



**MEMORANDUM**

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To: Audit Committee

From: Mary Hom *MH*  
Chief Risk Officer

Date: March 31, 2025

Re: Internal Audit Report

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Since the last report to the Audit Committee on January 28, 2025, three internal audit projects were completed. – Investments (continuous monitoring); Escrow Servicing; and the Global Internal Audit Standards Conformance Assessment.

**2024 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)

## **2024 Escrow Servicing (assurance)**

### **Objective(s):**

The objectives were to:

- 1) evaluate the adequacy of controls over the escrow servicing process;
- 2) ensure that escrow funds are managed with optimal accuracy and compliance; and
- 3) ensure that each of the four escrows (real estate taxes; water and sewer; reserve for replacement; and insurance) are being escrowed effectively and efficiently within the Loan Servicing division.

### **Results:**

We noted no matters involving internal controls and its operation that were considered material weaknesses. We found that key aspects of the escrow servicing process were completed properly as guided by HDC's escrow servicing policies and procedures.

## **2024 Global Internal Audit Standards Conformance Assessment**

### **Objective(s):**

The objective was to evaluate the Internal Audit department's conformance with new Global Internal Audit Standards ("Standards") that became effective January 9, 2025

### **Results:**

The assessment found that the Internal Audit department generally aligns with the updated standards, demonstrating strong adherence to key principles such as integrity, objectivity, and competency. Two areas for improvement were cited: (1) refinement of the internal audit strategy to ensure it fully supports HDC's long-term objectives while remaining adaptable to evolving risks and stakeholder expectations; and (2) enhancement of protocols for governing the communication and correction of significant errors and omissions in final engagement reports. An action plan has been developed to address these two areas for improvement.



## 2024 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 2024 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
- VP-Controller
- Managing Director-Cash Management
- VP-Cash Management
- AVP-Cash Management
- SVP-Capital Markets

The Managing Director and VP of Cash Management are 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

**March 14, 2025**

**Objectives:**

- To evaluate the adequacy of the controls over the escrow servicing process.
- To ensure that escrow funds are managed with optimal accuracy and compliance.
- To ensure that each of the four escrows are being escrowed effectively and efficiently within the Loan Servicing division.

**Scope:**

The audit period covered activity from November 1<sup>st</sup>, 2023, through October 31<sup>st</sup>, 2024.

**Background:**

The Loan Servicing division within Asset Management is responsible for managing various aspects of loan administration, including escrow servicing, which involves handling funds collected for taxes, water and sewer, reserve for replacement, and a range of insurance accounts. Proper escrow management is crucial for ensuring that these funds are accurately collected, maintained, and disbursed in accordance with loan agreements and regulatory requirements.

This audit focused on evaluating the effectiveness and efficiency of the escrow servicing processes within the Loan Servicing division. By assessing current policies and procedures, the audit aimed to identify areas for improvement and ensure that escrow funds are managed with optimal accuracy and compliance.

**Results:**

Upon completion of the audit, we noted no matters involving internal controls that we considered material weakness. We found that key aspects of the escrow servicing process were completed correctly.

We have recommended enhancement opportunities to strengthen the department’s function which includes hiring more staff for the insurance function. Currently, this function is handled by a single Insurance Administrator. In the event of the employee’s departure or absence, there would be no immediate replacement, potentially disrupting critical operations. While efforts to find additional staff have commenced, it is advisable to cross-train existing staff members to handle insurance-related tasks.

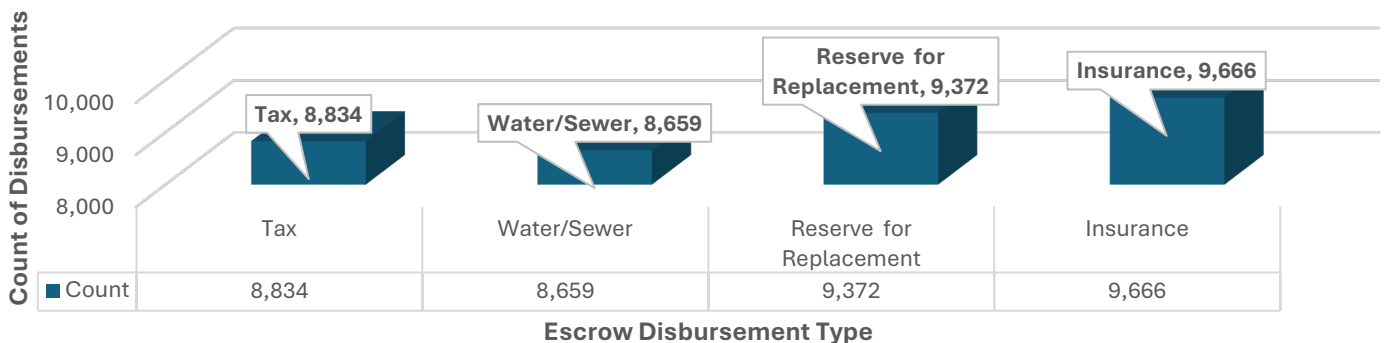
**Loan Servicing Staff:**

- SVP of Asset Management
- VP Loan Servicing
- Senior Loan Servicing Administrators (2)
- Loan Servicing Supervisor
- Loan Servicing Administrator (3)
- Insurance Administrator

**Internal Controls:**

- Policies and Procedures documents.
- Loan Servicing functions were well segregated among the loan servicing administrators.
- Loan Servicing data is securely stored, accessible only to authorized users. Level of access is monitored.
- VP of Loan Servicing performs formal reconciliations on a weekly basis to ensure amounts are correct.

**Count of Escrow Disbursements FY 2024**





## MEMORANDUM

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To: Mary Hom  
Chief Risk Officer

From: Neil Saranga NS  
Deputy Director, Internal Audit

Date: February 20, 2025

Re: Global Internal Audit Standards Conformance Assessment

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### **Background**

In January 2024, the Institute of Internal Auditors (“IIA”) released the new Global Internal Audit Standards (“Standards”) to take effect on January 9, 2025. These Standards provide a foundation for maintaining a high-quality, risk-based internal audit function that aligns with organizational objectives and industry best practices. The new Standards were designed to help internal auditors and their organizations respond better to the complex and ever-changing business environment. Among the notable changes are:

- Strengthening governance frameworks to improve organizations’ responsiveness to rapidly changing business environments
- Specific guidance to assist internal auditors in the public sector and for small internal audit functions
- A more flexible framework that can adapt to the unique challenges faced by auditors in different parts of the world
- Specific guidance and standards on critical areas like cybersecurity

### **Conformance Review**

A recent self-assessment was conducted to evaluate our Internal Audit department’s conformance with the new Standards. The assessment examined compliance with the five domains of the Standards:

- (1) Purpose of Internal Auditing
- (2) Ethics and Professionalism
- (3) Governing the Internal Audit Function
- (4) Managing the Internal Audit Function
- (5) Performing Internal Audit Services



Each of these domains is supported by 15 guiding principles that serve as the foundation for effective internal auditing. A summary of the Standards, including the domains and principles, is attached.

### **Overall Assessment**

Overall, our Internal Audit department demonstrates strong conformance with the new Standards, with a clear commitment to continuous improvement. The assessment found that the Internal Audit department generally aligns with the updated standards, demonstrating strong adherence to key principles such as integrity, objectivity, and competency. The Internal Audit team has well-established governance structures, engagement planning processes, and a commitment to professional ethics. Current methodologies ensure that risk management and control processes are adequately evaluated, and ongoing monitoring practices provide assurance of compliance with the updated standards.

To enhance alignment with the updated Standards, the assessment highlighted two areas for improvement:

- (1) Under Managing the Internal Audit Function, Standard 9.2 on Internal Audit Strategy, it is essential to further refine the internal audit strategy to ensure it fully supports the organization's long-term objectives while remaining adaptable to evolving risks and stakeholder expectations
- (2) Under Managing the Internal Audit Function, Standard 11.4 on Errors and Omissions, enhancements will be made to protocols governing the communication and correction of significant errors or omissions in final engagement reports.

### **Action Plan**

To address these two enhancements, an action plan has been developed to (1) draft the internal audit strategy through structured stakeholder engagement, and (2) to implement a standardized process for identifying and correcting errors in audit communications. Ongoing monitoring through our internal assessment will ensure adherence to the standards. Additionally, external review will occur through our next Quality Assessment Review ("QAR") which is conducted every five years and will next occur in 2028.



## **Global Internal Audit Standards Summary**

### **Five Domains and Their Focus Areas:**

#### **1. Purpose of Internal Auditing**

- Defines internal auditing's role in strengthening governance, risk management, and controls.

#### **2. Ethics and Professionalism**

- Establishes principles such as integrity, objectivity, competency, due professional care, and confidentiality.

#### **3. Governing the Internal Audit Function**

- Outlines board authorization, independence, and oversight responsibilities.

#### **4. Managing the Internal Audit Function**

- Covers strategic planning, resource allocation, and stakeholder communication.

#### **5. Performing Internal Audit Services**

- Details engagement planning, execution, and reporting processes.

### **15 Guiding Principles:**

- Integrity and honesty in audit processes
- Adherence to ethical expectations and legal compliance
- Maintaining objectivity and independence
- Competency and continuous professional development
- Exercising due professional care and professional skepticism
- Maintaining confidentiality of information
- Board oversight and internal audit function authorization
- Ensuring adequate resources and independence from management
- Strategic planning for internal audit alignment with organizational objectives
- Effective communication with stakeholders and transparency in reporting
- Engagement risk assessment, planning, and execution standards
- Documentation, performance measurement, and continuous improvement
- Final engagement communication, including error correction and reporting protocols
- Coordination with external auditors and reliance on other assurance providers
- Ensuring the internal audit function evolves with emerging risks and business needs

<b>HDC Conformance with Global Internal Audit Standards</b>		
<b>Principle 1: Demonstrate Integrity</b>		
1.1	Honesty and Professional Courage	Fully conforms
1.2	Organization's Ethical Expectations	Fully conforms
1.3	Legal and Ethical Behavior	Fully conforms
<b>Principle 2: Maintain Objectivity</b>		
2.1	Individual Objectivity	Fully conforms
2.2	Safeguarding Objectivity	Fully conforms
2.3	Disclosing Impairments to Objectivity	Fully conforms
<b>Principle 3: Demonstrate Competency</b>		
3.1	Competency	Fully conforms
3.2	Continuing Professional Development	Fully conforms
<b>Principle 4: Exercise Due Professional Care</b>		
4.1	Conformance with the Global Internal Audit Standards	Fully conforms
4.2	Due Professional Care	Fully conforms
4.3	Professional Skepticism	Fully conforms
<b>Principle 5: Maintain Confidentiality</b>		
5.1	Use of Information	Fully conforms
5.2	Protection of Information	Fully conforms
<b>Principle 6: Authorized by the Board</b>		
6.1	Internal Audit Mandate	Fully conforms
6.2	Internal Audit Charter	Fully conforms
6.3	Board and Senior Management Support	Fully conforms
<b>Principle 7: Positioned Independently</b>		
7.1	Organizational Independence	Fully conforms
7.2	Chief Audit Executive Qualifications	Fully conforms
<b>Principle 8: Overseen by the Board</b>		
8.1	Board Interaction	Fully conforms
8.2	Resources	Fully conforms
8.3	Quality	Fully conforms
8.4	External Quality Assessment	Fully conforms
<b>Principle 9: Plan Strategically</b>		
9.1	Understanding Governance, Risk Management, and Control Processes	Fully conforms
9.2	Internal Audit Strategy	Partially conforms
9.3	Methodologies	Fully conforms
9.4	Internal Audit Plan	Fully conforms
9.5	Coordination and Reliance	Fully conforms
<b>Principle 10: Manage Resources</b>		
10.1	Financial Resource Management	Fully conforms
10.2	Human Resources Management	Fully conforms
10.3	Technological Resources	Fully conforms
<b>Principle 11: Communicate Effectively</b>		
11.1	Building Relationships and Communicating with Stakeholders	Fully conforms
11.2	Effective Communication	Fully conforms
11.3	Communicating Results	Fully conforms
11.4	Errors and Omissions	Partially conforms
11.5	Communicating the Acceptance of Risks	Fully conforms
<b>Principle 12: Enhance Quality</b>		
12.1	Internal Quality Assessment	Fully conforms
12.2	Performance Measurement	Fully conforms
12.3	Oversee and Improve Engagement Performance	Fully conforms
<b>Principle 13: Plan Engagements Effectively</b>		
13.1	Engagement Communication	Fully conforms
13.2	Engagement Risk Assessment	Fully conforms
13.3	Engagement Objectives and Scope	Fully conforms
13.4	Evaluation Criteria	Fully conforms
13.5	Engagement Resources	Fully conforms
13.6	Work Program	Fully conforms
<b>Principle 14: Conduct Engagement Work</b>		
14.1	Gathering Information for Analyses and Evaluation	Fully conforms
14.2	Analyses and Potential Engagement Findings	Fully conforms
14.3	Evaluation of Findings	Fully conforms
14.4	Recommendations and Action Plans	Fully conforms
14.5	Engagement Conclusions	Fully conforms
14.6	Engagement Documentation	Fully conforms
<b>Principle 15: Communicate Engagement Results and Monitor Action Plans</b>		
15.1	Final Engagement Communication	Fully conforms
15.2	Confirming the Implementation of Recommendation or Action Plans	Fully conforms



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