



CDBG-DR

Internal Audit Activity Charter

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Legal Basis

The Secretary of the Puerto Rico Department of Housing (**PRDOH**) adopts the Internal Audit Activity Charter in accordance with the authority conferred by Act No. 97 of June 10, 1972 as amended, 3 LPRA § 441 *et seq.*, known as the Department of Housing Governing Act.

On September 2017, Hurricanes Irma and María made landfall in Puerto Rico causing catastrophic island wide damage, knocking out power, water, and telecommunications for the entire Island and its Island municipalities. Hurricane María caused major structure and infrastructure damage to family homes, businesses and government facilities triggering the displacement of thousands of residents of the Island from their homes and jobs.

Under the Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017, signed into law September 8, 2017 (Pub. L. 115-56), \$1.5 billion were allocated by the U.S. Department of Housing and Urban Development (**HUD**) for disaster recovery assistance to the Government of Puerto Rico under the Community Development Block Grant – Disaster Recovery (**CDBG-DR**). These funds intend to provide financial assistance to address unmet needs that arise and that are not covered by other sources of financial aid.

On February 9, 2018, a Notice was published in the Federal Register, Vol. 83, No. 28 (83 FR 5844), that allocated \$1.5 billion for disaster recovery assistance to the Government of Puerto Rico.

Pursuant to a letter dated February 23, 2018 sent by former Governor of Puerto Rico, Ricardo Rosselló Nevares, to the Honorable Benjamin Carson, Secretary of HUD, the PRDOH is the governmental agency designated by the former Governor of Puerto Rico as grantee of the CDBG-DR funds allocated to the Government of Puerto Rico. On August 14, 2018, an additional \$8.22 billion were allocated to Puerto Rico for recovery under Federal Register, Vol. 83, No. 157 (83 FR 40314). On September 20, 2018, the former Governor of Puerto Rico and the Secretary of HUD signed the Grant Agreement.

On January 27, 2020, \$277 million were allocated to Puerto Rico for unmet infrastructure needs under Pub. L. 116-20 and announced in Federal Register Vol. 85, No. 17 (85 FR 4681). With these allocations of funding, the PRDOH aims to lead a transparent, comprehensive recovery to benefit the residents of Puerto Rico. PRDOH holds accountability and is committed to the responsible, efficient, and transparent administration of CDBG-DR grant funding.

Additionally, the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (Division B, Subdivision 1 of the Bipartisan Budget Act of 2018, Pub. L. 115-123, approved February 9, 2019)(the "**Appropriations Act**"), made available \$28 billion CDBG-DR funds and directed HUD to allocate not less than \$12 billion for mitigation activities. On August 30, 2019, HUD published a Federal Register Notice (84 FR 45838), which allocated \$6.875 billion of Community Development Block Grant Mitigation (**CDBG-MIT**) funds to 14 state and local governments and described the grant requirements and procedures ("the CDBG-MIT Notice").

CDBG-MIT funds represent a unique and significant opportunity for grantees to use assistance in areas impacted by recent disasters to carry out strategic and high-impact activities to mitigate disaster risks and reduce future losses. CDBG-MIT enables grantee to mitigate against disaster risks, while at the same time allowing grantees the opportunity to transform State and local planning.

On January 27, 2020, and announced through Federal Notice, Vol. 85, No. 17 (85 FR 5676), HUD allocated \$8.5billion in CDBG-MIT funds to Puerto Rico for mitigation activities in accordance with the Appropriations Act and the CDBG-MIT Notice. The CDBG-MIT Notice recognizes that CDBG-MIT funds are to be used for distinctly different purposes than CDBG-DR funds and that the level of funding and nature of programs and projects that are likely to be funded requires all CDBG-MIT grantees and their subrecipients to strengthen their program management capacity, financial management, and internal controls.

The PRDOH CDBG-DR's Internal Audit Office (**PRDOH CDBG-DR IAO**) will support PRDOH's objectives of ensuring compliance with all CDBG-DR, **CDBG-MIT**, HUD and applicable federal and local requirements, rules and regulations, as well as in PRDOH's objectives of the Action Plan, as amended, and adequately coordinating and audit all CDBG-DR related activities.

Purpose and Mission

The purpose of the PRDOH CDBG-DR IAO is to provide independent, objective assurance and consulting services designed to add value and improve the PRDOH operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The PRDOH CDBG-DR IAO helps PRDOH accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. **The PRDOH CDBG-DR IAO will support PRDOH's objectives of ensuring compliance with all CDBG-DR, CDBG-MIT, HUD and applicable federal and local requirements, rules and regulations, as well as in PRDOH's objectives**

of the Action Plan, as amended, and adequately coordinating and monitoring all CDBG-DR and CDBG-MIT related activities.

The Secretary of the PRDOH may designate an Audit Committee to assist him/her to fulfill DOH governance and oversee responsibilities related to an entity's financial reporting, internal control system, risk management system, and internal and external audit functions. The Audit Committee role is to provide advice and recommendations to the Secretary of the PRDOH.

Standards for the Professional Practice of Internal Auditing

The PRDOH CDBG-DR IAO will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors (**IIA**) International Professional Practices Framework (**IPPF**), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (**Standards**), and the Definition of Internal Auditing. The PRDOH CDBG-DR IAO Chief Audit Executive will report annually to senior management and to the Secretary or the designated Audit Committee regarding the PRDOH CDBG-DR IAO in accordance with the Code of Ethics and the Standards.

Authority

The Chief Audit Executive of the PRDOH CDBG-DR IAO will report functionally to the Secretary of the PRDOH or designated Audit Committee and administratively to the Secretary of the PRDOH. To establish, maintain, and assure that PRDOH's CDBG-DR IAO has sufficient authority to fulfill its duties, the Secretary of the PRDOH or designated Audit Committee will:

- Approve the PRDOH CDBG-DR IAO's charter.
- Approve the risk-based Internal Audit Strategic and Three Year Plan.
- Approve the PRDOH CDBG-DR IAO's budget and resource plan.
- Receive communications from the Chief Audit Executive on the PRDOH CDBG-DR IAO's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Secretary of the PRDOH or designated Audit Committee, including private meetings without management presence.

The Secretary of the PRDOH or designated Audit Committee authorizes the PRDOH CDBG-DR IAO to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of PRDOH, as well as other specialized services from within or outside Puerto Rico Public Housing Administration (PRPHA), in order to complete the engagement.

Authority of the Chief Audit Executive

The Chief Audit Executive will ensure that the PRDOH CDBG-DR IAO remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for PRDOH or its affiliates.
- Initiating or approving transactions external to the internal audit PRDOH CDBG-DR IAO.

- Directing the activities of any PRDOH employee not employed by the PRDOH CDBG-DR IAO, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Secretary of the PRDOH or designated Audit Committee, at least annually, the organizational independence of the PRDOH CDBG-DR IAO.

The Chief Audit Executive will disclose to the Secretary of the PRDOH or designated Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the Secretary of the PRDOH or designated Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for PRDOH. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of PRDOH's strategic objectives are appropriately identified and managed.
- The actions of PRDOH's officers, directors, employees, and contractors comply with all CDBG-DR, HUD and applicable federal and local requirements, rules and regulations, and applicable PRDOH's policies, procedures governing the PRDOH CDBG-DR Program and governance standards.

- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with all CDBG-DR, HUD and applicable federal and local requirements, rules and regulations, and applicable PRDOH's policies, procedures governing the PRDOH CDBG-DR Program and governance standards that could significantly impact PRDOH.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report at least annually to senior management and the Secretary of the PRDOH or designated Audit Committee regarding:

- The PRDOH CDBG-DR IAO's purpose, authority, and responsibility.
- The PRDOH CDBG-DR IAO's Plan and performance relative to its plan.
- The PRDOH CDBG-DR IAO's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Secretary of the PRDOH or designated Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to PRDOH.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The PRDOH CDBG-DR IAO may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the PRDOH CDBG-DR IAO does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the Secretary of the PRDOH or designated Audit Committee a risk-based Internal Audit Plan for review and approval.
- Communicate to senior management and the Secretary of the PRDOH or designated Audit Committee the impact of resource limitations on the Internal Audit Plan.
- Review and adjust the Internal Audit Plan, as necessary, in response to changes in PRDOH's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Secretary of the PRDOH or designated Audit Committee any significant interim changes to the Internal Audit Plan.
- Ensure each engagement of the Internal Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Secretary of the PRDOH or designated Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the PRDOH CDBG-DR IAO collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact PRDOH are considered and communicated to senior management and to the Secretary of PRDOH, his/her designee or Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the PRDOH CDBG-DR IAO.
- Ensure adherence to PRDOH's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and to the Secretary of PRDOH, his/her designee or Audit Committee as appropriate.
- Ensure conformance of the PRDOH CDBG-DR IAO with the Standards, with the following qualifications:

- If the PRDOH CDBG-DR IAO is prohibited by law or regulation from conformance with certain parts of the Standards, the Director will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.

Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Continuing Education

The PRDOH CDBG-DR IAO auditors performing planning, directing, audit procedures, or reporting on an audit conducted in accordance with generally accepted government auditing standards (**GAGAS**), should maintain their professional competence through continuing professional education (**CPE**) as established by the General Accounting Office.

Quality Assurance and Improvement Program

The PRDOH CDBG-DR IAO will maintain a quality assurance and improvement program that covers all aspects of the PRDOH CDBG-DR IAO. The program will include an evaluation of the PRDOH CDBG-DR IAO's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the PRDOH CDBG-DR IAO and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Secretary of the PRDOH or designated Audit Committee on the PRDOH CDBG-DR IAO's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside PRDOH.

Approval

This Charter will take effect immediately after its approval by the Secretary of the PRDOH. This document supersedes any previously approved version. Version 3 is the first to be published on the CDBG-DR website. You may request previous copies by writing to <https://cdbg-dr.pr.gov/en/contact/>.

Signatures



Interim Audit Director

September 29, 2020

Date



Secretary of the PRDOH or designated Audit
Committee Member

September 29, 2020

Date