



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: January 11, 2024

Re: Internal Audit Report

Since the last report to the Audit Committee on November 30, 2023, one internal audit was completed. A copy of the report is attached, and a summary is as follows:

2023 Investments (continuous monitoring)

Objective(s):

The objectives were to:

- (1) Determine whether the HDC investment portfolio complies with all aspects of HDC's Investment Guidelines; and
- (2) Determine whether investments were accurately recorded on custodial bank statements.

Audit Results:

We monitored the investment portfolio throughout the year on a quarterly basis and found that the HDC investment portfolio complied with all aspects of the HDC Investment Guidelines. Additionally, the investment portfolio was supported by custodial bank statements and regularly reconciled. Internal controls include the following:

- Segregation of duties
- Investment Guidelines (annually reviewed and approved by the Audit Committee)
- Investment Committee (bi-weekly meetings)
- Mark-to-market (daily)
- Reconciliation (monthly)
- Credit Risk (monthly review of the investment portfolio and approval of all financial counterparties)
- Internal Audit (quarterly review)
- Audit Committee oversight (quarterly reports from the EVP)

2023 Investments (Continuous Monitoring)

Objective(s):

- To determine if the investment portfolio complies with all aspects of HDC’s Investment Guidelines (the “Guidelines”), particularly with respect to:
 - Approved investment instruments
 - Diversification of investment holdings
 - Qualifications of financial counterparties
 - Reporting of investment activities
- To determine investments are accurately recorded on custodial bank statements

Audit Period:

Quarterly review (February/May/August/November) of investment activities for the 2023 calendar year.

Background:

Investment activities are made and monitored by the Corporation’s Investment Committee (the “Committee”). The Committee is comprised of the following members:

- EVP-Capital Markets & Investments (Chair)
- EVP-Chief Financial Officer
- SVP-Controller
- Managing Director-Cash Management
- AVP-Cash Management
- Senior Cash Management Administrator

The Managing Director-Cash Management is responsible for the daily supervision of investment activities. The Committee meets on a regular basis (bi-weekly) to determine funds available for investment and the appropriate investment instruments for those funds based on market conditions, length of time the funds are available for investment purposes, investment restrictions imposed by related bond or note resolutions, and diversification considerations. Any funds derived from the issuance of bonds are invested pursuant to the related bond resolution, as approved by the Members. The Committee shall determine the Corporation’s need for funds based on anticipated construction advances, dates of debt service payments on the Corporation’s debt obligations, and other financial requirements.

Audit Scope and Summary:

Scope Item	Review Description	Compliance	
		Yes	No
Monitoring & Reporting	-Committee prepares quarterly report of investment activities -Committee meets on a regular basis to discuss and monitor investment activities	✓	
Authorized Investments	-Investments are comprised of only approved investment instruments as noted in the Guidelines	✓	
Concentration Limits	-Investments do not exceed the concentration limits noted in the Guidelines	✓	
Investment Duration	-Investments are held in accordance with the timeframes noted in the Guidelines	✓	
Reconciliation of Custodial Statements	-Investment portfolio is supported by custodial statements and regularly reconciled	✓	
Authorized Financial Counterparties	-Investment transactions are with financial counterparties that meet the requirements noted in the Guidelines	✓	

Internal Controls:

- Investment Guidelines (Annual review and approval by the Board)
- Investment Committee (Bi-weekly meetings)
- Mark-to-Market (Daily)
- Reconciliation (Monthly)
- Credit Risk (Monthly review of investment portfolio/Approval of all financial counterparties)
- Internal Audit (Quarterly review)
- Audit Committee (Quarterly report from EVP)
- Segregation of duties