



DEPARTMENT OF  
**HOUSING**



# CDBG-DR

**Internal Audit Activity Charter**

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## Legal Basis

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

In September 2017, Hurricanes Irma and María made landfall in Puerto Rico causing catastrophic damages, leaving the main Island, Vieques, and Culebra without power, water, and telecommunications. Hurricane María caused major structure and infrastructure damage to family homes, businesses, and government facilities causing the displacement of thousands of residents from their homes and jobs.

Later that year, the U.S. Congress passed Pub. L. 115-56 appropriating \$7.4 billion for qualified disaster recovery assistance under the Community Development Block Grant – Disaster Recovery (**CDBG-DR**). CDBG-DR funds are intended to provide financial assistance to address unmet needs that arise and are not covered by other funding sources. On February 9, 2018, the U.S. Department of Housing and Urban Development (**HUD**) published the Federal Register Vol. 83, No. 28, 83 FR 5844, allocating \$1.5 billion in CDBG-DR funds to the Government of Puerto Rico.

An additional \$8.22 billion was allocated to Puerto Rico by HUD under Federal Register Vol. 83, No. 157 (August 14, 2018), 83 FR 40314, as authorized by Pub. L. 115-123. From the appropriation under Pub. L. 115-123, HUD allocated another \$1,932,347,000 to strengthen or improve the electric power systems in Puerto Rico, pursuant to Federal Register Notice Vol. 86, No. 117 (June 22, 2021), 86 FR 32681.

Also, as consequence of hurricanes Irma and María, on January 27, 2020, \$277 million was allocated to Puerto Rico for unmet infrastructure needs as authorized by Pub. L. 116-20 and announced in Federal Register Vol. 85, No. 17, 85 FR 4681. With these CDBG-DR allocations of funding, 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.

Moreover, Pub. L. 115-123 directed HUD to allocate not less than \$12 billion for mitigation activities. Through Federal Register Vol. 84, No. 169 (August 30, 2019), 84 FR 45838, HUD established the Community Development Block Grant - Mitigation (**CDBG-MIT**) requirements and conditions. As announced in Federal Notice Vol. 85, No. 17, (January 27, 2020) 85 FR 4676, HUD allocated \$8.5 billion in CDBG-MIT funds to Puerto Rico.

Most recently, as authorized by Pub. L. 116-20, HUD allocated to Puerto Rico, through Federal Register Vol. 86, No. 3 (January 6, 2021), 86 FR 569, \$36,424,000 to address housing needs caused by earthquakes reported between 2019 and 2020 in the southern part of the Island. Subsequently, HUD allocated to Puerto Rico, through Federal Register Vol. 87, No. 23 (February 3, 2022), 87 FR 6365, an additional \$184,626,000 in CDBG-DR funds to address damages caused by the 2019-2020 earthquakes and Tropical Storm Isaias.

PRDOH was designated by the Government of Puerto Rico as grantee of the CDBG-DR/MIT funds allocated to the Island.

## **Purpose and Mission**

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The purpose of PRDOH's Disaster Recovery Office's Internal Audit Office (**PRDOH DRO IAO**) is to provide independent, objective assurance and consulting services designed to add value and improve 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 DRO 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 DRO 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 PRDOH Secretary 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 PRDOH Secretary.

## **Standards for the Professional Practice of Internal Auditing**

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The PRDOH DRO 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 DRO IAO Chief Audit Executive will report annually to senior management and to the Secretary or the

designated Audit Committee regarding the PRDOH DRO IAO in accordance with the Code of Ethics and Standards.

## **Authority**

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

- Approve the PRDOH DRO IAO's charter.
- Approve the risk-based Internal Audit Strategic Plan and Three-Year Plan.
- Approve the PRDOH DRO IAO's budget and resource plan.
- Receive communications from the Chief Audit Executive on the PRDOH DRO 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 PRDOH Secretary or designated Audit Committee, including private meetings without management presence.

The PRDOH Secretary or designated Audit Committee authorizes the PRDOH DRO 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.

## **Independence**

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The Chief Audit Executive will ensure that the PRDOH DRO 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 PRDOH DRO IAO's internal audit.
- Directing the activities of any PRDOH employee not employed by the PRDOH DRO 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 PRDOH Secretary or designated Audit Committee, at least annually, the organizational independence of the PRDOH DRO IAO.

The Chief Audit Executive will disclose to the PRDOH Secretary 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**

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The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the PRDOH Secretary 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, CDBG-MIT, HUD and applicable federal and local requirements, rules, and regulations, and applicable PRDOH's policies, procedures governing the PRDOH CDBG-DR and CDBG-MIT Programs 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, CDBG-MIT, HUD and applicable federal and local requirements, rules and regulations, and applicable PRDOH's policies, procedures governing the PRDOH CDBG-DR and CDBG-MIT Programs 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 PRDOH Secretary or designated Audit Committee regarding:

- The PRDOH DRO IAO's purpose, authority, and responsibility.
- The PRDOH DRO IAO's Plan and performance relative to its plan.
- The PRDOH DRO 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 PRDOH Secretary 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 DRO IAO may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the PRDOH DRO 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**

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The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the PRDOH Secretary or designated Audit Committee a risk-based Internal Audit Plan for review and approval.<sup>1</sup>
- Communicate to senior management and the PRDOH Secretary 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 PRDOH Secretary 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 PRDOH Secretary or designated Audit Committee any corrective actions not effectively implemented.

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<sup>1</sup> The Chief Audit Executive is also responsible for preparing the Internal Audit Strategic Plan which describes the needs, resources, priorities, and proposed audit activities to be undertaken within the next three (3) to five (5) years regarding the CDBG-DR and CDBG-MIT Programs.



- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the PRDOH DRO 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 PRDOH Secretary, 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 DRO 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 PRDOH Secretary, his/her designee or Audit Committee, as appropriate.
- Ensure conformance of the PRDOH DRO IAO with the Standards, with the following qualifications:
  - If the PRDOH DRO IAO is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures are made and will uphold conformance with all other parts of the Standards.

## **Confidentiality**

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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**

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The PRDOH DRO 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 U.S. General Accounting Office.

## Quality Assurance and Improvement Program

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The PRDOH DRO IAO will maintain a quality assurance and improvement program that covers all aspects of the PRDOH DRO IAO. The program will include an evaluation of the PRDOH DRO 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 DRO IAO and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the PRDOH Secretary or designated Audit Committee on the PRDOH DRO 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

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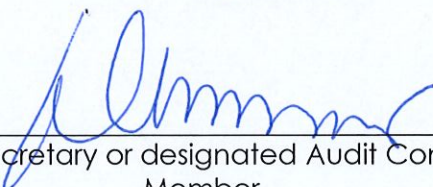
This Charter will take effect immediately after its approval by the PRDOH Secretary. This document supersedes any previously approved version.

## Signatures

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\_\_\_\_\_  
Chief Audit Executive

\_\_\_\_\_  
November 2, 2023  
Date

  
\_\_\_\_\_  
PRDOH Secretary or designated Audit Committee  
Member

\_\_\_\_\_  
November 2, 2023  
Date