



# NEW YORK CITY HOUSING DEVELOPMENT CORPORATION EXTERNAL QUALITY ASSESSMENT REVIEW REPORT MARCH 22, 2023

## Presented to:

- NYCHDC Audit Committee
- Mary Hom, Chief Risk Officer & Chief Audit Executive

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# Executive Summary

## Opinion as to Conformance With the Standards

As requested by New York City Housing Development Corporation (“NYCHDC”, “you”), BDO USA, LLP (“BDO”, “we”, “our”) conducted an external quality assessment review of the Organization’s internal audit department (“IAD”).

The principal objective of the external quality assessment review was to assess the IAD function’s conformance to The Institute of Internal Auditors (“IIA”) International Standards for the Professional Practice of Internal Auditing (*Standards*) and the Code of Ethics. We also evaluated the IAD’s effectiveness in carrying out its mission.

The IIA promulgated the International Standards for the Professional Practice of Internal Auditing (“the Standards”) effective January 1, 2002, as most recently revised and published effective January 1, 2017. The Standards, together with the IIA’s Code of Ethics, encompass all mandatory elements of the IIA’s International Professional Practices Framework (“IPPF”); therefore, conformance with the Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the IPPF. The Standards require each IIA member internal audit department to have an external quality assessment conducted at least once every five years. The Standards indicate the external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

Listed within this document are our ratings as to IAD’s collective and individual conformance with the Standards for your review and consideration.

The IIA’s Quality Assessment Manual suggests a scale of three ratings: “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” as defined at page 12 of this report. It is our overall opinion the Organization’s IAD function **Generally Conforms** with the Standards and Code of Ethics.

The ranking of “*Generally Conforms*” means that an internal audit function is judged to be in conformance with the *Standards* and the Code of Ethics. Please refer to Appendix A for a description of the IIA rating scale definitions. For a detailed list of our assessment of the department’s conformance with individual Standards, please see Appendix B, Summary of Results (Quality Assessment Evaluation Summary).

# Executive Summary

## Objectives and Scope

Our procedures were performed to evaluate whether the IAD at New York City Housing Development Corporation conforms with the IIA *International Standards for the Professional Practice of Internal Auditing (Standards)* and to determine if there are any observations or recommendations we can make regarding opportunities for improvement as compared to leading practices. We performed our procedures considering the methodology contained in the IIA's Quality Assessment Manual. Our observations are based on information gathered through the procedures noted below.

Our approach and scope included:

- Holding preliminary planning meetings to discuss the project approach.
- Preparing and issuing a document request list.
- Selecting key stakeholders to interview as part of the fieldwork.
- Interviewing key stakeholders of the IAD, including the Audit Committee, as well as other personnel from the Organization.
- Interviewing IAD team members.
- Analyzing a sample of IAD documents, including the following documentation for years 2021-2022:
  - The IAD's policy, manual and procedures.
  - The IAD's risk assessment and audit planning processes.
  - Audit tools and methodologies.
  - Engagement management processes.
  - A sample of workpapers and reports.
  - The IAD's learning and development activities.
- The initial planning meeting was held in January 2023, fieldwork was conducted from February 2023 through March 2023.

# Executive Summary

## Interviews and Audit Documentation Review

As part of the Quality Assessment Review, we interviewed the following individuals:

- Audit Committee
  - Denise Scott
  - Harry Gould
- Internal Audit
  - Mary Hom, Chief Audit Executive & Chief Risk Officer
  - Neil Saranga, Senior Internal Auditor
- Management
  - Denis Belic, VP Housing Quality & Construction
  - Lois Bricken-McCloskey, VP Human Resources
  - Paul Cackler, Chief Information Officer
  - Angela Guillermo, Purchasing Specialist
  - Mary John, SVP Controller
  - Madhavi Kulkarni, VP Enterprise Architecture
  - Tinru Lin, SVP Capital Markets
  - Alex Medina, SVP Asset Management
  - Susan O'Neill, VP Preservation Programs
  - Robert Schmidt, VP Office Services

As part of the Quality Assessment Review, we reviewed the following reports and supporting documentation issued by the IAD:

- Fleet Management (Agile)
- Procurement (Agile)
- IT Cybersecurity Incident Response Management
- Reserve for Replacement
- Facilities Management Access Cards (Agile)
- Construction Monitoring
- Continuous Monitoring- Investments

# Executive Summary

## Overall Assessment Summary

The following pages contain observations based on evaluation against IIA standards, including opportunities to further enhance conformance with the Standard.

Some observations of current practices employed by the IAD function that were communicated during interviews include:

- The IAD is led by the Chief Audit Executive (CAE) who reports directly to the Audit Committee; the CAE is supported by a Senior Internal Auditor and a Junior Internal Auditor in completion of the IAD responsibilities and obligations.
- The IAD is perceived as an independent and objective assurance function for the organization.
- The focus of the IAD activities is on the areas that are significant to the organization, centered on risk assurance projects.
- The IAD evaluates risk exposure changes and updates the risk assessment document at least annually; the CAE reviews the internal audit plan, and the Audit Committee ultimately approves the annual internal audit plan.
- The annual internal audit plan is based on the results of the risk assessment and audit plans are communicated to management.
- The IAD function conducts themselves professionally and is respected by the Audit Committee, Executives, and Senior and Departmental Management.
- The IAD function provides observations and recommendations that are focused on continuous improvement for HDC, by reducing risk and creating efficiencies.
- The IAD is generally viewed as up to date on industry and risk topics and brings perspective and knowledge to internal audit activities based on their experience working with the organization and knowledge of internal audit.
- The IAD leverages OpsAudit software from Audit Board for document management (e.g., work paper repository) to centralize document storage.

We would like to thank the team at New York City Housing Development Corporation for working with us to help make this a successful engagement.

Very truly yours,  
BDO USA, LLP

# Observations based on Evaluation Against IIA Standards

*Improvement opportunities* are based on the results of our review of IAD documentation, leading practice opportunities and IIA *Standards* guidance. In addition, Internal Audit stakeholders were asked to provide input and their views on the value of audits and consulting engagements (if applicable), the professionalism of the audit staff, and areas for improving the Internal Audit function. The following observations are for the Internal Audit function to consider in its continuous improvement efforts for the continued growth.

## 1. Standard 1110 - Organizational Independence

We noted that the CAE reports into the Audit Committee functionally, that the Audit Committee approves the Internal Audit Charter, the internal audit plan, and the internal audit resource plan and budget. The following aspects would enhance conformance with the IIA Standards:

- The Audit Committee Charter should specifically state that it is the responsibility of the Audit Committee to review and approve the IA charter.

## 2. Standard 1112 - Chief Audit Executive Roles Beyond Internal Auditing / 2120 - Risk Management

We noted that the CAE is also the Chief Risk Officer for the organization. We noted that the CAE reports into the Audit Committee functionally and to the President administratively. The following aspects would enhance conformance with the IIA Standards:

- Document oversight activities that the Board/Audit Committee could take to mitigate potential impairments to independence and objectivity, which could include developing alternative processes to obtain assurance related to internal audits of the risk management function.

# Observations based on Evaluation Against IIA Standards

## 3. Standard 1130 - Impairment to Independence or Objectivity

We noted no instances for which internal audit independence or objectivity was impaired for the periods reviewed and we noted that the Internal Audit Manual does define the nature of assurance vs. consulting internal audit projects. We further noted that the focus of the internal audit projects is assurance; there were no consulting projects identified for the years under review and stakeholders stated that the internal audit activities were centered on assurance projects. However, as a proactive measure to ensure independence and objectivity is maintained in the future, should the IAD becomes involved in consulting activities, the following aspects would enhance conformance with the IIA Standards:

- To avoid potential impairment to independence or objectivity in the future, HDC may consider documenting a process to ensure IAD independence, including how the details of impairments must be disclosed to appropriate parties if independence or objectivity is impaired. Although, consulting projects are uncommon currently, a documented process will position HDC IAD to be aligned with IIA standards should the IAD become involved in consulting projects in the future.

## 4. Standard 1210 - Proficiency / 2230 Engagement Resource Allocation

Not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing. For HDC IAD, we noted that the Senior Auditor maintains a CISA certification, which demonstrates knowledge of information systems auditing. However, the following aspects would enhance conformance with the IIA Standards:

- There are certain areas of technology risk and auditing for which HDC IA may consider utilizing specialists. Examples include cybersecurity, security architecture and design, network, database and infrastructure related risks.

## 5. Standard 1230 - Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. We noted that the Internal Audit Manual notes that HDC's Quality Assurance and Improvement Program includes continuous employee training. We further noted that training records for HDC IAD team members are maintained. The following aspects would enhance conformance with the IIA Standards:

- Consider establishing a minimum number (e.g., 20 hours) of Continuing Professional Education credits required on an annual basis.



# Observations based on Evaluation Against IIA Standards

## 6. Standard 1300 - Quality Assurance and Improvement Program

We noted that the CAE develops and maintains a quality assurance and improvement program that covers the internal audit activity. A quality assurance and improvement program should be designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The following aspects would enhance conformance with the IIA Standards:

- HDC employees, including internal audit team members, are required to certify around disclosure of conflict of interest and HDC Code of Ethics. The Code of Ethics of The Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. To acknowledge their awareness and conformance with IIA Code of Ethics, HDC should consider having the IAD review and sign-off on the IIA Code of Ethics on an annual basis.

## 7. Standard 2330 - Documenting Information

To ensure alignment with IIA Standards, internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions. Complete communications should include all significant and relevant information and observations to support recommendations and conclusions. For the audits selected, ultimately, we noted that reported engagement results appeared consistent with findings and conclusions contained in the workpapers. The following aspects would enhance conformance with the IIA Standards:

- To ensure that reported engagement results are consistent with findings and conclusions documented in the workpapers, consider retaining only the final versions of audit workpapers and consider implementing a final review of workpapers to be archived in OpsAudit software.

## 8. Standard 2500 - Monitoring Engagement Results

The CAE must establish and maintain a system to monitor management's remediation action plans developed to address the results of internal audits. The following aspects would enhance conformance with the IIA Standards:

- Establish a follow-up process to monitor internal audit results to ensure that management actions have been effectively implemented.



# Report Purpose and Use

This external quality assessment was performed in accordance with the International Standards for the Professional Practice of Internal Auditing established by the IIA. The purpose of the external quality assessment was for New York City Housing Development Corporation to ensure compliance with the quality assurance requirements of the profession as defined by the IIA. The report distribution is limited to New York City Housing Development Corporation, Audit Committee, and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties. This report is confidential and prepared for internal use only.



# APPENDIX A

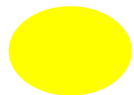
## IIA Standards Definitions

# APPENDIX A - IIA Standards Definitions

## Institute of Internal Auditors (IIA) *Standards* - Ratings as defined by the IIA



**GC - “Generally Conforms”** means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.



**PC - “Partially Conforms”** means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.



**DNC - “Does Not Conform”** means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



# APPENDIX B

## Quality Assessment Evaluation Summary



# APPENDIX B - Quality Assessment Evaluation Summary

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.

Quality Assessment Evaluation Summary - Overall Evaluation		Generally Conforms	Partially Conforms	Does Not Conform	Comments
OVERALL EVALUATION		●			
Attribute Standards (1000 through 1300)		Generally Conforms	Partially Conforms	Does Not Conform	Comments
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	●			
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓			
<b>1100</b>	<b>Independence and Objectivity</b>	●			
1110	Organizational Independence		✓		See Observation #1
1111	Direct Interaction with the Board	✓			
1112	Chief Audit Executive Roles Beyond Internal Auditing		✓		See Observation #2
1120	Individual Objectivity	✓			
1130	Impairment to Independence or Objectivity	✓			See Observation #3
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	●			
1210	Proficiency	✓			See Observation #4
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			See Observation #5
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>	●			
1310	Requirements of the Quality Assurance and Improvement Program	✓			
1311	Internal Assessments		✓		See Observation #6
1312	External Assessments	✓			
1320	Reporting on the Quality Assurance and Improvement Program	✓			
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓			
1322	Disclosure of Nonconformance	✓			

# APPENDIX B - Quality Assessment Evaluation Summary

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.


Performance Standards (2000 through 2240)		Generally Conforms	Partially Conforms	Does Not Conform	Comments
<b>2000</b>	<b>Managing the Internal Audit Activity</b>	●			
2010	Planning	✓			
2020	Communication and Approval	✓			
2030	Resource Management	✓			
2040	Policies and Procedures	✓			
2050	Coordination and Reliance	✓			
2060	Reporting to Senior Management and the Board	✓			
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓			
<b>2100</b>	<b>Nature of Work</b>	●			
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
<b>2200</b>	<b>Engagement Planning</b>	●			
2201	Planning Considerations	✓			
2210	Engagement Objectives	✓			
2220	Engagement Scope	✓			
2230	Engagement Resource Allocation	✓			
2240	Engagement Work Program	✓			

# APPENDIX B - Quality Assessment Evaluation Summary

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.

Performance Standards (2300 through 2600)		Generally Conforms	Partially Conforms	Does Not Conform	Comments
2300	Performing the Engagement	●			
2310	Identifying Information	✓			
2320	Analysis and Evaluation	✓			
2330	Documenting Information	✓			See Observation #7
2340	Engagement Supervision	✓			
2400	Communicating Results	●			
2410	Criteria for Communicating	✓			
2420	Quality of Communications	✓			
2421	Errors and Omissions	✓			
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓			
2431	Engagement Disclosure of Nonconformance	✓			
2440	Disseminating Results	✓			
2450	Overall Opinions	✓			
2500	Monitoring Progress		●		See Observation #8
2600	Communicating the Acceptance of Risks	✓			
Code of Ethics		Generally Conforms	Partially Conforms	Does Not Conform	Comments
	Code of Ethics		●		See Observation #6





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