
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK CITY HOUSING
DEVELOPMENT
CORPORATION**

BOARD GOVERNANCE

Report 2007-N-17

AUDIT OBJECTIVE

The objective of our audit was to determine whether the New York City Housing Development Corporation's governing Board carried out its duties and responsibilities in accordance with applicable laws, directives, public authority guidance, by-laws, and internal policies.

AUDIT RESULTS - SUMMARY

The New York City Housing Development Corporation (Corporation) is responsible for financing affordable housing developments. In 2006, the Corporation issued \$1.68 billion worth of bonds to finance the construction and preservation of more than 7,000 low- and middle-income apartments in New York City. In addition, the Corporation provides subordinate financing in the form of below-market-rate mortgages through its limited corporate reserves.

Its Board consists of seven members and has a wide range of responsibilities. Some of these include establishing policies and procedures, conducting Board meetings, establishing committees, participating in training, and overseeing the President. We found that Board members carried out most of their required duties and some improvements were necessary.

The Board created an Audit Committee, comprised of Board members. However, we found it did not adhere to certain specific laws and directives. For example, it did not require its independent auditor to rotate senior staff; the Audit Committee did not prepare an annual report; and committee members participated in meetings and voted via telephone instead of in person or via video conference.

We found that not all Board members had received their required training. Corporation documents support that two of the seven members received training. Corporation officials stated that another Board member also received training, but Corporate officials did not provide us with documentation to support this training. As of April 2008, the remaining four members had not received training.

The Board is required to provide oversight of the Corporation's President. One method of providing oversight is to perform regular evaluations. We were informed by Corporation officials that the President is evaluated annually by the Board. However, the Board did not maintain documentation regarding such evaluations and we did not find any formal discussion about them in the Board meeting minutes from November 1, 2005, to November 1, 2007.

The Private Housing Finance Law states that Board members are not entitled to receive a salary or any type of compensation. We found that one Board member had received health insurance coverage from September 2001 to March 2007, with a total cost in premiums of \$56,646. We note that there is no evidence showing that the other Board members were involved in the decision to give this person compensation and there is also no evidence showing that the remaining Board members were ever aware of this arrangement even though this person is still on the Board. We recommend that premium benefits not be paid for Board members.

We determined that the Corporation did not create and distribute all of the reports it was required to do each year (e.g., financial reports, committee reports) and did not ensure that required information was posted to the Corporation's website.

Further, we found that certain Board members did not file annual disclosure forms with the New York City Conflicts of Interest Board within the required time frame. The Conflicts of Interest Board verified that one Board member had filed late by ten months in 2006, and two members did not file by the deadline in 2007. Further, the Board does not keep track of when or if its own members filed their annual disclosure forms.

Our audit report contains ten recommendations for improving the Corporation's Board Practices.

This report, dated February 5, 2009, is available on our website at:

<http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Established as a public benefit corporation by New York State in 1971, pursuant to the New York City Housing Development Corporation Act, the Housing Development Corporation (Corporation) is responsible for financing affordable housing developments. The Corporation is a self-supporting organization. It uses the revenues from the repayment of prior loans and interest to finance low-income housing projects. It is not supported by taxes or similar revenues. This financing is independent from the City's capital budget and encourages the investment of private capital in safe and sanitary housing in New York City within the financial reach of low-income people through the provision of low-interest mortgage loans.

The Corporation reported that, since its inception, it has issued more than \$9 billion in bonds and notes to provide construction and/or permanent loans for the acquisition, refinancing, construction, and/or rehabilitation of more than 116,000 units of affordable housing. In 2006, the Corporation issued \$1.68 billion worth of bonds to finance the construction and preservation of more than 7,000 low- and middle-income apartments in New York City. In addition, the Corporation also provides subordinate financing in the form of below-market-rate mortgages through its limited corporate reserves. In a broadening of the way it pursues its mission, the Corporation has financed renovations for the New York City Housing Authority and created programs to preserve the affordability and physical structure of housing for the elderly and housing for Mitchell-Lama apartment buildings.

According to its 2006 Annual Report, the Corporation has 157 employees. Its Board consists of seven members, three ex-officio members (the Commissioner of the New York City Department of Housing Preservation and Development [the Chairperson], the Commissioner of the New York City Department of Finance, and the Director of the Office of Management and Budget), two members appointed by the Governor, and two appointed by the Mayor of New York City. The Chairperson is responsible for presiding over all meetings and has other responsibilities as determined by law or the corporate by-laws.

The Board has a wide range of responsibilities, including oversight of the Corporation's activities. The Board is also required to create committees such as an Audit Committee and Governance Committee. According to the Public Authority Accountability Act (PAAA) of

2005 (which covers public benefit corporations such as the Corporation), the Audit Committee is responsible for providing oversight of the financial statements and reviewing internal audit functions, among other things. The Governance Committee is responsible for keeping the Board informed of best governance practices, reviewing corporate governance trends, updating the Corporation's governance principles, and advising officials who appoint Board members on the skills and experiences required of potential Board members. Both committees were created by the Board.

In early 2002, following his exit from the Corporation, it was discovered that the former President had been misusing the Corporation's funds. There was an investigation by the City's Department of Investigations (DOI) to discover the extent of this misuse. One result of this investigation was that the Corporation and DOI signed a Memorandum of Understanding in March 2003 giving DOI access to the financial activities of the Corporation on an ongoing basis. As of November 1, 2007, DOI still maintained an office in the Corporation, which is paid for by the Corporation; DOI representatives attend all Board meetings and conduct random audits of Corporation activities.

AUDIT FINDINGS AND RECOMMENDATIONS

Board Member Activities

According to the PAAA, the Corporation's by-laws, and New York City Directives, Board members are responsible for establishing policies and procedures, conducting Board meetings, establishing committees, participating in training, and overseeing the President. We found that

Board members did not fully carry out these duties.

Attendance at Meetings

The Corporation's by-laws require the Board to meet at least once a year. The by-laws allow additional meetings to be called as needed. One of the major responsibilities of the Board is to approve the issuance of bonds. All Board business must be voted on and approved by at least four Board members during Board meetings.

Corporation officials said that they begin contacting Board members 30 days prior to a scheduled Board meeting to ensure that attendance is as high as possible. The Corporation's enabling legislation does not permit delegates. In addition, Board meeting packages are sent out by the Corporation's legal department seven days before a Board meeting.

To determine whether Board meetings were conducted, we reviewed meeting minutes for the period November 1, 2005, to November 1, 2007. We found that the Board held the required annual meetings each November. However, not all Board members participated in these meetings. For the two annual meetings conducted during our audit period, one Board member missed both annual meetings and two other members missed one of the two annual meetings.

We noted that the Board held 11 additional meetings during our audit period. According to the meeting minutes, the Board voted on issuing bonds at all of these meetings. However, we found 21 instances in which Board members did not attend these additional meetings. In fact, of the 6 people who served as Board members continuously since November 2005, only 2 attended all 13 Board meetings.

When Board members fail to attend Board meetings, they deprive the Corporation of their knowledge and experience when decisions are being made concerning multi-million-dollar bonds and other matters that affect the entire Corporation as well as the people of the City of New York. In addition, the Corporation's business, policies, and objectives are effectively controlled by fewer individuals.

Audit Committee

According to the PAAA, the Board was required to form an Audit Committee made up of Board members. The New York State Authority Budget Office (ABO), which is responsible for reviewing and reporting on the operations, practices, and finances of certain public benefit corporations, recommends that a charter be prepared for each committee that outlines its duties and responsibilities. We found that the Board had created the Audit Committee and its audit charter was subsequently approved.

The PAAA requires the Audit Committee to recommend to the Board the hiring of an independent accounting firm and provide oversight of its performance. In addition, the City Comptroller's Directive #22 states that contracts for independent accounting firms must not exceed four years in duration, and that a new Request for Proposal (RFP) must be issued after four years. If the same firm is chosen for a second four-year contract, the audit firm should be required to assign different senior staff to conduct the audits. The Directive also requires the Audit Committee to publish an annual report. We reviewed the activities of the Audit Committee and found it did not adhere to certain of these requirements.

- In reviewing materials from the Corporation's independent auditor, we

found the same firm has performed the annual audits since 1999. While the Audit Committee did issue an RFP for a second four-year contract, it did not require the firm to rotate its personnel. We found the same people were in senior positions on the audits for both contract terms. Since the firm was used for more than four years of consecutive audit service, the Board should have required the independent auditor to assign new senior staff to conduct the audits.

- The Audit Committee did not create an annual report during our audit period. A copy of the annual report is supposed to be submitted to the New York City Comptroller. As a result, the activities of the Audit Committee cannot be reviewed easily by the City Comptroller or the Corporation's full Board. While the Audit Committee is made up of Board members, we question whether the full Board was aware of the Committee's activities, especially since no annual report was ever prepared.

Board Voting

The Corporation's by-laws allow members to participate and vote on issues raised in Board meetings by telephone. However, according to opinions by the Committee on Open Government of the Department of State, Board members can only vote on items when they are participating in meetings in person or via video conference. Therefore, the by-laws are not consistent with the Committee on Open Government's opinion. We found that, on two occasions - March 6, 2006 and April 12, 2007 - the Corporation's Audit Committee had conducted meetings with members via teleconference. During the meetings, the

members voted on and approved the audited financial statements for 2005 and 2006.

Board Member Training

PAAA, Section 2824-2, requires Board members to participate in training regarding their legal, fiduciary, financial, and ethical responsibilities within one year of appointment to a Board. In addition, the ABO issued Policy Guidance No. 06-01 on September 1, 2006, which states that sitting Board members should be trained by the end of the fiscal year that started between January 1, 2006, and December 31, 2006 (for the Corporation, the year that began November 1, 2006, and ended October 31, 2007). Further, the Corporation's General Counsel issued a memo in August 2007 advising all Board members to receive training pursuant to the law.

We requested documentation to verify that all seven Board members had received training. Corporation officials provided us with certificates for two people, verifying that they had received training on May 19, 2006, and October 19, 2007, by attending a Public Authorities Board Governance seminar. The officials informed us in April 2008 that a third Board member also received training. However, we were not provided any documentation. The remaining four members had not received training as of April 18, 2008.

Further, the Board did not establish a process to monitor that all Board members are trained in a timely manner. Board members who are not appropriately trained may not fully understand their responsibilities relating to governance, oversight of senior management, eligibility for compensation, and other duties of the Board.

Oversight of the Corporation's President

The PAAA requires the Board to provide oversight of the Corporation's President. One method of providing oversight is to perform regular evaluations. We were informed by Corporation officials that the President is evaluated annually by the Board. However, the Board did not maintain documentation regarding the evaluation and we did not find any formal discussion about evaluations of the President in the Board meeting minutes from November 1, 2005, to November 1, 2007. We note that the President is present at and reports to the Board at each Board meeting. The Audit Committee is also provided with biannual internal audit reports covering the expenses of the President's office.

Recommendations

1. Reinforce the need for all Board members to attend all Board meetings.

(Corporation officials replied to our draft audit report that the Members' attendance at Board meetings is satisfactory, particularly in light of the demanding work schedules the Members experience. They added they will continue to schedule meetings based on the availability of its Members to ensure the maximum attendance at all Board meetings.)

Auditor's Comments: We acknowledge that Corporation Board Members have full schedules; however, it is not unreasonable to expect that all of the Members attend the annual meeting. Yet, we found that one Member did not attend any annual meetings from November 2005 to November 1, 2007 and another member only attended one. We believe that all Members should be urged to attend, at a

minimum, the annual meeting required by the Corporation's by-laws.

2. Require the independent auditor to rotate senior staff if the same auditor is chosen for an additional four-year contract.

(Corporation officials replied to our draft audit report they have implemented this recommendation.)

3. Prepare an annual Audit Committee report to comply with Directive #22.

(Corporation officials replied to our draft audit report that the Audit Committee was advised of the requirement of the Comptroller's Directive #22 regarding an annual report on November 15, 2007. The 2007 Annual Audit Committee report was approved on February 27, 2008 and submitted to the NYC Comptroller on August 14, 2008.)

4. Amend the Audit Committee charter to be consistent with the opinion of the Committee on Open Government that Board members who are voting must attend meetings either in person or by video conference.

(Corporation officials replied to our draft audit report they may have to hold meetings by phone to comply with submitting reports in a timely manner pursuant to State and local laws. In addition, they cannot purchase video conferencing equipment due to budget constraints, but will continue to investigate such feasibility with our Members.)

Auditor's Comments: We did not question the right to conduct committee meetings by phone. Our concern is with the practice of allowing Members to vote

when they are participating by phone. The Corporation needs to address this matter.

5. Ensure that all Board members comply with the law by attending required training. Maintain documentation when they complete training.

(Corporation officials replied to our draft report they agree with the recommendation and have taken action to implement it.)

6. Prepare and maintain written evaluations of the President and formally discuss this matter during Board meetings so such acknowledgments become part of the meeting minutes.

(Corporation officials replied to our draft audit report that they will continue to evaluate the President as they have in the past. However, public reference that such review has taken place will be recorded as appropriate.)

Auditor's Comment: Corporation officials did not indicate that the review will be documented as recommended. We urge them to do so as it provides a record for them as well as the President.

Board Oversight

According to the PAAA, Board members are responsible for overseeing and monitoring the Corporation. This includes providing oversight to ensure Corporation officials comply with relevant laws and regulations. We found that the Board needed to improve oversight of the Corporation in certain instances.

Board Member Compensation

The Private Housing Finance Law states that Board members are not entitled to receive a salary or any type of compensation. During our audit, we asked Corporation officials whether any of the Board members was receiving compensation. We were told that one Board member's name was on a list of employees receiving health insurance coverage. When we followed up on this matter, we were told that, from September 2001 to March 2007, this Board member was enrolled in the Corporation's health insurance benefits program, with a total cost in premiums of \$56,646.

According to the Corporation's Senior Counsel, in September 2001, the prior President or one of his officers instructed the then-Vice President of Human Resources to enroll the Board member in the Corporation's health insurance plan. The Senior Counsel characterized this instance as a favor from the prior President to the Board member.

While the President left the Corporation in early 2002, the Board member continued to receive this compensation until March 2007. We note that there is no evidence showing that the other Board members were involved in the decision to give this person compensation. There is also no evidence indicating that the remaining Board members were ever aware of this arrangement. Further, neither the Board member nor the Human Resources staff who enrolled the Board member mentioned it to DOI after the events involving the prior President unfolded. It was not until late 2006 that Corporation officials notified DOI and began the process of stopping this benefit.

We recommend this matter be referred to the Board for action and that the Board ensure

that Corporation does not pay premiums for any Board members.

Reporting Requirements

The Corporation is required to prepare 11 annual reports and submit them to various city and State offices. Generally, this is how the Corporation communicates and updates both governments. The reports cover the Corporation's activities, financial practices, and other governance measures; and they are important to ensuring transparency among public authorities. The Board is required to make sure these reports are submitted in a timely manner.

We found that 10 of the 11 reports were prepared each year during our audit period. The Audit Committee's annual report was the only report not prepared. Further, we determined that, for 2006-07, the 11 reports were supposed to be distributed to 48 New York City and New York State recipients (e.g., Mayor's office, City Comptroller's office). However, we found that the reports were distributed to only 29 of the required recipients.

When these reports are not submitted to all the required recipients, City and State officials do not have all of the information to monitor the Corporation's activities properly.

Website Content and Maintenance

The PAAA requires that certain documents be available on the website and that the ABO-issued guidelines recommending other documents be posted as well. Corporation officials are responsible for maintaining and updating the website content, while the Board is responsible for ensuring that the Corporation carries out its responsibilities.

The PAAA requires the Corporation to post six items on its website that disclose

information on both financial status and current activities. On November 2, 2007, we found that only four of the six items were posted on the website. The Corporation's Guidelines for Disposal of Property as well as its current year's budget were not posted to the website.

Of the 20 items suggested by the ABO, the Corporation had only 10 on its website. Some of the items the Corporation had not posted included a listing of Board committees, an assessment of internal controls, a code of ethics, and procurement guidelines.

In our review of the Corporation's website, we found that the Corporation has posted webcasts of its Board meetings from May 2007 through November 2007. The Corporation's President told us this was done to comply with the Governor's Executive Order number 3, issued in January 2007, which required certain meetings to be broadcast by July 2007. We acknowledge that the Corporation adhered to this policy two months before the deadline. Further, Corporation officials told us that all future Board meetings would also be webcast and accessible from the Corporation's website.

Recommendations

7. Take action to ensure that premiums are not paid for Board members.

(In response to our draft audit report, Corporation officials provided information about the events which led to the payments for a Board member. They also stated they have taken action to ensure this practice does not occur in the future. For example, the Corporation's internal audit staff will conduct a quarterly review of the Corporation's roster to determine if any unqualified individuals were on the health plan. In addition, the Board's Governance

Committee will conduct orientation for all new Members of the Board to make clear all of their rights, responsibilities and obligations, including the statutory prohibition against their receipt of any form of salary and/or compensation from the Corporation.)

8. Submit required reports in accordance with all laws and directives.

(Corporation officials replied to our draft audit report they prepared 10 of the 11 required reports and the last one (i.e. Audit Committee Annual Report) was submitted to the City Comptroller in August 2008. They disagree with our conclusion that the reports were not distributed to 29 of the 48 required recipients. However, in the future they will require return receipts for all mailed documents. They also have developed a tickler system to ensure the reports are filed, as required.)

9. Require the Corporation to post all documents required by law and suggested by the ABO on its website.

(Corporation officials replied to our draft audit report that they have taken action to add items to their website. They added that their senior management in consultation with the Members and based on the advice of the external auditors will determine which of the remaining reports will be added.)

Board Member Annual Financial Disclosure Filings

According to the Private Housing Finance Law, the Corporation must adhere to the New York City Ethics Laws. These laws require Board members to file a form each year with

the New York City Conflicts of Interest Board stating whether they have possible conflicts of interest.

To determine whether Board members have filed these forms within the required time frame, we supplied the Conflicts of Interest Board with a list of names for Board members who served during our audit period. The Conflicts of Interest Board verified that one Board member had filed late by ten months in 2006, and two members did not file by the deadline in 2007. In addition, we found that the Board does not keep track of when or if its own members filed their annual disclosure forms.

Filing disclosure forms with the Conflicts of Interest Board is part of the Board members' fiduciary responsibility and should be done in a timely manner. Late filing of potential conflicts of interest forms diminishes transparency and accountability and creates questions about the independence of Board members. It also delays resolution of actual or potential conflicts of interest. Failure to file could result in fines to the person who does not file.

Recommendation

10. Ensure all Board members file Conflicts of Interest forms on time, disclose this at Board meetings, and reflect such filing in the Board minutes.

(Corporation officials replied to our draft audit report they reminded Board Members of the requirement to file financial reports with the Conflict of Interests Board. They added that staff will continue to follow up with the Members to make sure each one files the report.)

AUDIT SCOPE AND METHODOLOGY

The objective of our audit was to determine whether the Corporation's governing Board carried out its duties and responsibilities in accordance with applicable laws, directives, public authority guidance, by-laws, and internal policies. Our objective was limited to the Board of the Corporation and did not include non-Board employees. We did not review any of the Corporation's subsidiaries. Our audit period was from November 1, 2005, to November 1, 2007.

To accomplish our objective, we reviewed minutes of the Corporation's Board and Audit Committee meetings. We examined the Corporation's by-laws and the legislation under which it was established. We reviewed PAAA sections that apply to the Corporation. We obtained an understanding of the Corporation's governance practices and reviewed actions taken by its Board. We reviewed various New York City laws and regulations that apply to the Corporation to determine how the Corporation had complied with them. We also interviewed Corporation officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's

accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution.

REPORTING REQUIREMENTS

A draft copy of this report was provided to Corporation officials for their review and comment. Their comments were considered in preparing this final report, and are included as Appendix A.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the President of the Corporation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Carmen Maldonado, Gerald Tysiak, Tony Carbonelli, Richard Moriarty, Farhan Ahmad, David Schaeffer, Linda Thipvoratrum, and Sue Gold.

APPENDIX A - AUDITEE RESPONSE



Marc E. Jahr
President

November 6, 2008

Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

**Re: Report 2007-N-17
Draft Audit Report Dated
October 7, 2007 ("Draft Report")**

Dear Ms. Maldonado:

I am writing in response to the draft audit report regarding the New York City Housing Development Corporation *Board Governance*. We appreciate the opportunity to respond to the findings and to provide additional clarification and corrections of the draft report. We will address each recommendation ("Rec.") in the number order presented in the report.

Rec. 1 – Attendance at Meetings

The New York City Housing Development Corporation ("HDC" or the "Corporation") schedules meetings based on the need to ensure maximum flexibility to serve its borrowers and respond to market conditions, while maintaining the required oversight of the Corporation's activities. As noted in your report, the Board packages are sent to the Members at least seven days before the Board meeting. Thus Members are given the opportunity to and do consult with Officials on the business to be brought before the Board prior to each meeting. Moreover, between Board meetings, staff members meet with Members on a variety of matters, ensuring that the Members' experience and judgment are fully drawn upon. The Corporation believes that the Members' attendance at Board meetings is satisfactory, particularly in light of the demanding work schedules the Members experience. HDC will continue to schedule meetings based on the availability of its Members to ensure the maximum attendance at all Board meetings.

Rec. 2 – Auditor Rotation

The independent auditor's senior staff were rotated in accordance with applicable law over the past eight years. To ensure further compliance with the spirit as well as the letter of the law, the

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most recent contract included a new independent review partner who has no prior experience with HDC.

Rec. 3 – Audit Committee Report

The Members of the Audit Committee were informed at the November 13, 2007 Audit Committee meeting of the requirements of the NYC Comptroller's Directive #22 regarding an annual report of the Audit Committee. This directive requires that they issue an annual report on the Committees' activities for each calendar year and submit the report to the NYC Comptroller. The 2007 Annual Audit Committee report was approved at the February 27, 2008 Audit Committee meeting by the Members and submitted to the NYC Comptroller on August 14, 2008.

Rec. 4 – Amend Audit Committee Charter

The Corporations' By-Laws allow member participation in meetings by teleconference call as long as it is permissible by law. The requirements of the Open Meetings Law do not specifically prohibit conducting committee meetings via telephone. It is never the Corporation's intention to hold committee meetings by phone but it may need to have teleconference meetings in the future in order to comply with submitting reports in a timely manner pursuant to State and local laws and regulations. In light of budget constraints, the Corporation is not currently able to provide video conferencing as referenced in the report but will continue to investigate such feasibility with our Members.

Rec. 5 – Board Member Training

The Corporation will ensure that all board members are informed of their obligations to receive training under Section 2824-2 of the PAAA. As provided in August 2007, the corporation will issue reminder letters to Members explaining the need for such training. Letters will include a current copy of the schedule of courses available over the next three months. The Corporation will issue such letters on a quarterly basis, until all members have fulfilled their training obligations under Section 2824-2. Additionally, HDC will maintain documentation verifying board member training, once such training is completed. Finally, HDC has now prepared a procedure to ensure that future Members will be advised of the training requirement upon the Member's appointment to the Board.

Rec. 6 – Oversight of the Corporation's President

The Corporation will continue its practice of evaluating the President and its employees. It is expected that an evaluation of the President's performance will be completed on a private basis as is customary for personnel matters and shall be completed by the Members' Governance Committee but public reference that such review has taken place will be recorded as appropriate.

Rec. 7 – Board Member Compensation

* Comment

*See Pages 15-16 for revised Corporation's response to recommendation number 7.

Rec. 8 – Reporting Requirements

As found by your audit, each year the Corporation prepared 10 of the 11 required reports. The Audit Committee's Annual Report, the only missing report, for the year ended 12/31/07 has been subsequently submitted to the NYC Comptroller. Going forward, an annual report on the Committees' activities for each calendar year will be prepared by February 28 of each year and submitted to the NYC Comptroller. In addition, your report notes that these reports were distributed to 29 of the 48 required recipients. The Corporation disagrees with this finding; staff believes that all prepared reports were distributed to all required recipients, some even personally hand delivered. In the future, return receipts will be required for all mailed documents. In order to retain evidence of submission that all reports are filed per the applicable laws and regulations and are submitted in a timely manner, the Corporation has developed a tickler system containing all filing requirements to be maintained by our Treasury department and reviewed annually with our Legal department.

Rec. 9 – Website Content and Maintenance

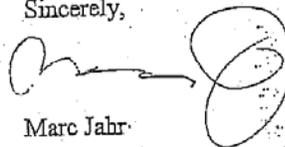
As noted in your report, the Corporation previously posted four of the six items required by law. We have subsequently posted the remaining two required items, the Corporation's Guidelines for Disposal of Property and the Corporation's current operating budget. The Corporation has taken under consideration the suggested documents to be posted on the company website per the NYS Authority Budget Office guidance memo. Based upon this review the following items are currently posted to our website: Cost of Issuance Certification, Annual Report, Budget, Property Disposition Report, Financial Statements and the Independent Audit Report. The additional items that will be posted are: List of Board Committees, Board Minutes, Bylaws and Procurement Guidelines. HDC senior management in consultation with its Members and based on the advice of its external auditors will determine which of the few remaining reports are appropriate to be posted, including Board Duties and Responsibilities, Organization Chart, Internal Control Certification, and the Investment Report.

Rec. 10 – Board Member Annual Financial Disclosure Filings

HDC advises the Members of their obligation to file their financial reports to the New York City Conflict of Interest Board ("COIB"), and provides several reminders during the filing period. Members are required to provide a signed certification to HDC after each person completes filing their statement and staff asks the Members for this confirmation of filing. HDC staff will continue to follow up with the Members to remind each one of his or her obligation and will continue to do so in the future.

Again, we appreciate the opportunity to review the Comptroller's findings. Please do not hesitate to call Shirley Jarvis, HDC's Vice President for Internal Audit at 212-227-7604 if you have any questions concerning these findings and our response.

Sincerely,



Marc Jahr

- cc: Shaun Donovan, Chairperson, HDC Board of Directors
Robert Lieber, Deputy Mayor
HDC Members
REMIC Members
Mathew Wambua, Executive Vice President, HDC
Richard Froehlich, Executive Vice President and General Counsel, HDC
Bileen O'Reilly, Senior Vice President, Chief Financial Officer, HDC
Shirley Jarvis, Vice President, Internal Audit, HDC
George Davis III, Mayor's Office of Operations



Marc E. Jahr
President

December 24, 2008

Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

**Re: Report 2007-N-17
Draft Audit Report Dated
October 7, 2007 (“Draft Report”)**

Dear Ms. Maldonado:

As we discussed, following is an amended response to Recommendation number 7 of the above-referenced audit. Please do not hesitate to call me if you have any questions concerning this matter.

Rec. 7- Board Member Compensation

In late 2006, as part of the valuation of HDC’s Other Post Employment Benefit (“OPEB”) liabilities, it was brought to the attention of senior management that one Member of the HDC Board was receiving health benefits through the Corporation’s health plan. No other Members were receiving this benefit or any other form of compensation. The member’s coverage was evaluated and it was determined that it should be terminated. The timetable for terminating this coverage coincided with New York State Attorney General Cuomo’s directive to public authorities to end benefits for public authority board members. The Member’s coverage was terminated effective March 15, 2007.

HDC wishes to clarify that, apart from the Corporation’s Senior Vice President for Asset Management, none of the current HDC senior staff, including its Senior Counsel, were at the Corporation in 2001 when health benefits were granted to the Member, a not uncommon practice among public benefit corporations at the time. The Senior Counsel was simply responding to the questions raised and had no specific information about what had occurred other than what he had been recounted to him by other staff members.

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Carmen Maldonado
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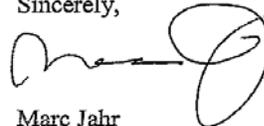
According to the Corporation staff, in September 2001, Russell Harding (then President, (who subsequently was convicted for his activities at the Corporation) or Luke Cusack (then Senior Vice President) instructed the Corporation's Human Resources department to enroll the Board member in the Corporation's health insurance plan. Subsequently, staff contacted the Corporation's health plan, The Empire Plan, and was instructed as to how to enroll the Member in the plan, and the Member's benefit was rolled up into the Corporation's overall health plan expense. Mr. Harding left the Corporation in early 2002 but the Board member, believing the benefit was legal, continued to receive it until March 2007. It should be noted that given Mr. Harding's history, the evaluation of the Board Member's benefit and determination to terminate it, was done in consultation with the New York City Department of Investigation ("DOI").

To ensure that this practice did not occur in the future, HDC's internal audit staff was instructed to conduct a quarterly review of the Corporation's roster to determine if any unqualified individuals were on the Corporation's health care plan.

Furthermore, the Corporation, with the Board's Governance Committee, will be conducting orientations for all new Members of the Board to make clear to them all of their rights, responsibilities and obligations, including the statutory prohibition against their receipt of any form of salary and/or compensation from the Corporation. In addition, on an annual basis, all Members will receive a notice of these rights, responsibilities and obligations as Members of the Board, while Executive Staff will receive a notice detailing the statutorily permissible relationship of Members of the Board to the Corporation. These orientations and notices will be strictly implemented with ongoing guidance from DOI and the City's Conflicts of Interest Board.

Again, thank you for your consideration.

Sincerely,



Marc Jahr

cc: Shaun Donovan, Chairperson, HDC Board of Directors
Robert Lieber, Deputy Mayor
HDC Members
REMIC Members
Mathew Wambua, Executive Vice President, HDC
Richard Froehlich, Executive Vice President and General Counsel, HDC
Eileen O'Reilly, Senior Vice President, Chief Financial Officer, HDC
Shirley Jarvis, Vice President, Internal Audit, HDC
George Davis III, Mayor's Office of Operations
Anthony Crowell, Office of the Deputy Mayor for Legal Affairs and Counsel to the Mayor