



MEMORANDUM

To: Members of the Audit Committee

From: Mary Hom
Chief Risk Officer

Date: March 20, 2024

Re: Internal Audit Charter Revisions

Please find attached proposed revisions to the Internal Audit Charter. The Internal Audit Charter is required to be reviewed and approved every five years, or as needed upon a change in the Audit Committee Chair, change in Internal Audit reporting, or change in The Institute of Internal Auditors (“IIA”) standards. The last time the Audit Committee approved revisions to the Internal Audit Charter was March 28, 2019. The substantive revisions are as follows:

- Update the development, review, and approval of the audit plan from annual to quarterly to reflect the change we made last year to quarterly audit planning;
- Update the IIA professional standards reference to the updated document from the IIA that was released on January 9, 2024;
- Incorporate an annual minimum continuing professional education (“CPE”) requirement for all Internal Audit staff members (as recommended in the Quality Assessment Review (“QAR”) performed by BDO USA last year); and
- Update the frameworks utilized in performing information systems audits.

Action by Members of the Audit Committee:

The Members of the Audit Committee are respectfully requested to approve the revised Internal Audit Charter.



INTERNAL AUDIT CHARTER

(Revised March 27, 2024 ~~March 28, 2019~~)

MISSION

The mission of the Internal Audit Department (“IAD”) is to provide independent, objective assurance, and consulting services designed to add value and improve the Corporation’s operations. The IAD helps the Corporation accomplish its objectives by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

PURPOSE

The purpose of the IAD is to determine whether the Corporation’s systems of internal control, risk management, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Employees’ actions comply with policies, standards, procedures, applicable laws, and regulations.
- Resources are acquired economically, used efficiently, and are adequately protected.
- Quality and continuous improvement are fostered in the Corporation’s control processes.

Recommendations and opportunities for improvement of control and governance processes identified during audits will be communicated to the appropriate level of management.

INDEPENDENCE

The IAD reports to the Chief Risk Officer, who reports administratively to the President of the Corporation and functionally to the HDC Audit Committee. The Chief Risk Officer shall have one-on-one meetings with the President once every month, and a private meeting with the HDC Audit Committee at least once a year to communicate sensitive matters or issues facing Internal Audit or the Corporation. Additionally, the Chief Risk Officer shall confirm the organizational independence of the Internal Audit function to the HDC Audit Committee on an annual basis.

RESPONSIBILITY

The IAD has the responsibility to:

- Develop ~~a quarterly~~ annual audit plans and submit ~~that~~ those plans to the HDC Audit Committee for review and approval.
- Implement the ~~annual~~ quarterly audit plans, as approved, including, and as appropriate, any special tasks or projects requested by management and the HDC Audit Committee.
- Subject to the availability of resources, perform consulting services, beyond Internal Audit’s assurance services, to assist management in meeting its objectives. Consulting services are defined as advisory activities, the nature and scope of which are agreed with the client, and are

intended to add value and improve governance, risk management, and control processes without the Internal Auditor assuming management responsibilities.

- Evaluate and assess significant new or changing services, processes, operations, and control processes coincident with their development, implementation and/or expansion.
- Issue periodic reports to the HDC Audit Committee and management summarizing results of audit activities. Management is expected to implement all agreed upon audit recommendations within a reasonable timeframe.
- Assist in the investigation of significant suspected fraudulent activities within the Corporation and notify management and the HDC Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators in order to provide optimal audit coverage to the Corporation.
- Provide an Annual Audit Committee Report to the HDC Audit Committee and the Audit Committee of the City of New York.

AUTHORITY

The IAD is authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the HDC Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Exercise discretion and ensure the safeguarding and confidentiality of audit matters.

The IAD is not authorized to:

- Perform any operational duties for the Corporation.
- Initiate or approve accounting transactions external to the IAD.
- Direct the activities of any employee of the Corporation that is not employed by the IAD, except to the extent such employees have been appropriately assigned to the auditing team or to assist the internal auditors.

PROFESSIONAL STANDARDS

The Institute of Internal Auditors' (IIA) Global Internal Audit Standards ("Standards") ~~Mandatory Guidance~~ constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit function. HDC's Internal Audit staff will perform their duties in accordance with the IIA Standards ~~Mandatory Guidance, which includes~~ ~~Core Principles for the Professional Practice of Internal Auditing~~ ~~"Code of Ethics,"~~ ~~the Definition of Internal Auditing,~~ and ~~International Standards for the Professional Practice of Internal Auditing.~~ As part of the Standards' requirement for Internal Auditors to maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services, HDC's Internal Audit staff members are each required to complete a minimum of 15 hours of continuing professional education ("CPE") each year.

Other professional standards followed by the IAD ~~department~~, where appropriate, are the Government Auditing Standards from the U.S. Government Accountability Office ("GAO") and general frameworks for information systems auditing from the National Institute of Standards and Technology ("NIST"). ~~General Standards for Information Systems Auditing.~~

This formalized charter, approved and accepted by management and the HDC Audit Committee, provides the purpose, authority, and responsibility of the HDC Internal Audit Department. Review and approval of the Internal Audit Charter will occur on a periodic basis (once every five years) or as needed upon change in HDC Audit Committee Chair, change in IAD reporting, or change in IIA Standards.