request that invoices for goods and services provided through June 30th be received before July 31st. In addition, the Treasurer and VP request estimates and supporting documentation regarding amounts payable for work to be completed by June 30th that relate to Condemnation/Property Acquisition/Design/Property Management and Construction Management. Additionally, all Project and vendor payments made between July 1st and the external auditor's commencement of their field work for the annual audit are analyzed by Treasurer and the VP for proper treatment as an expenditure of the current or prior fiscal year.

At year-end, the Treasurer prepares all closing schedules and analyses needed for adjusting entries, disclosures, and for auditors (including but not limited to: payable accruals, income accruals, Project and administrative costs payable and other accrued liabilities, and deposit and investment categorization).

Adjusting journal entries are prepared by the Treasurer and reviewed by VP prior to entry into the accounting software general ledger. The Treasurer enters the journal entries into the general ledger. The adjusted trial balance is reviewed by the Treasurer to verify balances, and then reported in the appropriate financial statement format directly from the accounting software. Draft financial statements, notes and management's discussion and analysis ("MD&A") are prepared by the Treasurer and submitted to the VP and/or President for review prior to forwarding to the independent auditors

After the conclusion of the independent audit field work, adjusting journal entries required as a result of audit, if any, are prepared by Treasurer and reviewed by VP prior to entry into the general ledger. Before running the general ledger closing process in the accounting software, a final trial balance is run and the Treasurer reviews it to ensure that all balances agree to the audited financial statements. This final trial balance is saved electronically.

The Treasurer closes the fiscal year, which is automatically done by the accounting software when the Treasurer marks the appropriate field. The system will automatically produce a "closing entry" which must be retained in the year end files. After the closing entry has been produced, the Treasurer reviews the trial balance after the closing entries have been made to ensure that the assets, liabilities and fund balances (net assets) have been properly updated.

The trial balance general ledger, work papers, journal entries and supporting documentation are electronically filed on the HYDC server for access by the external auditors.

## **OTHER CONTROL MEASURES**

### **Bank Accounts**

The opening of HYDC bank accounts requires approval by the President, VP and the Treasurer. For bank accounts opened, the bank account application form must contain, at a minimum, the names, titles, and signatures of the two authorized employees of HYDC. The application states the number of signatures required for all financial transactions, which can never be less than two of the three authorized employees. The new bank account number is added to the bank account schedule maintained by the Treasurer.

All bank accounts that are no longer in use are closed within the current fiscal year by a letter to the bank, signed by one HYDC authorized employee.

### **Authorized Signatories**

Every time there is a change of an authorized signatory for HYDC, a new authorized signatory document is prepared showing the revised current authorized signatories. The authorized signatory document is signed by the President or VP and the original is sent to HYDC's bank. A copy is filed electronically in the Treasurer's bank record files.

### **Computer Equipment and System Usage**

HYDC personnel follow the current employee policies and guidelines of HYDC. Staff members are required to familiarize themselves with these policies and guidelines. All computer units are required to be set with timed log off if they contain sensitive material. The computer systems for the Treasurer and VP all lock after a maximum of fifteen minutes of inactivity.

### **Inventory**

HYDC does not own any capital or Project assets or equipment. For fixed assets used in the operations of HYDC, HYDC's policy is to capitalize the purchase or construction costs of assets having a minimum useful life of five years and having a cost of more than \$35,000; no such assets have been acquired or constructed.

### **Procurement**

The Board has adopted a Procurement Policy. Staff members are required to familiarize themselves with this policy. Any changes in the procurement policy adopted by the Board are disseminated to HYDC staff by the Treasurer.

### **Travel and Business Expense Reimbursement**

The Board has adopted a Travel and Business Expense Policy. This policy is contained in HYDC's Employee Manual. Staff members are required to familiarize themselves with this policy. All internal controls detailed above under Disbursements -- Administrative Expenses will be followed in the issuance of a reimbursement check to an employee. Any changes in the reimbursement policies approved by the President and VP are disseminated to staff by the Treasurer.

### **Disposition of Personal and Real Property**

The Board has adopted a Policy on the Disposition of Personal Property and a Policy on the Acquisition and Disposition of Real Property. These policies are reviewed as necessary and adopted by the Board on an annual basis. Staff members are required to familiarize themselves with these policies. Any changes in the property policies adopted by the Board of Directors are disseminated to staff by the Treasurer.

### **Record Retention**

Documents supporting all HYDC transactions recorded in the accounting software and information on the opening and closing of all bank accounts are maintained and available for audit by various entities (i.e., independent auditors, State and City auditors, IRS). The support may be maintained in either paper or electronic form.

Procurement records pertaining to contracts and all procurements other than Small Purchases (as defined by the HYDC Board approved procurement guidelines) are maintained by the VP along with all compliance documentation.