



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050

MAY 16 2003

MEMORANDUM FOR: Principal Staff

FROM: Alphonso Jackson *AJ*

SUBJECT: Front-End Risk Assessments and Management Control Reviews
Related to New or Substantially Revised Program Activities

A Front-End Risk Assessment (FERA) is a management tool used to minimize the Department's exposure to fraud, waste, and abuse. Chapter 8 of Handbook 1840.1 Rev-3, *Departmental Management Control Program*, requires that a FERA be performed on any: (1) new program or administrative function with a funding level totaling \$10 million or more; (2) substantially revised program or administrative function where the revision results in an increase or loss that is greater than \$10 million and is equal to a change of at least 5 percent in the budget line item. Irrespective of these requirements, the application of the FERA concept should be applied to any significant program change as a matter of good management and business practice.

Performance of a FERA is an excellent way for program managers to assess risks and establish internal controls before implementing a new or substantially revised program or administrative function. The process helps to ensure that risks are taken by choice and not by chance and are acknowledged by management as necessary to achieve programmatic goals within available resource levels.

While the Department has committed to the performance of FERAs as an essential component of its Management Control Program under the Federal Managers Financial Integrity Act of 1982, program managers have not consistently fulfilled this commitment. HUD's Officer Next Door Program is an example where planned actions resulting from a required FERA were not implemented to build adequate internal controls into the program, enabling program participant abuse of the program until the Office of Inspector General's reporting on the abuse led to a temporary suspension of the program.

It is incumbent upon HUD program managers to be proactive rather than reactive in establishing adequate internal controls over our programs. The time to initiate the conduct of a FERA is when there is budgetary approval for a new or substantially revised program in your area of responsibility. I affirm this administration's commitment to the FERA process and will be personally monitoring the timely conduct and reporting on FERAs and other Management Control Program activities in our monthly Executive Management Meetings.

HUD's leadership must be effective stewards of HUD's resources. It is critical that the FERA process achieve meaningful and useful results and not be deemed a mere paper exercise. Toward that goal, the Chief Financial Officer (CFO) will work with you to revise Chapter 8 of Handbook 1840.1 Rev-3 to enhance the FERA process to provide for a more efficient and effective management tool. In the interim, please adhere to the attached requirements, which are necessary to help ensure support and accountability for the timely completion of adequate FERAs.

Your cooperation and commitment to this process is necessary to ensure a strong management control environment at HUD. If you have any questions pertaining to this memorandum, please contact James M. Martin, Assistant CFO for Financial Management, on (202) 708-0638, extension 3706.

Attachments

FRONT-END RISK ASSESSMENT (FERA) REQUIREMENTS

Please adhere to the below requirements, which are necessary to help ensure support and accountability for the timely completion of adequate FERAs:

- Program managers must plan for the conduct of FERAs when they initiate or anticipate regulation or budget actions for new or substantially revised program activity.
- Program managers must initiate each new FERA by scheduling a “FERA Planning Session” with the program area’s Management Control Coordinator and a member of the Risk Management Division in the Office of the Chief Financial Officer (OCFO), to obtain advice and assistance in planning for an efficient and effective FERA.
- The CFO’s Risk Management staff will review FERA documents and provide constructive input to program management during the development of the first draft product(s) for each of the following stages of the FERA process:
 1. Analysis of the General Control Environment and Inherent Risk;
 2. Identification of Major Event Cycles for the Entire Operation or Process, including Flowchart(s) and Narrative;
 3. Review of Control Objectives and Techniques; and
 4. Identification of Planned Actions Needed to Establish or Improve Controls.
- Program offices must provide monthly reports that include the following information on FERA activities:
 1. Responsible Organization (e.g., CPD, PIH);
 2. Subject Program or Activity;
 3. Lead Action Official;
 4. Date the FERA was Started;
 5. Latest Milestone Completion Date; and
 6. Status/Comments.

- The completed FERA should include:
 1. A description of the program or function, details about program goals and the performance measures that would allow for program evaluation;
 2. Flow charts and narrative descriptions of the event cycles in sufficient detail to provide a good understanding of how the program will operate and allow for a meaningful assessment of controls;
 3. Identification of risks and controls for all phases of the program – not just those that are considered unsatisfactory. This should be in narrative form and summarized on Exhibits 8-1 through 8-3. *Please note that changes have been made to all Exhibits, with more significant changes made to Exhibits 8-3 and 8-4;*
 4. Planned actions to establish controls for all areas deemed unsatisfactory (see Exhibit 8-4); and
 5. Certification of the completion of the FERA process by the appropriate individuals (see Exhibit 8-5).

For new programs that have already been implemented without the benefit of a timely completed FERA, program managers are asked to complete a Management Control Review (MCR) in lieu of the FERA, to assure adequate internal controls are in place and operating. Program offices are required to report monthly on the same level of detail for MCRs as for FERAs. Despite earlier attempts to establish a more effective monthly FERA/MCR reporting process, the OCFO continues to experience difficulty in obtaining timely status reports. The attached reports reflect the last known information on FERAs and MCRs on programs or activities in HUD's organizational components. Please review the reports and ensure that the OCFO's Risk Management Division receives updated status information by the first Friday of every month, beginning with the report due on June 6, 2003. Commencing in July 2003, the FERA/MCR status reports will be a part of the monthly Executive Management Committee meeting package and agenda.

ANALYSIS OF GENERAL CONTROL ENVIRONMENT

U.S. Department of Housing and Urban Development
Office of the Chief Financial Officer

Program/Administrative Function:

FACTOR	SATISFACTORY		BRIEF EXPLANATION OF SATISFACTORY OR UNSATISFACTORY RISK(S)
	YES	NO**	
1. Legislative Language			
2. Program Structure*			
3. Organizational Structure			
4. Personnel Adequacy			
5. Systems/ADP Considerations			
6. Funding			
7. Management Attitude			
8. Delegation and Communication of Authority and Responsibility			
9. Segregation of Duties			
10. Organizational Checks and Balances			
Other (List):			
Overall Assessment:			
<input type="checkbox"/> Satisfactory		Prepared By: _____ Date: _____	
<input type="checkbox"/> Unsatisfactory		Reviewed By: _____ Date: _____	

* Exhibit 8-3 must be completed to document existing or planned event cycles, control objectives, and control techniques for the program/activity.

** Exhibit 8-4 must be completed to indicate planned action(s) to raise factor(s) to satisfactory, where practical or desirable.

ANALYSIS OF INHERENT RISK

U.S. Department of Housing
and Urban Development
Office of the Chief Financial Officer

Program/Administrative Function:

FACTOR	RISK	
	YES*	NO
<p>1. Objectives, Purpose and Characteristics:</p> <ul style="list-style-type: none"> a. Broad or vague Legislative authority or regulations b. Broad or vague mission or goals c. High degree of complexity d. Objectives are not clearly stated, measurable or attainable e. Objectives are inconsistent and do not reinforce one another f. Priorities are unclear and are in conflict with one another g. Time frames are unrealistic h. Legislative barriers exist and present problems i. Existence of third party beneficiaries j. Activities involve the disbursement of funds k. Activities involve the handling of cash receipts l. Activities involve approval of applications, granting of authority, certifications, issuance of licenses or permits, inspections, or enforcement <p>If any marked "YES", this indicates a potential for risk.</p>		
<p>2. Procurement Assistance:</p> <p>If marked "YES", this indicates a potential for risk.</p>		
<p>3. Age and Life Expectancy:</p> <ul style="list-style-type: none"> a. Lack of written policies or procedures b. Lack of adequate resources c. Inexperienced managers d. Lack of devices to measure program performance <p>If marked "YES", this indicates a potential for risk.</p>		
<p>4. Degree of Centralization:</p> <ul style="list-style-type: none"> a. Decentralized b. Participant Administered c. Other (Specify) <p>If marked "YES", this indicates a potential for risk.</p>		
<p>5. Special Concerns or Impacts:</p> <ul style="list-style-type: none"> a. Special interest exhibited by the President, Congress, OMB, or the Secretary b. Deadlines imposed by Legislation c. Media attention d. Litigation <p>If marked "YES", this indicates a potential for risk.</p>		

ANALYSIS OF INHERENT RISK

U.S. Department of Housing
and Urban Development
Office of the Chief Financial Officer

Program/Administrative Function: _____

FACTOR	RISK	
	YES*	NO
<p>6. Prior Reviews:</p> <p>a. None, new program</p> <p>b. Within last 12 months</p> <p>c. More than 12 months</p> <p>If "b" or "c" is "YES":</p> <p>1) Were significant findings made</p> <p>2) Were there findings of losses due to waste, loss, unauthorized use or misappropriation</p> <p>If "YES" to 1) or 2), this indicates a potential for risk.</p>		
<p>7. Management Responsiveness:</p> <p>a. N/A, no previous reviews</p> <p>b. Corrective actions were not taken in a timely manner</p> <p>If "b" is "YES", this indicates a potential for risk.</p>		
<p>Overall Assessment of Factors' Inherent Risk (check most appropriate):</p> <p style="text-align: center;">_____ High</p> <p style="text-align: center;">_____ Medium</p> <p style="text-align: center;">_____ Low</p>		

Prepared By: _____ Date: _____

Reviewed By: _____ Date: _____

* Exhibit 8-4 must be completed to indicate planned action(s) to raise factor(s) to satisfactory, where practical or desirable.

EXHIBIT 8-3

CONTROL OBJECTIVES AND CONTROL TECHNIQUES

U.S. Department of Housing
and Urban Development
Office of the Chief Financial Officer

Program/Administrative Function:

Event Cycle/Activity	Control Objective	Control Technique	Satisfactory	
			YES	NO*

Prepared By: _____ Date: _____

Reviewed By: _____ Date: _____

* Exhibit 8-4 must be completed to indicate planned action(s) to raise factor(s) to satisfactory, where practical or desirable.

FERAs IN PROCESS AS OF 04/10/2003

ORGANIZATION	PROGRAM/ ACTIVITY	ACTION OFFICIAL	DATE STARTED	LATEST MILESTONE* AND COMPLETION DATE	STATUS/COMMENTS
CPD	CDBG Disaster Recovery Assistance Program	Jan Opper	09/12/2002: Notification Letter	02/10/03: CFO staff submitted comments on draft FERA.	CFO staff met with CPD staff on 2/25/03 to discuss CFO comments submitted on the draft FERA report. CPD will finalize the FERA by 5/03.
Housing: Single Family	Accelerated Claim Disposition Program	Joe McCloskey	10/17/2001	02/13/03: FERA approved by CFO. Updated FERA submitted to CFO on 1/27/03.	Completed.
	Treble Damages	Joe McCloskey	12/05/2001	02/27/02: Contractor delivered final report to program office. Completion date TBD	Program office suspended work on the FERA pending publication of the proposed rule.
	Loss Mitigation Default Counseling Demonstration Program	Joe McCloskey	12/05/2001	03/15/02: Contractor delivered final report to program office. Completion date TBD	Program office is revising the FERA.
	Asset Control Area Program	Joe McCloskey	10/15/2002	2/28/03: Contractor delivered final report to program office. Completion date TBD.	Program office expects to complete any necessary revisions to FERA document by 5/03.

* Milestones consist of: (1) FERA Planning Session; (2) Analysis of the General Control Environment and Inherent Risk; (3) Flowchart and Narrative on Event Cycles; (4) Review of Control Objectives and Techniques; (5) Identification of Planned Actions; (6) Management and Oversight of Planned Actions; (7) Review and Follow-up; and (8) Completion.

MCR/AMCRs IN PROCESS AS OF 04/10/2003

ORGANIZATION	PROGRAM/ ACTIVITY	ACTION OFFICIAL	DATE STARTED	LATEST MILESTONE* AND COMPLETION DATE	STATUS/COMMENTS
CPD	Empowerment Zones/Enterprise Communities	Bill Eargle		TBD	The report was completed by a contractor and is currently under review by the CPD Office of the Comptroller.
Housing: Single Family	Officer Next Door	Joe McCloskey		TBD	This review was reclassified from a FERA to a Management Control Review. Program management has been substantially strengthened through both administrative and automated processes. In addition, the program office is procuring additional automated controls.
Multifamily	Multifamily Accelerated Processing (MAP)	Joseph Malloy	02/2000	TBD	Review of program should be conducted to determine if controls are adequate.
	Health Care Facility Portfolio and Changes to the Section 232 Programs	Kerry Mulholland	10/2000	TBD	Program was implemented prior to completion of FERA. Review of program should be conducted to determine if controls are adequate. Competing priorities have caused significant delays.

ORGANIZATION	PROGRAM/ ACTIVITY	ACTION OFFICIAL	DATE STARTED	LATEST MILESTONE* AND COMPLETION DATE	STATUS/COMMENTS
PIH	Resident Opportunities and Self Sufficiency (ROSS)	Jeraldene White	06/1999	02/07/03: Report submitted to the CFO for approval.	Work begun by a contractor was discontinued and turned over to in-house staff for completion. Delays were experienced due to competing priorities. CFO staff is currently reviewing the ROSS report.
	Section 8 Housing Choice Voucher Program	Jerry Benoit	09/1999	03/11/03: Report submitted to the CFO for approval.	Work was discontinued because of competing priorities. The report has now been completed and has been submitted to the CFO for approval. CFO staff is currently reviewing the report.

* Milestones consist of: (1) MCR/AMCR Planning Session; (2) Analysis of the General Control Environment and Inherent Risk; (3) Flowchart and Narrative on Event Cycles; (4) Review of Control Objectives and Techniques; (5) Identification of Planned Actions; (6) Testing of Controls; (7) Draft Report; and (8) Final Report/Completion.