

AGENDA

Wisconsin Housing and Economic Development Authority

Meeting of the Finance Committee

Tuesday, February 17, 2026

Via Teams meeting

8:30 a.m.

- A. Call to Order/Roll Call
- B. Approval of the Minutes of the December 8, 2025 meeting
- C. Decision Items
 - 1. Contracts over \$50,000
- D. Discussion Items
 - 1. Investment Purchases and Sales for November 2025 and December 2025
 - 2. Minority, Veteran and Women Business Activity Report – 2nd Quarter FY2026
 - 3. Internal Audit Reports
 - a. Accounting and Finance Audit
 - 4. Internal Audit Status Update
 - 5. Audit Follow-Up Report – Outstanding Action Items
- E. Financial Statement Review December 2025
- F. Committee Charter and Checklist
- G. Ethics Hotline Activity
- H. Other Business
- I. Adjournment



WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

FINANCE COMMITTEE MINUTES

Monday, December 8, 2025
8:30 a.m.

COMMITTEE MEMBERS PRESENT: Ranell Washington, Board Chairman
Diane House, Board Member
Jeffrey Skrenes, Board Member
Jennifer Campbell, Board Member
Jasmine Mercado, Board Member

AUTHORITY STAFF PRESENT: Sherry Gerondale, Chief Financial Officer
Stacey Wagner, Controller
Maria Sainz-Ranney, Financial Officer
Tammy Wourms, Program Specialist

Guests: Daniel Slowik, Jefferson Wells
Emily Keane, Jefferson Wells

CALL TO ORDER:

The meeting was called to order at 8:31 a.m. by Mr. Washington. Roll call was taken, a quorum was present.

Approval of the Finance Committee minutes of October 13, 2025 and November 10, 2025, meetings

A motion was made by Ms. Mercado and seconded by Ms. House to approve the minutes of the October 13, 2025, and November 10, 2025 Finance Committee meetings. The motion carried unanimously on a voice vote.

DECISION ITEMS:

Release of Funds from the Residual Account of Bonds Issued Under the 2009 Home Ownership Revenue Bond General Resolution (Program 84)

A motion was made by Ms. House and seconded by Mr. Skrenes to approve of the recommendation that the \$1,085,712.20 of excess revenues be retained in the Program's General Reserve (Program 84). The motion carried unanimously on a voice vote.

Contracts over \$50,000

A motion was made by Ms. House and seconded by Mr. Skrenes to approve the contracts in excess of \$50,000. The motion carried unanimously on a voice vote.

DISCUSSION ITEMS:

Investment Purchases and Sales for September 2025 and October 2025

Ms. Zorr presented Purchases and Sales papers for September 2025 and October 2025.

Minority, Veteran and Women Business Activity Report – 1st Quarter of FY2026

Ms. Gerondale stated that the eligible spending with minority-owned firms, disabled veteran-owned firms and woman-owned firms (both DOA- and non-DOA-certified) was 15.53% for the First quarter of fiscal year 2026.

Internal Audit Status Report

Mr. Slowik presented the Internal Audit Status Report.

Audit Follow-Up Report – Outstanding Action Items

Ms. Keane presented the Follow-Up Report. The outstanding items look to be on track and are being cleared up on a timely basis, thus nothing that would raise any concern.

Financial Statement Review October 2025

Ms. Wagner presented the financial statement highlights for October 2025.

Committee Charter and Checklist

Ms. Wagner stated that we're up to date on the Committee Charter Checklist.

Ethics Hotline Activity

Mr. Washington stated he has not been made aware of any new reports.

Other Business

There was no other business placed before the Finance Committee

Adjournment

Ms. House moved to adjourn the meeting, and Mr. Skrenes seconded. The motion carried unanimously on a voice vote.

The meeting adjourned at 9:03 a.m.

WHEDA Finance Committee Report
December 8, 2025 to February 16, 2026

<u>Originating Group</u>	<u>Contract Vendor & Description</u>	<u>Contract Amount</u>
Single Family	Core Financial Software	\$110,636
HR	ADP	\$308,361
IT	ProLink	\$101,212

The WHEDA Finance Committee hereby approves the above listed contracts in excess of \$50,000



PURCHASE, SALES, AND MATURITIES REPORT
WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY
MARKET VALUES AND AMORTIZED VALUES OF INVESTMENTS

AS OF **11/30/2025**

WHEDA

	INVESTMENT NAME	INTEREST RATE	PURCHASE DATE	MATURITY DATE	YRS TO MATURITY	EXPECTED MATURITY	EXPECTED YRS TO MATURITY	YIELD	PAR VALUE	AMORTIZED VALUE
PURCHASES										
GEN FUND	FNMA DC6220 5.50% 11/01/2055	5.500%	11/13/2025	11/1/2055	29.94	11/1/2055	29.94	5.500%	9,408,849.00	9,408,849.00 (a)
GEN FUND	FNMA DC6221 5.50% 10/01/2055	5.500%	11/24/2025	10/1/2055	29.85	10/1/2055	29.85	5.500%	8,203,211.00	8,203,211.00 (a)
GEN FUND	FNMA DC6222 5.75% 11/01/2055	5.750%	11/13/2025	11/1/2055	29.94	11/1/2055	29.94	5.750%	5,102,328.00	5,102,328.00 (a)
GEN FUND	GNMA DF0799 6.50% 10/20/2055	6.500%	11/17/2025	10/20/2055	29.91	10/20/2055	29.91	6.500%	1,359,817.00	1,359,817.00 (b)
GEN FUND	MONEY MARKET FUNDS, GENERAL FUND (NET)	Various	Various	Various	Various	Various	Various	Various	36,601,158.29	36,601,158.29
ESCROW	MONEY MARKET FUNDS, ESCROW FUND (NET)	Various	Various	Various	Various	Various	Various	Various	3,310,844.31	3,310,844.31
WDRF	MONEY MARKET FUNDS, DEVELOPMENT FUND (NET)	Various	Various	Various	Various	Various	Various	Various	27,469.42	27,469.42
ACT 14-18	MONEY MARKET FUNDS, STATE HOUSING FUNDS (NET)	Various	10/30/2023	Various	Various	Various	Various	Various	1,554,938.06	1,554,938.06
HILP	MONEY MARKET FUNDS, HILP FUND (NET)	Various	Various	Various	Various	Various	Various	Various	196,163.39	196,163.39
									65,764,778.47	65,764,778.47
SALES										
GEN FUND	GNMA DF0799 6.50% 10/20/2055	7.000%	10/15/2025	9/1/2055	29.77	8/20/2055	29.74	7.000%	1,359,817.00	1,359,817.00 (b)
VARIOUS	MONEY MARKET FUNDS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	59,920,943.64	59,920,943.64
VARIOUS	INVESTMENT CONTRACTS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	0.00	0.00
									61,280,760.64	61,280,760.64
PRINCIPAL RECEIPTS										
GEN FUND	MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	87,303.18	87,303.18
ESCROW	MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	0.00	0.00
VARIOUS	MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	2,511.80	2,519.99
MBS PROGRAM	MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	15,560,166.49	15,560,166.49
									15,649,981.47	15,649,989.66
TOTAL CHANGE IN PAR AND AMORTIZED VALUE, RESPECTIVELY										
									(11,165,963.64)	(11,165,971.83)

(a) WHEDA first time homebuyer loans were securitized into three FNMA securities. They were warehoused in the General Fund for a future bond deal for \$22.7 million.

(b) One GNMA security was purchased and sold for a gain of \$56,107

The bond programs showed a net decrease of \$75.5 million in November. Highlights include:

Debt service totalled \$48.4 million.

Single-family prepayments and scheduled loan repayments were \$1.6 million.

Multifamily prepayments and scheduled principal repayments were \$23.4 million.

Multifamily draws were \$12.8 million which were funded with bond proceeds.

Multifamily bond proceeds used to purchase warehoused bond pool loans were \$36.1 million

Outside of the bond programs, there was a net increase of \$64.3 million, \$36.1 of which was repayment of previously drawn multifamily bond pool loans



PURCHASE, SALES, AND MATURITIES REPORT
WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY
MARKET VALUES AND AMORTIZED VALUES OF INVESTMENTS

WHEDA

AS OF **12/31/2025**

INVESTMENT NAME	INTEREST RATE	PURCHASE DATE	MATURITY DATE	YRS TO MATURITY	EXPECTED MATURITY	EXPECTED YRS TO MATURITY	YIELD	PAR VALUE	AMORTIZED VALUE
PURCHASES									
GEN FUND FNMA DC6223 5.00% 11/1/2055	5.000%	12/11/2025	11/1/2055	29.85	11/1/2055	29.85	5.000%	5,804,883.00	5,804,883.00 (a)
GEN FUND FNMA DC6224 5.25% 11/1/2055	5.250%	12/11/2025	11/1/2055	29.85	11/1/2055	29.85	5.250%	7,280,768.00	7,280,768.00 (a)
GEN FUND FNMA DC6225 5.50% 10/1/2055	5.500%	12/11/2025	10/1/2055	29.77	10/1/2055	29.77	5.500%	9,841,415.00	9,841,415.00 (a)
GEN FUND GNMA DF0800 6.50% 12/20/2055	6.500%	12/15/2025	12/20/2055	29.99	12/20/2055	29.99	6.500%	2,100,364.00	2,100,364.00 (b)
GEN FUND GNMA DF0801 6.50% 11/20/2055	6.500%	12/15/2025	11/20/2055	29.91	11/20/2055	29.91	6.500%	1,153,028.00	1,153,028.00 (b)
WDRF MONEY MARKET FUNDS, DEVELOPMENT FUND (NET)	Various	Various	Various	Various	Various	Various	Various	26,387.72	26,387.72
ACT 14-18 MONEY MARKET FUNDS, STATE HOUSING FUNDS (NET)	Various	10/30/2023	Various	Various	Various	Various	Various	554,193.20	554,193.20
HILP MONEY MARKET FUNDS, HILP FUND (NET)	Various	Various	Various	Various	Various	Various	Various	270,950.13	270,950.13
VARIOUS MONEY MARKET FUNDS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	26,064,858.83	26,064,858.83
								53,096,847.88	53,096,847.88
MATURITIES AND CALLS									
VARIOUS INVESTMENT CONTRACTS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	147,244.00	147,244.00
								147,244.00	147,244.00
SALES									
GEN FUND GNMA DF0800 6.50% 12/20/2055	6.500%	12/15/2025	12/20/2055	29.99	12/20/2055	29.99	6.500%	2,100,364.00	2,100,364.00 (b)
GEN FUND GNMA DF0801 6.50% 11/20/2055	6.500%	12/15/2025	11/20/2055	29.91	11/20/2055	29.91	6.500%	1,153,028.00	1,153,028.00 (b)
GEN FUND MONEY MARKET FUNDS, GENERAL FUND (NET)	Various	Various	Various	Various	Various	Various	Various	8,948,676.07	8,948,676.07
ESCROW MONEY MARKET FUNDS, ESCROW FUND (NET)	Various	Various	Various	Various	Various	Various	Various	32,892,997.33	32,892,997.33
VARIOUS INVESTMENT CONTRACTS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	0.00	0.00
VARIOUS INVESTMENT CONTRACTS, RESTRICTED FUND (NET)	Various	Various	Various	Various	Various	Various	Various	2,000,000.00	2,000,000.00
								47,095,065.40	47,095,065.40
PRINCIPAL RECEIPTS									
GEN FUND MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	654,035.99	654,035.99
ESCROW MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	0.00	0.00
VARIOUS MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	219.01	219.72
MBS PROGRAM MORTGAGE PASS-THROUGH SECURITIES	Various	Various	Various	Various	Various	Various	Various	10,444,588.61	10,444,588.61
								11,098,843.61	11,098,844.32
TOTAL CHANGE IN PAR AND AMORTIZED VALUE, RESPECTIVELY									
								(5,244,305.13)	(5,244,305.84)

(a) WHEDA first time homebuyer loans were securitized into three FNMA securities. They were warehoused in the General Fund for a future bond deal for \$22.9 million.

(b) Two GNMA securities were purchased and sold for a gain of \$141,404.60

The bond programs showed a net increase of \$13.4 million in December. Highlights include:

Debt service totalled \$11.9 million.

Single-family prepayments and scheduled loan repayments were \$1.8 million.

Multifamily prepayments and scheduled principal repayments were \$14.1 million.

Multifamily draws were \$11 million which were funded with bond proceeds.

Outside of the bond programs, there was a net decrease of \$18.7 million.



WHEDA Minority, Veteran and Woman Business Activity Report
Fiscal Year 2026 - 2nd Quarter

DOA-Certified Businesses	FY26 Qtr 2	FY26 Qtr 1	Percent of Total FY26 QTR 2	Percent of Total FY26 TOTAL
Minority Payments, Purchases & Fees	127,791	332,979	5.27%	8.60%
Veteran Payments & Purchases			0.00%	0.00%
Woman Payments & Purchases	9,824	18,846	0.41%	0.54%
Total DOA Certified Payments	137,614	351,826	5.68%	9.14%

Discretionary Expenditures	12/31/25	09/30/25	Total FY26	Total FY25
	FY26 Qtr 2	FY26 Qtr 1		
Accounting and Auditing Fees	60,299	90,362	150,661	337,664
Legal Fees	12,396	8,197	20,593	59,200
Computer Consultant Fees	62,870	69,161	132,031	137,552
Employee Relations & Training	109,614	105,877	215,491	434,840
Other Contracted Services	128,325	132,819	261,144	572,321
Computer Service Agreements	561,629	480,659	1,042,289	1,778,486
Hardware & Software Expenses	9,172	0	9,172	70,275
Marketing Expenses	34,152	29,075	63,226	335,799
Office Supplies	7,414	3,232	10,646	30,025
Travel Expense	36,398	30,995	67,392	148,351
Other Expenses	162,438	35,402	197,840	414,229
Capital Expenditures (without capitalized IT time)	17,017	28,902	45,919	138,982
REO Discretionary Expenses	158,116	161,864	319,980	671,141
Building Discretionary Operating Expenses	97,897	69,333	167,231	341,173
Bonded Activity	967,075	1,685,797	2,652,872	3,220,301
Total Discretionary Spending	2,424,812	2,931,675	5,356,487	8,690,338

Minority, Veteran and Woman Businesses				
DOA Certified	137,614	351,826	489,440	1,061,977
as percent of Total Discretionary Spending	5.68%	12.00%	9.14%	13.73%
Non-DOA Certified*	90,879	103,503	194,382	225,052
as percent of Total Discretionary Spending	3.75%	3.53%	3.63%	4.29%
Total DOA and Non-DOA Certified	228,494	455,329	683,822	2,103,987
as Percent of Total Discretionary Spending	9.42%	15.53%	12.77%	18.03%

1st Quarter Vendors		Ownership
PROPERTY PRESERVATION & INSPECTION SERVICES INC		Woman**
INTERIORSCAPES, INC.		Woman**
RAMIREZ & CO (SAMUEL A RAMIREZ & CO INC)		Minority
SIEBERT WILLIAMS SHANK & CO		Minority/Women
AMERIVET SECURITIES		Minority/Veteran**
DC GLOBAL GROUP LLC		Minority**
VANGUARD COMPUTERS INC		Minority
MWH LAW GROUP LLP		Minority
GREAT PEOPLE MANAGEMENT INC		Woman
ROYAL RECOGNITION INC		Woman
SIGNS BY CAITLIN		Woman**
HMONG WISCONSIN CHAMB		Minority**
HPGM (Hispanic Professionals of Greater Milwaukee)		Minority**
HCG-WISDELLSHOTEL - (Ho-Chunk)		Minority**
AMANDA EVANS PHOTOGRAPHY		Minority

**Non-DOA Certified

1st Quarter Vendors - Building		Ownership
CJ & ASSOCIATES INC		Woman
POTTER LAWSON INC		Woman
J & K SECURITY SOLUTIONS		Woman

**Non-DOA Certified



Accounting and Finance

Prepared for Wisconsin Housing and Economic Development Authority

February 2026

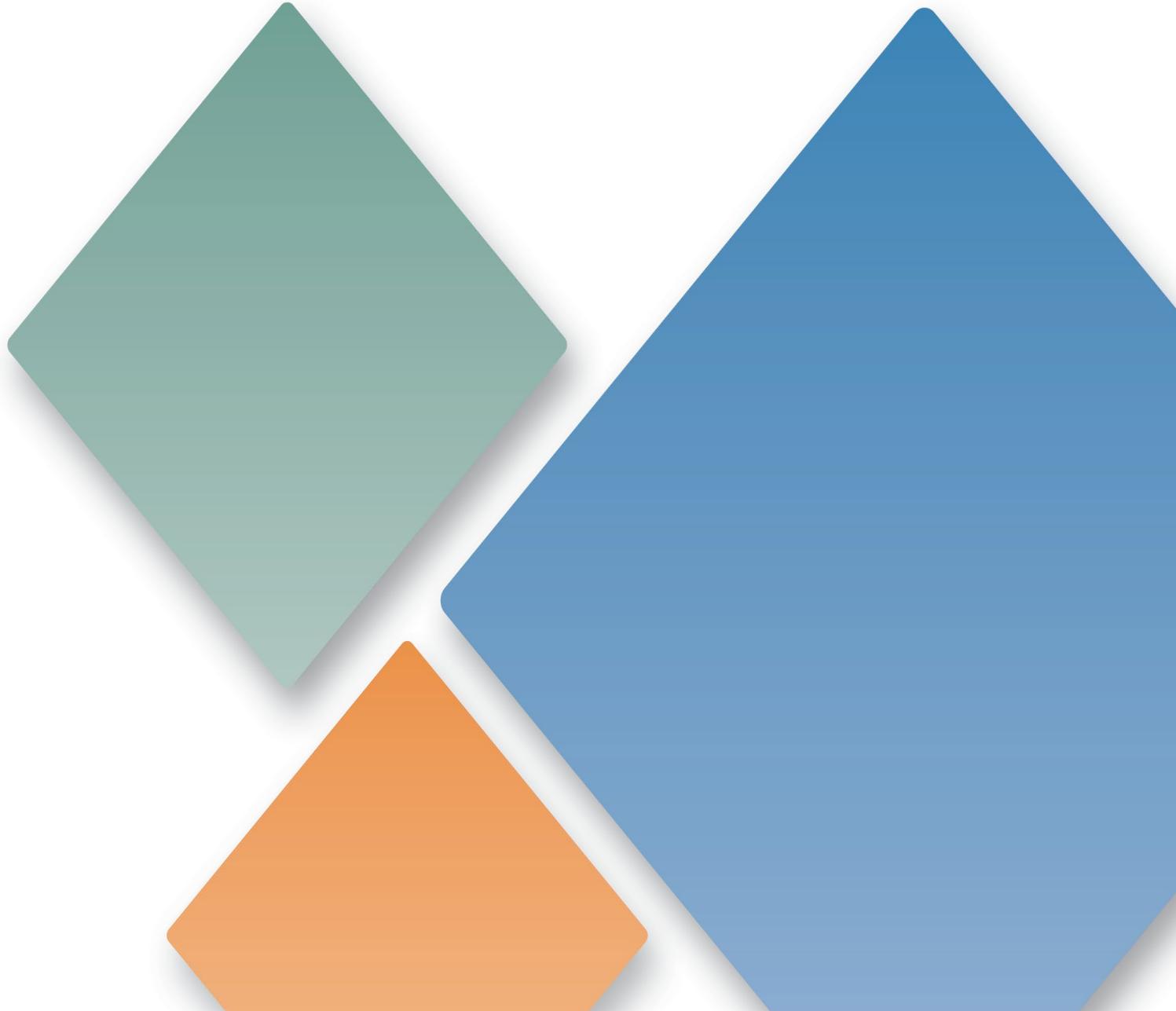


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EXECUTIVE SUMMARY

BACKGROUND

The Wisconsin Housing and Economic Development Authority (WHEDA) oversees a broad portfolio of financial programs, investment activities, bond issuances, and operational transactions. The Finance team supports these activities through daily cash management, investment and bond processing, disbursements, and general ledger reporting. Because WHEDA manages multiple programs and funding sources, the environment requires strong processes and well-designed internal controls to ensure accuracy and reliability. While no new products or systems were introduced during the review period, the volume and complexity of financial activity reinforce the need for consistent oversight across all accounting functions.

Responsibility for WHEDA's financial processing, reporting, and control environment is divided between two Finance teams:

The "Bionic" Team

- Maintains segregated operating and investment funds
- Oversees issuance of WHEDA bonds and Mortgage-Backed Securities (MBS)
- Initiates securities transactions
- Monitors investment and fund performance
- Verifies daily bank activity and completes disbursements (checks, ACH, wires, electronic payments)

The "Red" Team

- Records financial activity into the general ledger
- Produces financial reporting and disclosures
- Supports contract administration monitoring
- Oversees purchasing card activity and employee expense reimbursements
- Maintains the overall financial control environment

SCOPE AND OBJECTIVES

At the direction of the Finance Committee and in alignment with the 2026 WHEDA Risk Assessment and Audit Plan, an audit of the Accounting and Finance function was completed in February 2026. This full-scope engagement evaluated how financial transactions are initiated, recorded, monitored, and reported. The objective was to determine whether controls within the accounting and finance processes are designed and operating effectively to mitigate key financial, operational, and compliance risks.

The audit included the review of:

- Cash receipts and disbursements (checks, wires, ACH)
- Account reconciliations and general ledger activity
- Investments and bond placements (swap and derivative activity was not included in the scope of testing)
- Vendor management, policies, and system access
- Financial statement and footnote preparation
- Budgeting processes
- Procurement, P-cards, and purchasing approvals
- Employee expense reporting and reimbursement exceptions

Inherent risks associated with these processes include:

- High transaction volume increases the risk of posting errors or incomplete processing.
- Manual steps in key processes may lead to inconsistent execution or missing documentation.
- Cash movement activities carry natural risk of unauthorized, duplicate, or misdirected payments.
- Investment and bond transactions involve complex accounting and timing considerations that elevate reporting risk.

- General ledger and reconciliation dependencies increase the risk of errors or unrecorded activity.
- Procurement, P-card, and employee expenses present inherent fraud and compliance risks due to decentralized activity.
- Access and role-based responsibilities may introduce risks related to system permissions or segregation of duties.

The audit covered activity and procedures from January 2025 through October 31, 2025, unless otherwise noted. Audit techniques included interviews with key personnel, review of policies and procedures, and examination of reports and supporting documentation. See **Appendix A** for the specific procedures performed.

OVERALL ASSESSMENT

Overall, the accounting and finance processes were assessed as **Effective** in mitigating key risks. Although the teams have experienced personnel transitions since the prior internal audit, WHEDA has maintained a strong control environment supported by clear responsibilities and appropriate segregation of duties. No issues or control exceptions were identified during audit fieldwork.

Internal audits represent one component of WHEDA's broader risk management and governance framework. This report is provided to support Management, the Finance Committee, and the Board of Directors in sustaining effective controls and proactively managing financial and operational risk.

APPENDIX A:PROCEDURES PERFORMED

The following procedures were performed during the Accounting and Finance audit:

- Reviewed the process narrative and Risk and Control Matrix with accounting and finance management and updated, as necessary.
- Examined the annual risk assessments and internal control documents completed for the external auditors to evaluate processes align with identified controls and procedures, and support appropriate segregation of duties
- Examined the following policies and compared testing results to validate the policies and processes followed are aligned:
 - Procurement Policy
 - Investment Policy
 - Purchasing Card Policy
 - Travel and Expense Policy
- Obtained the annual access review analysis and validated it was completed in the past year and action items were addressed.
- Examined three monthly closing checklists from fiscal years 2025 and 2026 to verify the close process was completed and evidenced.
- Examined account reconciliations to verify the following:
 - Accurate completion
 - Sufficient support
 - Evidence of independent review
- Evaluated fifteen manual correcting journal entries for adequate support and sufficient level of independent review.
- Examined evidence that financial statements were reviewed by management and the Finance Committee for a sample of three months from fiscal year 2025, including the June 2025 year end
 - Validated the financial statement reviews included variance analysis
 - Validated the year-end review management completion of footnotes
- Examined evidence that quarterly investment fund performance reviews were presented to and evaluated by the Finance Committee.
- Examined fifteen Fund Transfer Authorizations (FTA) for proper supporting documentation, proper approval, and accurate processing and posting.
- Obtained listing of BMO's "Online Business Banking" access rights to determine it was limited to Finance personnel involved in the wire process.
- Obtained the most current investment policies and performed the following:
 - Validated policies are current
 - Validated policies were approved by the WHEDA Board of Directors in fiscal year 2025
- Verified the cash receipts process is independently monitored.
 - Examined a sample of cash receipt log entries for three months that were traced to posting by an employee independent of the receipt process.
- Performed the following to validate operational effectiveness of certain mitigating controls over vendor management:
 - Examined Finance Committee minutes for three months from fiscal years 2025 and 2026 and validated contracts exceeding \$50,000 were presented and approved.
 - Performed purchase transaction testing (see Accounts Payable disbursements testing below)
- Traced twenty judgmentally selected Accounts Payable disbursements to supporting documentation to verify the following:
 - Overall compliance with the Procurement Policy
 - Approval
 - Payee and amount accuracy
 - Timeliness of payment
 - Proper posting to the accounting record
 - Completed and approved Purchase Information and Approval Form (where applicable)

- Contract compliance (where applicable)
- Agreed five employee expense reports and five purchasing card statements to supporting documents. Verified expenses were:
 - Within policy guidelines
 - Approved by management
 - Supported with documentation that was submitted timely

APPENDIX B:OVERALL RATING DEFINITIONS

Effective

An Effective rating indicates the organization's control environment does not have any internal control deficiencies; however, it may have minor concerns that are correctable in the normal course of business. Corrective action plans to address this issue should be completed at the discretion of management.

Effective with Opportunity for Improvement

The control environment is adequate; however, moderate, and/or low risk exceptions exist which include one or more of the following:

- Policies exist but are not being followed on an isolated (not widespread) basis.
- Procedures exist but are incomplete, inaccurate, or not being followed consistently.
- Based on audit testing, the overall program is functioning (i.e., minor, or isolated exceptions may have been noted) and compliance is not at risk.
- All high-level risks are controlled.

Needs Improvement

A Needs Improvement rating indicates a moderate or high control issue was identified that requires prompt management attention.

Unsatisfactory

An Unsatisfactory rating indicates a critical control weakness was identified without sufficient compensating internal controls or mitigating factors. An immediate, comprehensive, corrective Action Plan should be a high priority. If this is not feasible, management should provide a response that includes compensating (e.g., manual) controls to be implemented before the scheduled remediation is complete, and a description of the incremental remediation milestones.



Wisconsin Housing and Economic Development Authority (WHEDA)

**Finance Committee Meeting
Internal Audit Update**

February 17, 2026

Contents

-  Internal Audit Summary
-  Internal Audit Issues - None
-  Audit Follow-Up Report and Education

Internal Audit Summary

Engagement Name	Scope	Result	Issues
Accounting and Finance	<ul style="list-style-type: none">The review assessed whether financial transactions are properly initiated, recorded, monitored, and reported, and whether controls are designed and operating effectively.Key areas evaluated included cash receipts/disbursements, general ledger and reconciliations, investments and bond activity, vendor management, financial reporting, budgeting, procurement/P-cards, and employee expenses.	Effective	None Identified

Accounting and Finance Inherent Risks



- Large transaction volumes and manual processing increase the risk of posting errors, incomplete processing, or missing documentation.
- Cash movement activities inherently carry risks of unauthorized or misdirected payments.
- Investment and bond activity introduces complex accounting and timing risks that can impact financial reporting.
- Dependencies on reconciliations and general ledger accuracy create risk of unrecorded or misstated activity.
- Decentralized procurement, P-card, and employee expenses present natural fraud and compliance risks.
- System access and role-based responsibilities may introduce segregation-of-duties and permission-related risks.

Audit Follow-Up Report and Education

- Reviewed Audit Follow-up Report
Outstanding Action Items

- IIA Tone at the Top:
Organizational
Behavior Impact on
Success



Organizational Behavior's Impact on Success
Does poor tone have visibility into the company's organizational behavior? It can if companies understand organizational behavior. In fact, they are better able to manage organizational behavior from which they derive value and can impact not only the company's performance but also the achievement of strategic business and political positions with the TONE at the TOP article we are example. Leadership's strong focus on short-term profitability and the lack of long-term vision can lead to poor organizational behavior. According to "Leading the Ethical Leadership Pillar at EY," posted by the Harvard Case School Program on Integration, members in the new Organizational Behavior Topic Requirement.

Organizational Behavior vs. Culture
Organizational behavior is the observable actions, decisions, and interpersonal dynamics that are exhibited by an organization. It is the way an organization influences performance and the achievement of strategic business and political positions with the TONE at the TOP article we are example. Leadership's strong focus on short-term profitability and the lack of long-term vision can lead to poor organizational behavior. According to "Leading the Ethical Leadership Pillar at EY," posted by the Harvard Case School Program on Integration, members in the new Organizational Behavior Topic Requirement.



THE IIA'S THREE LINES MODEL

An update of the Three Lines of Defense

WHEDA
FY2026 Risk Based Internal Audit Status Update
As of February 8, 2026



Description	Estimated Hours	Actual Hours	Estimated Hours to Complete	Under (-) / Over Budget	Audit Status and/or Fieldwork Timing
Engagement Management	166	48.75	117.25	0.00	Ongoing
Accounting and Finance	90	47.00	24.00	-19.00	Completed & Presented
Housing Tax Credits	60	34.00	26.00	0.00	Completed; Report In Review
Affordable Housing Legislation	55	0.00	55.00	0.00	Fieldwork In-process, done with Affordable Housing Legislation
Programmatic/Program Development:	32	3.25	28.75	0.00	Fieldwork In-process, performed with Affordable Housing Legislation
Single-family Housing (including MORA)	150	16.00	134.00	0.00	Phase 1 starting this week, Phase 2 testing scheduled in March
Information Technology	350	0.00	350.00	0.00	Planning and fieldwork scheduled for April 2026
HR / Payroll (timing dependent on MBE)	52	2.00	50.00	0.00	Planning starting this week, fieldwork scheduled for March 2026
Corrective Action Procedures: Housing Tax Credits (Housing Voucher, WHEDA Foundations / Dividend Grant)	12	0.00	12.00	0.00	Planning and Fieldwork scheduled for March 2026
Special Projects	12	0.00	12.00	0.00	TBD
Total Audit Hours / Cost	979	151.00	809.00	-19.00	

The Audit Plan is subject to change based on the results of the on-going risk assessment review and any changes. Any changes would be reviewed by the Audit Liaison and approved by the Finance Committee.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY
Audit Follow-Up Report – Outstanding Action Items
February 17, 2026

Audit	Issue No. in Report	Action Items	Audit Issue Severity Rating	Director	Audit as of month	Due by Finance Committee Meeting Date	Completed on Finance Committee Meeting Date
Information Technology Audit	8	<p>Network Segmentation Madison office - Implement and configure appropriate network devices (utilizing the current VLAN segmentation in place). This will assist in limiting exposure of critical servers and systems to devices and endpoints where communication and transfer of data is not necessary and appropriate. Milwaukee office - Segment servers and workstations onto separate VLANs. Implement and configure appropriate devices that will assist in limiting exposure of critical servers and systems to devices and endpoints where communication and data transfer are unnecessary and inappropriate. WHEDA will VLAN off all servers in Milwaukee as a first step.</p> <p>Update (EAC 11/30/23): Ties in with items in Issue #4 & other Issue #8 Work continues to progress on this project. AEBS is assisting in the firewall rules review and audit. The physical firewall portion of the Milwaukee Egress project is staged and ready to go, awaiting coordination between WHEDA / the DOA / and AEBS to go over plans for the cutover. However, in tandem with the Milwaukee Egress configuration, the Palo Alto tool named Panorama will be configured to streamline network systems in case of a disaster scenario, but it is still in the purchase process.</p> <p>Update (EAC 6/4/24): Ties in with items in Issue #4 & other Issue #8 Coordination exists between the DOA, ATT and AEBS for when a routing change needs to be made. A new software package called Panorama is being implemented to ensure that configurations across all firewalls (MSN & MKE) remain consistent. However, the planning for a new Milwaukee facility has put a pause on this project. We are looking to avoid performing the work of segmentation and egress configuration twice and will resume once a new tech facility is selected.</p> <p>Update (EAC 10/29/2024): Colocation Facility RFP: The new RFP is in the Draft stage and has been submitted to Legal for review. Once approved, we will be scheduling the advertisement and will be contacting specific data centers to ensure they will be submitting proposals.</p> <p>Update (KM 12/4/2024): Discussions with Legal complete, now negotiating timelines with the business to ensure costs do not unnecessarily exceed projections.</p> <p>Update (KM 2/12/25): Internal priority has been agreed, expected start date is FY26, to align with organizational needs, and to keep costs lowered.</p> <p>Update (KM 8/14/25): Colocation has been accepted through RFS, and we are currently pending a formal assessment of connectivity providers to align with process. It is with Legal right now. Once legal review is complete, we will schedule the move. We anticipate 8-10 weeks post sign-off will be a reasonable timeframe.</p> <p>Update (KM 12/4/2025): Pending contract is with Data Holdings legal. Estimate is still 8-10 weeks post contract signature.</p> <p>Update (KM 2/4/26): The contracts with Data Holdings have been signed, we anticipate a mid April move in date, assuming that all goes as planned.</p>	Low	Zadra Harrington Marin	May 2023	December 2023 June 2024 October 2024 December 2024 February 2025 August 2025 December 2025 February 2026 June 2026	

Audit	Issue No. in Report	Action Items	Audit Issue Severity Rating	Director	Audit as of month	Due by Finance Committee Meeting Date	Completed on Finance Committee Meeting Date
Housing Choice Vouchers and Project Based Contract Administration Internal Audit Report	1	<p>Housing Choice Voucher Site Visits</p> <p>The HCV team researches all units on the late HQS report to determine which are the result of a software issues and which are due to oversight of the agent. WHEDA staff will continue to monitor the monthly report and contact agents routinely. The HCV team is currently reviewing options for new software via an RFP process and anticipates that a solution for the technology issue will be implemented in the near future.</p> <p>Update (TB 8/14/25): The HCV team has selected a new software program which will assist with compliance and be a solution to the issue. The software will be fully implemented by January 31, 2026.</p> <p>Update (TB 2/9/26): The new HCV software went live on 1/22/2026 and we continue to work with the software vendor to update oversight of our inspection process. We continue to adjust our policies and procedures to ensure complete and accurate HUD compliance.</p>	Medium	Buchner	May 2025	August 2025 February 2026	February 2026

The aforementioned internal audit issues, listed above with a Completion Date, have been satisfactorily completed. I attest that adequate action has been taken to clear these issues.

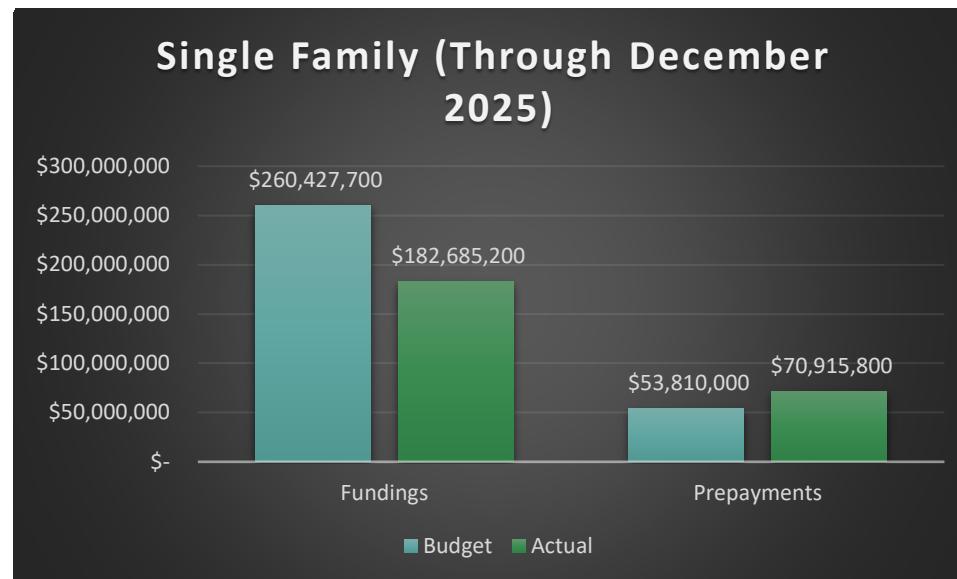
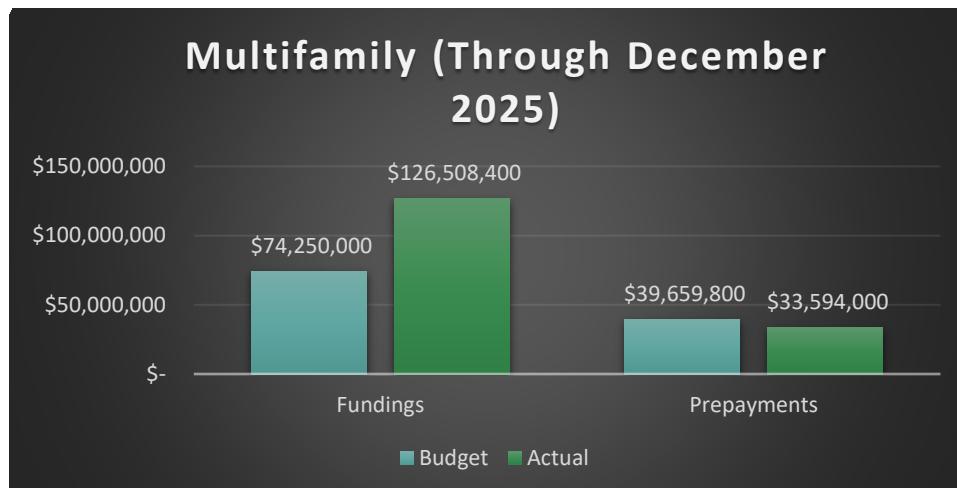
Tonya Buchner	2/9/2026
Director Multifamily Compliance	Date
	Date

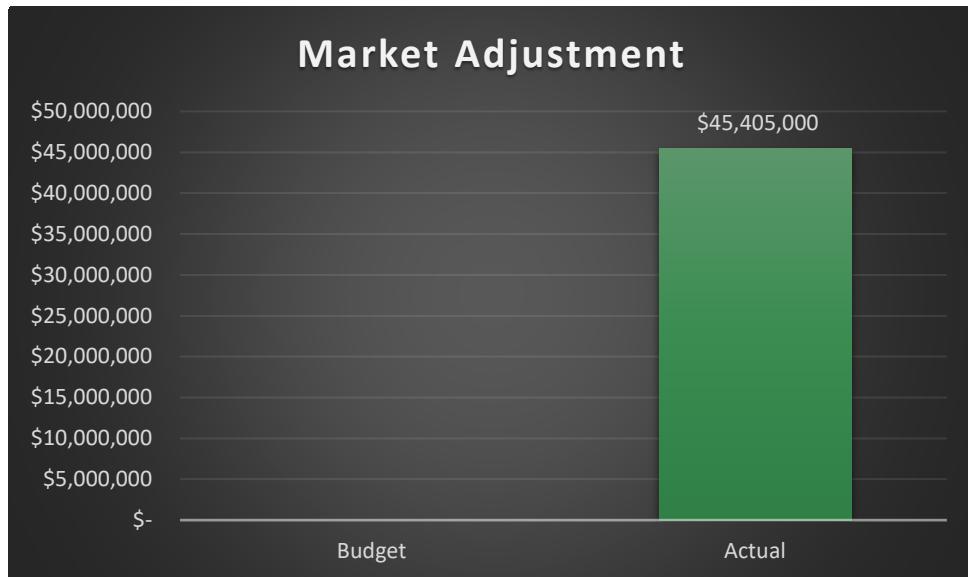
Financial Statement Highlights

Net Income for the six-month period ended December 31, 2025, before the adjustment for the change in the market value of investments, was \$68.7 million which was \$3.8 million more than projected earnings of \$64.9 million.

Net Interest Income, which represents the core earnings of the Authority, was \$2.8 million ahead of projected earnings of \$51.2 million:

Year-to-Date Net Interest Income (000's)	Actual	Budget	Variance
Mortgage Income	\$36,652	\$36,418	\$234
Investment Income	26,619	29,921	(3,302)
Realized Gains (Losses)	433	552	(119)
MBS Investment Income	<u>41,715</u>	<u>41,518</u>	<u>197</u>
Subtotal	<u>105,419</u>	<u>108,409</u>	<u>(2,990)</u>
Less: Interest Expense and Debt			
Financing Costs	<u>(51,466)</u>	<u>(57,212)</u>	<u>5,746</u>
Net Interest Income	<u>\$53,953</u>	<u>\$51,197</u>	<u>\$2,756</u>





Other Income of \$13.8 million was \$3.2 million over budget estimates for the first six months of fiscal year 2026. The primary reasons for the budget variance were the timing of collection of fees related to the administration of Affordable Housing Tax Credits and the repayment of a large TCAP loan. Grant Income from ARPA funding, the Capital Magnet Fund and the Housing Trust Fund was \$6.7 million behind budget estimates for the fiscal year. Grant Income fluctuates largely as a result of the timing of multifamily loan fundings.

General and Administrative expenses of \$15.9 million for the first six months of fiscal year 2026 were \$1.8 million under budget. With the exception of Occupancy, year to date expenses were running lower than expected in every category. The largest portion of the variance (46%) was in the Personnel category. The variance is the result of vacancies and the timing of onboarding new employees.

The Authority is required to adjust the value of its investments on a monthly basis to reflect fluctuations in the market. The fiscal year to date adjustment was a write-up of \$45.4 million.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Unaudited Financial Statements

December 2025

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Comparative Balance Sheet December 2025 and December 2024	Exhibit A
Comparative Statement of Income for the Month Ending December, 2025 and Fiscal Year-to-Date	Exhibit B

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Consolidated Balance Sheet
December, 2025

(Unaudited)

(In Thousands of Dollars)

Actual FY26	Budget FY26	Favorable/ (Unfavorable)	Actual FY26	Actual FY25	Favorable/ (Unfavorable)
ASSETS					
1,375,739	1,495,326	(119,587)	Cash, Cash Equivalents & Investments	1,375,739	1,441,784
1,910,055	1,890,387	19,668	MBS Investments, Net	1,910,055	1,585,914
1,348,015	1,377,399	(29,384)	Mortgage Loans Receivable, Net	1,348,015	1,301,031
1,144	5	1,139	Real Estate Held	1,144	419
19,993	19,160	833	Accrued Interest Receivable	19,993	18,587
2	2	0	Bond Discount	2	2
34,624	24,257	10,367	Other Assets	34,624	26,388
4,689,572	4,806,536	(116,964)	Total Assets	4,689,572	4,374,125
LIABILITIES					
2,751,508	2,945,033	193,525	Bonds & Notes Payable	2,751,508	2,635,805
27,355	28,393	1,038	Accrued Interest on Bonds & Notes	27,355	22,162
22,536	28,136	5,600	Bond Premium	22,536	24,386
101,331	77,450	(23,881)	Escrow Deposits	101,331	97,586
538,704	525,829	(12,875)	Other Liabilities	538,704	562,537
3,441,434	3,604,841	163,407	Total Liabilities	3,441,434	3,342,476
FUND BALANCE					
Restricted Funds:					
696,222	657,619	38,603	Bonded Program Funds	696,222	574,038
86,206	95,224	(9,018)	Administered Funds-State Programs	86,206	41,059
465,710	448,852	16,858	General Funds:		
			Encumbered	425,083	381,746
			Current year Dividends Plan (Designated)	25,212	21,478
			Funds Accumulated for next year's		
			Dividends Plan	15,415	13,328
465,710	448,852	16,858	Total General Funds	465,710	416,552
1,248,138	1,201,695	46,443	Total Fund Balance	1,248,138	1,031,649
4,689,572	4,806,536	(116,964)	Total Liabilities & Fund Balance	4,689,572	4,374,125
315,447					

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Comparative Statement of Income
for the Month Ending December 31, 2025

(Unaudited)

(In Thousands of Dollars)

Current Month			Fiscal Year-to-Date		
Actual	Budget	Favorable/ (Unfavorable)	Actual	Budget	Favorable/ (Unfavorable)
5,661	6,070	(409)	Mortgage Income	36,652	36,418
4,244	5,147	(903)	Investment Income	26,619	29,921
141	88	53	Realized Gains (Losses)	433	552
7,201	7,319	(118)	MBS Investment Income	41,715	41,518
			Interest Expense & Debt		
			Financing Costs		
(8,725)	(9,062)	337	NET INTEREST INCOME	(51,466)	(57,212)
8,522	9,562	(1,040)		53,953	51,197
1,182	981	201	Mortgage Servicing Fees	5,742	5,554
5,552	2,100	3,452	Other Income	13,830	10,588
0	0	0	Lease Income	0	0
1,612	9,292	(7,680)	Grant Income	18,774	25,415
16,868	21,935	(5,067)	NET INTEREST & OTHER INCOME	92,299	92,754
			DEDUCT: Expenses		
42	50	8	Mortgage Loan Servicer Fees	270	307
1,065	2,149	1,084	Other Loan Program Expenses	5,902	7,968
0	0	0	Lease Expense	0	0
520	819	299	Grants & Services	1,517	1,852
2,259	2,405	146	Personnel Expense	12,840	13,675
494	564	70	Professional Services	1,724	2,461
188	157	(31)	Occupancy Expenses	974	939
6	37	31	Marketing Expenses	63	199
32	75	43	Other G&A Expenses	334	476
0	0	0	Capitalized IT Expense	0	0
4,606	6,256	1,650	Total Expenses	23,624	27,877
12,262	15,679	(3,417)	Results Before Extraordinary Items and change in fair value of investments	68,675	64,877
(1,323)	0	(1,323)	Net Increase(Decrease) in fair value of investments (GASB #31 Adj.)	45,405	0
0	0	0	Extraordinary Gains (Losses):	0	0
			Extraordinary - Other		
10,939	15,679	(4,740)	NET INCOME (LOSS)	114,080	64,877
					49,203

Finance Committee Task	Meeting					
	February	April	June	August	October	December
	1.	2.	3.	4.	5.	6.
Review monthly financial statements and discuss unusual variances from the budget and prior year. Discuss any changes in accounting principles or significant changes in estimates used to prepare the financial statements.	X					
Review the Authority's annual audited financial statements, single audit report and management letter, if applicable. Discuss with management and independent auditors any significant issues regarding accounting principles, practices, judgments and alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP).						
Review the purchases, sales and maturities of investments.	X					
Review Quarterly investment Updates, by Fund (completed on rolling quarters).	X					
Review and approve surplus transfer analyses.	N/A					
Request audits of any processes/programs that the committee determines need review.						
Review the status of outstanding audit issues and speak directly with Authority directors who fail to meet agreed upon deadlines.	X					
Review all completed audit reports from the internal auditors. Discuss the adequacy of internal controls including computerized information system controls and security with the auditors. Also discuss the significance of any audit findings and management responses thereto.	X					
Review the performance of the independent auditor and if so determined by the Audit Committee, replace the independent auditor.						
Discuss with the independent auditor matters required to be discussed by Statement on Auditing Standards No. 114 relating to conduct of the audit. Such review should also include:						
* Auditor's responsibilities under Generally Accepted Auditing Standards (GAAS) * Significant accounting policies * Management judgments and accounting estimates used in preparation of financial statements * Significant audit adjustments * Other information in documents containing audited financial statements * Disagreements with management * Consultation with other accountants * Major issues discussed with management prior to retention * Difficulties encountered in performing the audit						
Additionally, the committee should attempt to resolve all disagreements between the Authority's independent auditors and management regarding financial reporting.						
Review all legal matters that may have a material impact on the financial statements, the Authority's compliance with policies and any material reports or inquiries received from regulators or government agencies.	N/A					
Meet with the chief financial officer, the internal auditors and the independent auditor in executive session.	N/A					

Finance Committee Task	Meeting					
	February	April	June	August	October	December
	1.	2.	3.	4.	5.	6.
Participate as needed in meetings with management, the internal auditors and the independent auditors to review the Authority's major financial risk exposures and steps management has taken to monitor, control and report such exposures.	N/A					
Annually, review any issues raised by independent and internal auditor's internal quality control review or peer review.						
Review and approve the investment policy annually.						
Review and approve the investment procedures annually.						
Review and approve the broker/dealer, at least annually.						
Report committee actions to the Members of the Board as the committee deems appropriate. Submit the minutes of all committee meetings to the board of directors.	X					
Review and update the Finance and Audit Committee's charter and perform activities consistent with this Charter, the Authority's by-laws, and governing law, as the committee deems necessary and appropriate.						
Review the impact of new or proposed legislation, regulations, or accounting initiatives on financial statements and advise the board with respect to the Authority's policies and procedures regarding compliance with applicable laws and regulations and with the Authority's Code of Conduct as reported to the committee by regulatory agencies, external and internal auditors and legal counsel.						
Review and approve all related party transactions.	N/A					
Authorize investigations into any matters within the committee's scope of responsibilities.	N/A					
Approve the selection of financial service providers including multi-year contracts for internal and external audit services, bond underwriting services, trustee, banking services and liquidity and other credit providers.						
Discuss debt issuance and resource allocation.	N/A					
Approve the annual operating budget before it is presented to the full board.						
Review the circumstances surrounding significant cost overruns in capital projects.						
Approve contracts over \$50,000, if applicable.	X					
Review monthly Ethics Hotline activity reports, if applicable.	X					

Note: Task is not applicable in months where check box is shaded. The timing of some tasks may vary slightly from the schedule.

**WISCONSIN HOUSING and
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FOR YOUR REVIEW

**General Fund (11/30/25)
WDRF (12/31/25)**



Tony Evers, Governor | Elmer Moore, Jr., CEO
A public body corporate and politic created under Chapter 234, Wisconsin Statutes



WHEDA

OVERVIEW

The Authority securitized and sold \$2.7 million in GNMA securities this quarter. Additionally, the portfolio Warehoused \$74.7 million in FNMA MBS. The portfolio's yield increased from the previous quarter due to the influx of Warehoused MBS.

OUTLOOK

The Federal Reserve lowered the target range for rates at both of their meetings this quarter, arriving at 3.75%-4.00%. This decision reflects the FOMC's goal to achieve maximum employment, while driving inflation rates sustainably towards 2%. However, uncertainty on future economic outlook remains elevated.

Slowing job gains, increasing unemployment rates, and inflation pressures continue to be factors determining future target rate decisions.

ALLOCATION PARAMETERS

The General Fund Investment Policy requires at least 50% of the portfolio be held in U.S. government securities. Currently, over 99% of the portfolio is held in U.S. government agency securities and U.S. government MMF securities.

WHEDA GENERAL FUND

November 30, 2025 Investment Update

Portfolio Activity

Listed below are the net investments purchased and matured during the past quarter.

	Purchased	Sold	Matured/Called
Agencies	77,455,546	2,729,670	166,019
Equity Investment	0	0	0
Totals	77,455,546	2,729,670	166,019

Portfolio Composition

The following table compares the portfolio's current holdings with the holdings of the previous quarter, and its value a year ago.

	11/30/2025	8/31/2025	11/30/2024
Amortized Value	324,280,787	220,437,129	239,521,943
Market Value	326,487,624	220,437,129	239,045,665
Portfolio Yield	4.40%	4.30%	5.03%

Performance Benchmark

Listed below is a comparison of the General Fund and its benchmarks.

General Fund	1-yr Treasury	Goldman Sachs Government MMF	State Pool
4.40%	3.61%	3.92%	4.02%

Performance

The following are the quarterly returns in the General fund for the past year.

Month	Current Yield
November-25	4.40%
August-25	4.30%
May-25	4.57%
February-25	4.47%
November-24	5.03%



WHEDA

WISCONSIN DEVELOPMENT RESERVE FUND

December 31, 2025 Investment Update

OVERVIEW

During the previous quarter, the balance in the Wisconsin Development Reserve Fund account increased. No new investments were purchased by the Wisconsin Development Reserve Fund account during this time. The yield of the portfolio dropped by 35 basis points, consistent with the Fed lowering the target range for rates by 50 basis points this quarter.

OUTLOOK

The Federal Reserve lowered the target range for rates at both of their meetings this quarter, arriving at 3.50% - 3.75%. This decision reflects the FOMC's goal to achieve maximum employment, while driving inflation rates sustainably towards 2%. However, uncertainty on future economic outlook remains elevated. Slowing job gains, increasing unemployment rates, and inflation pressures continue to be factors determining future target rate decisions.

ALLOCATION PARAMETERS

The WDRF Investment Policy requires at least 60% of the portfolio be held in U.S. government securities. The entire portfolio is currently invested in U.S. government money market mutual funds.

Portfolio Activity

Listed below are the net investments purchased and matured during the past quarter.

	Purchased	Sold	Matured/Called
Agencies	0	0	0
Corporates	0	0	0
Totals	0	0	0

Portfolio Composition

The following table compares the portfolio's current holdings with the holdings of the previous quarter and its value a year ago.

	12/31/2025	9/30/2025	12/31/2024
Amortized Value	8,587,298	8,504,956	8,316,285
Market Value	8,587,298	8,504,956	8,316,285
Portfolio Yield	3.69%	4.04%	4.39%

Performance Benchmark

Listed below is a comparison of the WDRF and its benchmarks.

WDRF	1-yr Treasury	Goldman Sachs Government MMF	State Pool
3.691%	3.480%	3.686%	3.820%

Performance

The following are the quarterly returns in the WDRF for the past year.

Month	Yield
December-25	3.69%
September-25	4.04%
June-25	4.24%
March-25	4.25%
December-24	4.39%



THE IIA'S THREE LINES MODEL

An update of the Three Lines of Defense

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INTRODUCTION

Organizations are human undertakings, operating in an increasingly uncertain, complex, interconnected, and volatile world. They often have multiple stakeholders with diverse, changeable, and sometimes competing interests. Stakeholders entrust organizational oversight to a governing body, which in turn delegates resources and authority to management to take appropriate actions, including managing risk.

For these reasons and more, organizations need effective structures and processes to enable the achievement of objectives, while supporting strong governance and risk management. As the governing body receives reports from management on activities, outcomes, and forecasts, both the governing body and management rely on internal audit to provide independent, objective assurance and advice on all matters and to promote and facilitate innovation and improvement. The governing body is ultimately accountable for governance, which is achieved through the actions and behaviors of the governing body as well as management and internal audit.

The Three Lines Model helps organizations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. The model applies to all organizations and is optimized by:

- Adopting a principles-based approach and adapting the model to suit organizational objectives and circumstances.
- Focusing on the contribution risk management makes to achieving objectives and creating value, as well as to matters of “defense” and protecting value.
- Clearly understanding the roles and responsibilities represented in the model and the relationships among them.
- Implementing measures to ensure activities and objectives are aligned with the prioritized interests of stakeholders.

Key terms

Organization – An organized group of activities, resources, and people working toward shared goals.

Stakeholders – Those groups and individuals whose interests are served or impacted by the organization.

Governing body – Those individuals who are accountable to stakeholders for the success of the organization.

Management – Those individuals, teams, and support functions assigned to provide products and/or services to the organization’s clients.

Internal audit – Those individuals operating independently from management to provide assurance and insight on the adequacy and effectiveness of governance and the management of risk (including internal control).

The Three Lines Model – The model previously known as the Three Lines of Defense.

Internal control – Processes designed to provide reasonable confidence over the achievement of objectives.

PRINCIPLES OF THE THREE LINES MODEL

Principle 1: Governance

Governance of an organization requires appropriate structures and processes that enable:

- **Accountability** by a governing body to stakeholders for organizational oversight through integrity, leadership, and transparency.
- **Actions** (including managing risk) by management to achieve the objectives of the organization through risk-based decision-making and application of resources.
- **Assurance and advice** by an independent internal audit function to provide clarity and confidence and to promote and facilitate continuous improvement through rigorous inquiry and insightful communication.

Key terms

Risk-based decision-making – A considered process that includes analysis, planning, action, monitoring, and review, and takes account of potential impacts of uncertainty on objectives.

Assurance – Independent confirmation and confidence.

Principle 2: Governing body roles

The governing body ensures:

- Appropriate structures and processes are in place for effective governance.
- Organizational objectives and activities are aligned with the prioritized interests of stakeholders.

The governing body:

- Delegates responsibility and provides resources to management to achieve the objectives of the organization while ensuring legal, regulatory, and ethical expectations are met.
- Establishes and oversees an independent, objective, and competent internal audit function to provide clarity and confidence on progress toward the achievement of objectives.

Principle 3: Management and first and second line roles

Management's responsibility to achieve organizational objectives comprises both first and second line roles.¹ *First line roles* are most directly aligned with the delivery of products and/or services to clients of the organization, and include the roles of support functions². *Second line roles* provide assistance with managing risk.

First and second line roles may be blended or separated. Some second line roles may be assigned to specialists to provide complementary expertise, support, monitoring, and challenge to those with first line roles. Second line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance. Alternatively, second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM). However, responsibility for managing risk remains a part of first line roles and within the scope of management.

Principle 4: Third line roles

Internal audit provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.³ It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the governing body to promote and facilitate continuous improvement. In doing so, it may consider assurance from other internal and external providers.

Principle 5: Third line independence

Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. It is established through: accountability to the governing body; unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of audit services.

Principle 6: Creating and protecting value

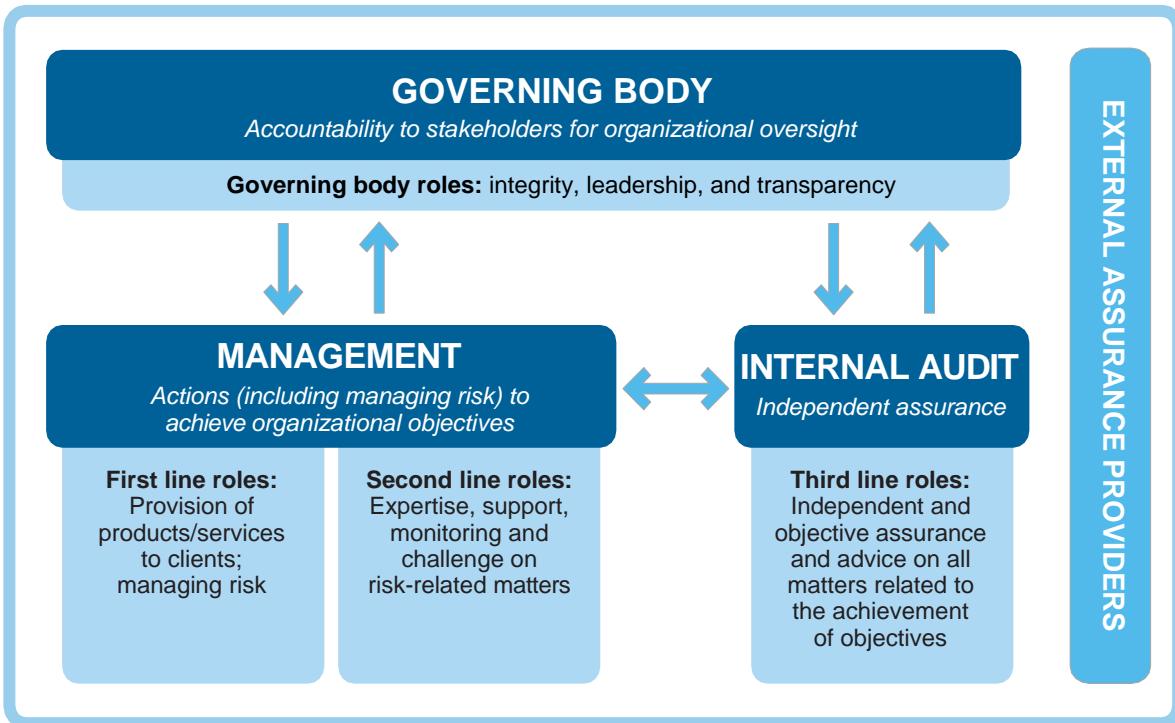
All roles working together collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of stakeholders. Alignment of activities is achieved through communication, cooperation, and collaboration. This ensures the reliability, coherence, and transparency of information needed for risk-based decision making.

1. The language of "first line," "second line," and "third line" is retained from the original model in the interests of familiarity. However, the "lines" are not intended to denote structural elements but a useful differentiation in roles. Logically, governing body roles also constitute a "line" but this convention has not been adopted to avoid confusion. The numbering (first, second, third) should not be taken to imply sequential operations. Instead, all roles operate concurrently.

2. Some consider the roles of support functions (such as HR, administration, and building services) to be second line roles. For clarity, the Three Lines Model regards *first line roles* to include both "front of house" and "back office" activities, and *second line roles* to comprise those complementary activities focused on risk-related matters.

3. In some organizations, other third line roles are identified, such as oversight, inspection, investigation, evaluation, and remediation, which may be part of the internal audit function or operate separately.

The IIA's Three Lines Model



KEY ROLES IN THE THREE LINES MODEL

Organizations differ considerably in their distribution of responsibilities. However, the following high-level roles serve to amplify the Principles of the Three Lines Model.

The governing body

- Accepts accountability to stakeholders for oversight of the organization.
- Engages with stakeholders to monitor their interests and communicate transparently on the achievement of objectives.
- Nurtures a culture promoting ethical behavior and accountability.
- Establishes structures and processes for governance, including auxiliary committees as required.
- Delegates responsibility and provides resources to management for achieving the objectives of the organization.
- Determines organizational appetite for risk and exercises oversight of risk management (including internal control).
- Maintains oversight of compliance with legal, regulatory, and ethical expectations.
- Establishes and oversees an independent, objective, and competent internal audit function.

Management

First line roles

- Leads and directs actions (including managing risk) and application of resources to achieve the objectives of the organization.
- Maintains a continuous dialogue with the governing body, and reports on: planned, actual, and expected outcomes linked to the objectives of the organization; and risk.
- Establishes and maintains appropriate structures and processes for the management of operations and risk (including internal control).
- Ensures compliance with legal, regulatory, and ethical expectations.

Second line roles

- Provides complementary expertise, support, monitoring, and challenge related to the management of risk, including:
 - The development, implementation, and continuous improvement of risk management practices (including internal control) at a process, systems, and entity level.
 - The achievement of risk management objectives, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance.
- Provides analysis and reports on the adequacy and effectiveness of risk management (including internal control).

Internal audit

- Maintains primary accountability to the governing body and independence from the responsibilities of management.
- Communicates independent and objective assurance and advice to management and the governing body on the adequacy and effectiveness of governance and risk management (including internal control) to support the achievement of organizational objectives and to promote and facilitate continuous improvement.
- Reports impairments to independence and objectivity to the governing body and implements safeguards as required.

External assurance providers

- Provide additional assurance to:
 - Satisfy legislative and regulatory expectations that serve to protect the interests of stakeholders.
 - Satisfy requests by management and the governing body to complement internal sources of assurance.

RELATIONSHIPS AMONG CORE ROLES

Between the governing body and management (both first and second line roles)

The governing body typically sets the direction of the organization by defining the vision, mission, values, and organizational appetite for risk. It then delegates responsibility for the achievement of the organization's objectives to management, along with the necessary resources. The governing body receives reports from management on planned, actual, and expected outcomes, as well as reports on risk and the management of risk.

Organizations vary as to the degree of overlap and separation between the roles of the governing body and management. The governing body can be more or less "hands on" with respect to strategic and operational matters. Either the governing body or management may take the lead in developing the strategic plan, or it may be a shared undertaking. In some jurisdictions, the Chief Executive Officer (CEO) may be a member of the governing body and may even be its chair. In all cases, there needs to be strong communication between management and the governing body. The CEO is typically the focal point for this communication, but other senior managers may have frequent interactions with the governing body. Organizations may wish, and their regulators may require, leaders of second line roles such as a Chief Risk Officer (CRO) and a Chief Compliance Officer (CCO) to have a direct reporting line to the governing body. This is fully consistent with the Principles of the Three Lines Model.

Between management (both first and second line roles) and internal audit

Internal audit's independence from management ensures it is free from hindrance and bias in its planning and in the carrying out of its work, enjoying unfettered access to the people, resources, and information it requires. It is accountable to the governing body. However, independence does not imply isolation. There must be regular interaction between internal audit and management to ensure the work of internal audit is relevant and aligned with the strategic and operational needs of the organization. Through all of its activities, internal audit builds its knowledge and understanding of the organization, which contributes to the assurance and advice it delivers as a trusted advisor and strategic partner. There is a need for collaboration and communication across both the first and second line roles of management and internal audit to ensure there is no unnecessary duplication, overlap, or gaps.

Key term

Chief Executive Officer (CEO) – The most senior individual in the organization with responsibility over operations.

Between internal audit and the governing body

Internal audit is accountable to, and sometimes described as being the “eyes and ears” of, the governing body.

The governing body is responsible for oversight of internal audit, which requires: ensuring an independent internal audit function is established, including the hiring and firing of the Chief Audit Executive (CAE); serving as the primary reporting line for the CAE⁴; approving and resourcing the audit plan; receiving and considering reports from the CAE; and enabling free access by the CAE to the governing body, including private sessions without the presence of management.

Key term

Chief Audit Executive (CAE) – The most senior individual in the organization with responsibility for internal audit services, often known as the Head of Internal Audit or similar title.

Among all roles

The governing body, management, and internal audit have their distinct responsibilities, but all activities need to be aligned with the objectives of the organization. The basis for successful coherence is regular and effective coordination, collaboration, and communication.

4. For administrative purposes, the CAE may also report to an appropriately senior level of management.

APPLYING THE MODEL

Structure, roles, and responsibilities

The Three Lines Model is most effective when it is adapted to align with the objectives and circumstances of the organization. How an organization is structured and how roles are assigned are matters for management and the governing body to determine. The governing body may establish committees to provide additional oversight for particular aspects of its responsibility, such as audit, risk, finance, planning, and compensation. Within management, there are likely to be functional and hierarchical arrangements and an increasing tendency toward specialization as organizations grow in size and complexity.

Functions, teams, and even individuals may have responsibilities that include both first and second line roles. However, direction and oversight of second line roles may be designed to secure a degree of independence from those with first line roles — and even from the most senior levels of management — by establishing primary accountability and reporting lines to the governing body. The Three Lines Model allows for as many reporting lines between management and the governing body as required. In some organizations, most notably regulated financial institutions, there is a statutory requirement for such arrangements to ensure sufficient independence. Even in these situations, those in management with first line roles remain responsible for managing risk.

Second line roles may include monitoring, advice, guidance, testing, analyzing, and reporting on matters related to the management of risk. Insofar as these provide support and challenge to those with first line roles and are integral to management decisions and actions, second line roles are part of management's responsibilities and are never fully independent from management, regardless of reporting lines and accountabilities.

A defining characteristic of third line roles is independence from management. The Principles of the Three Lines Model describe the importance and nature of internal audit independence, setting internal audit apart from other functions and enabling the distinctive value of its assurance and advice. Internal audit's independence is safeguarded by not making decisions or taking actions that are part of management's responsibilities (including risk management) and by declining to provide assurance on activities for which internal audit has current, or has had recent, responsibility. For example, in some organizations, the CAE is asked to assume additional decision-making responsibilities over activities utilizing similar competencies, such as aspects of statutory compliance or ERM. In such circumstances, internal audit is not independent of these activities or of their results, and therefore, when the governing body seeks independent and objective assurance and advice relating to those areas, it is necessary for its provision to be undertaken by a qualified third party.

Oversight and assurance

The governing body relies on reports from management (comprising those with first and second line roles), internal audit, and others in order to exercise oversight and achievement of its objectives, for which it is accountable to stakeholders. Management provides valuable assurance (also referred to as attestations) on planned, actual, and forecast outcomes, on risk, and on risk management by drawing upon direct experience and expertise. Those with second line roles provide additional assurance on risk-related matters. Because of internal audit's independence from management, the assurance it provides carries the highest degree of objectivity and confidence beyond that which those with first and second line roles can provide to the governing body, irrespective of reporting lines. Further assurance may also be drawn from external providers.

Coordination and alignment

Effective governance requires appropriate assignment of responsibilities as well as strong alignment of activities through cooperation, collaboration, and communication. The governing body seeks confirmation through internal audit that governance structures and processes are appropriately designed and operating as intended.

About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

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TONE [®] at the [®] TOP

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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Organizational Behavior's Impact on Success

Does your board have visibility into the company's organizational behavior? When companies understand organizational behavior and its impact, they are better able to motivate, engage, and inspire their people.

Failure to consider organizational behavior can prevent businesses from achieving their desired goals and can impact not only the organizations, but also their people and customers.

Boeing's well-publicized problems with the 737 MAX aircraft are one example. Leadership's strong focus on short-term profitability and speed to market reportedly discouraged engineers from expressing their safety concerns and led to a number of aviation disasters, according to ["Learning from Ethical Leadership Failures at Boeing"](#) posted by the Harvard Law School Program on Negotiation.

Because of this topic's importance for companies, The Institute of Internal Auditors has released baseline requirements for its members in the new [Organizational Behavior Topical Requirement](#).

Organizational Behavior vs. Culture

The Topical Requirement defines organizational behavior as "the observable actions, decisions, and interpersonal dynamics of individuals and groups within an organization. This behavior influences performance and the achievement of strategic objectives. Simply put, organizational behavior is 'the way we do things.'" As the Topical Requirement User Guide notes, organizational behavior is considered a subset of culture.

The User Guide defines culture as "the choices employees make in doing their jobs and how they work with others, together with

what is driving those organizational behaviors. Drivers include formal mechanisms, such as incentives and goals, and informal mechanisms such as collective values and beliefs."

The Organizational Behavior Topical Requirement is intended to reframe the focus on auditing "culture" to auditing "organizational behavior misaligned with strategic objectives." The idea is to provide a clearer, more structured, precise, and auditable foundation. The Topical Requirement is meant to be used not only in standalone culture reviews but also across audit engagements where behavior affects outcomes.



Governance Considerations

Board members should be aware of the Organizational Behavior Topical Requirement not only because of the direction it offers to internal auditors, but also because it addresses how internal auditors should assess several key aspects of governance of organizational behavior. (The Topical Requirement contains similar sections on risk management and control processes.)

Roles and responsibilities are structured to avoid misaligned organizational behavior. In making this assessment, the Topical Requirement User Guide recommends that internal auditors consider evidence such as the existence of:

- A governance committee that:
 - » Establishes an organizational behavior board or subcommittee focused on maintaining links between organizational behavior and strategy.
 - » Regularly reviews behavioral risk metrics that identify necessary action to ensure behavior aligns with strategic objectives, related values, and organizational purpose.
 - » Includes behavioral objectives in executive performance and compensation.
- Board reporting frameworks that use structured dashboards to provide insights into behavioral risk indicators and deliver culture-related metrics for strategic performance reporting at the board level.
- Surveys and other shareholder feedback that offer insights on behavioral alignment with strategic directions.

Individual and group accountability for behavioral expectations. Evidence in this area can include:

- Board efforts to clearly define accountability for organizational behavior across the organization.
- Determining whether business units and operational management are embedding behavioral expectations so that decisions, communications, and team dynamics reflect the organization's stated values.
- Confirming that risk, compliance, human resources, and related oversight functions design and maintain the organization's behavioral framework.

Regular monitoring, evaluation, and challenging of alignment between behavioral patterns and strategic objectives. This may mean:

- Using a dashboard to provide key datapoints from sources such as employee satisfaction and integrity survey results, attrition and absenteeism rates, speak-up channel content, incident data, and performance and innovation metrics.
- Considering the board's knowledge of how current aspects of organizational behavior could be addressed to enhance organizational effectiveness and performance.
- Reviewing board requirements of a continuous learning system that identifies improvement opportunities and actively and measurably addresses results.

Behavior risk protocols that are periodically reviewed and communicated and integrated into business operations and decision-making processes. In this area, internal auditors should consider whether:

- Behavioral expectations are formally spelled out in relevant policies (such as a code of conduct and policies on ethics, human resources, incentives, and the delegation of authority).
- Risk management functions map behavioral expectations to key operational processes – such as hiring, performance reviews, onboarding, and client management – so that they are reflected in daily decisions.
- The board gains assurance that the policies are accessible and clearly communicated through multiple channels.
- All behavioral policies and procedures undergo scheduled reviews and are updated based on incidents, survey findings, or regulatory changes.
- The board receives regular updates on policy coverage, clarity, and effectiveness.

About The IIA

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Putting the Topical Requirement to Work

The User Guide provides examples of how the Organizational Behavior Topical Requirement might be used in practice, including:

- Performing a stand-alone review of an organization's overarching framework to consider its design and operational effectiveness in managing behavioral risk. Engagement scope could cover the governance structures, risk management activities, and behavioral controls that reinforce alignment across the organization.
- Assessing how the organization's incentive frameworks affect behavior and how well they align with the organization's purpose, values, and regulatory expectations. This approach may be called for if there are concerns about misconduct risk and emerging evidence of pressure-based behaviors in a company's business units.
- Integrating behavioral risk considerations into a traditional engagement to assess cyber risk management. Given that many cyber failures are due not only to technical issues, but also to human behavior, the auditors would include reviews of behavior throughout the engagement.

Additionally, a chart in the User Guide maps the Topical Requirement's governance, risk management, and control process requirements to COSO's *Internal Control-Integrated Framework* and *Enterprise Risk Management Framework*. Internal auditors can use the chart to reconcile their COSO-based testing to the Organizational Behavior requirements.

Valuable Insights

Internal auditors must apply Topical Requirements in conformance with The IIA's Global Internal Audit Standards when providing assurance services on the topic. Organizational behavior engagements can be tailored to each company's specific needs, and they can enable internal auditors to provide boards with valuable insights in this critical area.

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Topical Requirements Conformance

Intended for situations when the topic is one of the following:

1. The subject of an engagement in the internal audit plan.
2. A topic that has been identified for further consideration during an engagement.
3. A theme of a requested engagement that was not on the original internal audit plan.

Bridging Gaps in Organizational Behavior

The largest gap in organizational behavior is between individuals and senior management, according to the *Forbes* article, “[What Is Organizational Behavior?](#)” The article identifies five factors that can narrow the gap:

- A positive company culture in which all employees share common values and apply them at work.
- Innovation in organizational structure that promotes autonomy and innovation.

- Change management that allows for new ideas but makes it possible to retain core goals and values.
- Work processes that allow people and teams to accomplish their work in ways that align with the company’s short- and long-term goals.
- Strategic alignment, in which the company’s mission and direction set the tone for organizational activities and decisions support company goals.

