

- 2-1. **Purpose.** This chapter provides a general discussion on defining risk and determining program susceptibility to waste, fraud, abuse or mismanagement.
- 2-2. **Policy.** Management controls should include an assessment of the risks associated with each program or administrative function from both external and internal sources that could threaten the achievement of its objectives. These risks come from a variety of external and internal sources and involve all programs and functions. Risk assessment is the identification and analysis of possible risks in meeting the agency’s objectives and forming a basis for how these risks should be managed or controlled and the deterrents that should be implemented.
- A. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. By setting objectives at both the implementation and oversight levels in terms of operations, financial reporting, and compliance with laws and regulations, agencies can identify critical success factors. These are the things that must occur or “go right” if the objectives are to be met. Knowing what must go right is critical to identifying the risks of what can go wrong.
- B. The identification and analysis of risk is a continual process that is critical to the effectiveness of management control. Management must focus on risks at all levels in the entity and act to manage them.
- 2-3. **Risk Identification.** Management should be comprehensive in its identification of risks and should consider all significant interactions between the organization and other parties as well as internal factors at both the organization and department level. Many methods of risk identification may be used, including: qualitative or quantitative methods to identify and rank high-risk activities; senior management planning conferences; and short and long-range forecasting and strategic planning.
- A. Management should carefully consider the specific external factors that may present risk to the agency. Examples of such external factors that could increase risk include the following:
- technological developments;
 - changing needs or expectations of Congress, agency officials, and the public;
 - new legislation and/or regulations;
 - natural catastrophes; and
 - business, political, and economic changes.
- B. Examples of internal factors that could increase risk include the following:
- downsizing agency operations.
 - reengineering agency operating processes,
 - disruption of information systems processing,
 - highly decentralized program operations,
 - the quality of personnel hired and training provided,
 - heavy reliance on contractors or other related parties to perform critical agency functions,

- changes in management responsibilities, and
- the nature of the entity’s activities and employee access to assets.

C. In identifying risks, management must also consider other factors that may contribute to or increase the risk to which the agency may be exposed. Examples of such considerations include past failures in meeting budget limits and agency objectives and the reasons for those failures; making improper program expenditures; geographically distributed agency activities; and the significance and complexity of any specific activity which the agency undertakes.

2-4. **Risk Analysis.** The risk analysis methodology can vary because levels of risk are difficult to quantify. However, the processes of analysis would generally include the following: estimating the risk significance; assessing frequency/likelihood of occurrence; and considering how to manage the risk and the actions to be taken. A risk that has little significance and low probability of occurring may require no action at all. Yet, one with high significance and high frequency will usually require much attention. Once risks have been analyzed, management needs to formulate an approach for risk management and control based upon how much risk can be prudently accepted. The approach can vary considerably from one program or administrative function to another, but all approaches should be designed to keep risks within the levels judged appropriate by management. Once the approach has been implemented, it should be monitored and tracked for effectiveness.

2-5. **Managing Risk During Change.** Because governmental, economic, industry, regulatory, operating, and other conditions continually change, mechanisms should be provided to identify and deal with any special risks associated with change. Changing conditions often can greatly increase risks to a program of administrative function. Mechanisms should be in place to help management identify such changes. These mechanisms need not be elaborate, but are usually related to the recording and use of information.

Some major changing conditions that warrant special consideration with regard to risk may include the following:

- new personnel in key positions or high personnel turnover;
- new or changed information systems;
- rapid growth, expansion, or downsizing;
- implementation of major new technologies;
- production or provision of new outputs; and
- starting operations in new geographical areas.

2-6. **Assigning Risk Ratings.** Programs or administrative functions should be assigned annual risk ratings via a risk assessment process, utilizing the HUD Risk Assessment Worksheet (Exhibit 2-1). This process does not necessarily identify weaknesses or result in improvements, rather, it is the mechanism used by managers and supervisors to provide POHs with the information required to submit their annual certification statement for the FMFIA process (see section 6-6). The key aspects of any risk assessment are as follows:

A. Analysis of the General Control Environment. The environment in which a program or administrative function operates has a major impact on the effectiveness of

management controls. In performing this phase of the risk assessment, the following factors should be considered:

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1. Emphasis on management controls;
2. Coverage by written procedures;
3. Specifying goals and measuring accomplishments;
4. Adequacy of checks and balances;
5. Automated Data Processing (ADP) used for reporting or operational data;
6. Personnel resources; and
7. Management attitude.

B. Analysis of Inherent Risk. An analysis of the inherent potential for waste, fraud, abuse, or mismanagement is a critical step in determining the overall risk rating for the program or administrative function. For example, programs involving large dollar amounts are inherently subject to higher risk than other programs, such as personnel management. Matters to be considered in this analysis should include the following:

1. Program administration;
2. Scope of written authority;
3. Age/status of program;
4. External impact or sensitivity;
5. Interaction across organizations;
6. Potential financial exposure;
7. Type of transaction documents;
8. Adequacy of reconciliations/adjustments;
9. Interval since most recent evaluation or audit;
10. Recent instance of errors or irregularities;
11. Adequacy of reports; and
12. Time constraints.

C. Assumed Effectiveness of Existing Controls. A preliminary evaluation of safeguards regarding the existence and adequacy of controls must be made, i.e., a determination as to whether controls are appropriate to prevent or at least minimize waste, loss,

unauthorized use or misappropriation. The reviewer's experience and judgment should be utilized to determine the adequacy of controls.

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D. Overall Risk Assessment Ratings. The final phase of the risk assessment process is assigning a risk rating for the program or administrative function under review. Exhibit 2-1 provides the Risk Assessment Worksheet for use in documenting the results of the analysis discussed above. This Worksheet allows the reviewer to assign values for the various parts of the review. To determine the overall rating of the program or administrative function, add the assigned value for each ranking factor for a total score. The higher the score, the greater the risk. Each program or administrative function must be assigned an overall risk rating of either Low, Medium, or High.

1. Low Risk. This rating should be assigned if the risk assessment results in an overall score of less than 30.
2. Medium Risk. This rating should be assigned if the overall score of the risk assessment falls between 30-50.
3. High Risk. This rating should be assigned if the results of the assessment equal a total score of 51 or more.

In addition to applying the total value score in assigning the risk rating, the reviewer should be sensitive to recent audits, specifically those with findings designated as significant; material weaknesses; and Department-wide priorities.

E. Risk ratings are reported to each POH, to support the annual certification statement for the FMFIA process. The Worksheet must be signed and dated by both the individual who conducted the assessment and the Approving Official who has been designated by the POH.

Exhibit 2-1 contains the recommended format for documenting the risk assessment as well as detailed instructions relating to each item on the Worksheet and criteria for determining the value of each factor. While an alternative risk assessment procedure may be used, it must have the criteria detailed in GAO's Internal Control Guidelines and have the prior approval of the Chief Financial Officer.

2-7. **Implementing Corrective Actions Identified During Risk Rating.** While the identification of a material weakness and corrective action will generally result from a detailed management control evaluation, it is possible for management to identify weaknesses, including material weaknesses, during the risk rating process. In this event, management should immediately initiate corrective action and raise the issue to senior level management as part of the early warning reporting process as discussed in Section 3-8.

2-8. **Documentation and Responsibilities.**

A. Managers should develop and maintain adequate written documentation of each risk analysis and risk rating they have conducted on their programs and functions. This information will be useful for reviewing the validity of conclusions reached,

evaluating the performance of individuals involved with risk assessment, and performing subsequent assessments and reviews.

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- B. MCCs should maintain an overall summary of the level of risk for all of their organization's programs and functions.
- C. The CFO should ensure that the Department's risk assessments are updated on a continuing basis, adequately encompass all relevant programs and functions, and accurately reflect levels of risk. The CFO is also responsible for providing technical assistance in the risk assessment process.

EXHIBIT 2-1

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HUD RISK ASSESSMENT WORKSHEET					
1. ORGANIZATION			2. CONTROL NUMBER		
3. PROGRAM/FUNCTION/ACTIVITY					
GENERAL CONTROL ENVIRONMENT					
	CHOICE	VALUE		CHOICE	VALUE
4. EMPHASIS ON MANAGEMENT CONTROLS: - MAJOR EMPHASIS - MODERATE EMPHASIS - MINOR EMPHASIS		(1) (3) (5)	7. ADEQUACY OF CHECKS AND BALANCES: - NOT APPLICABLE - ADEQUATE - NEEDS IMPROVEMENT - REQUIRED BUT TOTALLY LACKING		(0) (1) (2) (5)
5. COVERAGE BY WRITTEN PROCEDURES: - CURRENT SPECIFIC GUIDANCE WITH LITTLE OR NO DISCRETION - FLEXIBLE GUIDANCE WITH SIGNIFICANT DISCRETION - NO WRITTEN PROCEDURES		(1) (3) (5)	8. ADP USED FOR REPORTING OR OPERATIONAL DATA - NOT APPLICABLE - DATA RELIABILITY (TIMELY/USEFUL/ACCURATE) AND SECURITY ARE SATISFACTORY - DATA RELIABILITY, SECURITY OR USEFULNESS NEEDS IMPROVEMENT - DATA RELIAB/SEC IS A MAJOR PROBLEM		(0) (1) (2) (5)
6. SPECIFYING GOALS AND MEASURING ACCOMPLISHMENTS: - NOT APPLICABLE - GOALS/OBJECTIVES FORMALLY ESTABLISHED AND MONITORED - GOALS/OBJECTIVES USED INFORMALLY OR WITH LITTLE FOLLOW-UP - GOALS/OBJECTIVES NEED, BUT NOT ESTABLISHED		(0) (1) (2) (5)	9. PERSONNEL RESOURCES/TRAINING: - ADEQUATE NUMBER OF QUALIFIED PERSONNEL - ADEQUATE NUMBER OF PERSONNEL; TRAINING REQUIRED AND AVAILABLE - INSUFFICIENT NUMBER OF PERSONNEL; MAJORITY OF STAFF LACKS QUALIFICATIONS; TRAINING INADEQUATE OR NOT AVAILABLE		(1) (2) (3)
			10. MANAGEMENT ATTITUDE: - GENERALLY SUPPORTIVE/INNOVATIVE - RESISTS CHANGE/UNCOOPERATIVE		(1) (3)
ANALYSIS OF INHERENT RISK					
11. PROGRAM ADMINISTRATION - HUD ONLY - OTHER GOVERNMENT AGENCIES - THIRD PARTY (CONTRACTOR) INVOLVEMENT - HEAVY CONTRACTOR INVOLVEMENT		(1) (2) (3) (4)	17. TYPE OF TRANSACTION DOCUMENT: - NON-CONVERTIBLE TO CASH OR BENEFIT - CONVERTIBLE TO SERVICES ONLY - DIRECTLY CONVERTIBLE OT CASH		(1) (5) (10)
12. SCOPE OF WRITTEN AUTHORITY: - PRECISE AND CURRENT - CLARIFICATION REQUIRED - NO WRITTEN AUTHORITY		(1) (3) (5)	18. ADEQUACY OF RECONCILIATION'S/ ADJUSTMENTS: - NOT APPLICABLE - REGULARLY SCHEDULED - INFREQUENT/NOT CONDUCTED		(0) (1) (4)
13. AGE STATUS OF PROGRAM: - RELATIVELY STABLE - CHANGING		(1) (2)	19. INTERVAL SINCE MOST RECENT EVALUATION OR AUDIT: - WITHIN LAST 12 MONTHS - BETWEEN 12 AND 24 MONTHS - MORE THAN 2 YEARS		(1) (3) (5)
14. EXTERNAL PUBLIC IMPACT OR SENSITIVITY: - NOT APPLICABLE - LOW LEVEL - MODERATE LEVEL - HIGH LEVEL		(0) (1) (3) (5)	20. RECENT INSTANCES OF ERRORS OR IRREGULARITIES - NONE IN THE LAST 15 MONTHS - MOST SIGNIFICANT FINDING OR KNOWN ERRORS FULLY CORRECTED - MOST SIGNIFICANT FINDINGS OR KNOWN ERRORS UNRESOLVED		(1) (3) (7)
15. INTERACTION ACROSS ORGANIZATIONS: - EXCLUSIVE TO ONE ORGANIZATION - MORE THAN TWO ORGANIZATIONS - INVOLVEMENT WITH OUTSIDE ORGANIZATIONS		(0) (1) (3)	21. ADEQUACY OF REPORTS: - ACCURATE AND TIMELY - SOMETIMES INACCURATE, INCOMPLETE AND/OR LATE - USUALLY INADEQUATE AND LATE		(1) (3) (5)
16. POTENTIAL FINANCIAL EXPOSURE: - LESS THAN \$50M - \$50M TO \$100M - MORE THAN \$100M		(2) (5) (10)	22. TIME CONSTRAINTS: - NOT A SIGNIFICANT FACTOR IN OPERATIONS - OCCASIONALLY A FACTOR - A SIGNIFICANT DAILY FACTOR		(1) (2) (4)
PRELIMINARY ASSESSMENT OF SAFEGUARDS					
23. ASSUMED EFFECTIVENESS OF EXISTING CONTROLS: - CONTROLS ADEQUATE - LESS THAN ADEQUATE - NO EXISTING CONTROLS OR COSTS OUTWEIGH BENEFITS		(1) (3) (5)	24. OVERALL ASSESSMENT: - LOW () (LESS THAN 30) - MEDIUM () (30-50) - HIGH () (GREATER THAN 50) - EARLY WARNING () (MATERIAL WEAKNESS)	SCORE:	
25. COMMENTS/REFERENCES (DETAILED COMMENTS SHOULD BE ATTACHED)					
26. RA CONDUCTED BY:			TITLE	DATE	
27. RA APPROVED BY:			TITLE	DATE	

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INSTRUCTIONS FOR COMPLETING THE RISK ASSESSMENT WORKSHEET

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GENERAL INSTRUCTIONS. The HUD Risk Assessment (RA) Worksheet is divided into three general assessment categories: (1) GENERAL CONTROL ENVIRONMENT; (2) ANALYSIS OF INHERENT RISK; and (3) PRELIMINARY ASSESSMENT OF SAFEGUARDS.

The General Control Environment, in which a program or function operates, has a major impact on the effectiveness of management controls. General controls include management attitude, organizational structure, personnel resources, delegations of authority, written procedures, budget and planning processes, and ADP requirements. A detailed discussion of General Control Environment ranking factors is contained in Part 1 of these instructions.

The Inherent Risk of a program or function depends on its susceptibility to fraud, waste, and abuse. Evaluating this risk involves analysis of the program or function's purpose and characteristics, budget amount, age and life expectancy, public impact, and the frequency of audits or reviews and management's response to them. Part 2 of these instructions provides a detailed explanation of Inherent Risk ranking factors.

A Preliminary Evaluation of Safeguards is the third step in the Risk Assessment process. The Risk Assessment relies on the evaluator's judgment and program knowledge to make an evaluation of the program or function. The key consideration is if existing controls are cost effective and sufficient to minimize the risk of fraud, waste, or mismanagement. See Part 3 for a detailed explanation of these ranking factors.

Each ranking factor on the HUD Risk Assessment Worksheet contains a series of values reflected by numbers. In reviewing, assign a number (value) to each ranking factor which comes closest to describing the program, function, or activity being assessed. Bear in mind that some programs, functions, or activities have inherently higher risk than others. For example, a closing agent, dealing directly with closing proceeds, is involved in a process which has inherently more risk than a personnel training facilitator, and a financial system, involved with funds transfer, has more inherent risk than an activity or function involving records management. Consequently, a high risk rating is often due to the nature or the complexity of the program being assessed.

The Worksheet is a guide which can be expanded to meet individual requirements. The reviewer can add additional ranking factors if a program, function or activity has complicated or detailed event cycles such as those involving ADP or financial systems.

HUD RISK ASSESSMENT WORKSHEET RANKING FACTOR GUIDANCE

1. Organization. Enter the name of the organization conducting the risk assessment.
2. Control Number. Enter the organization identification number (if any) assigned to the program, function, or activity being evaluated.
3. Program/Function/Activity. Enter the name of the program, function, or activity under evaluation.

PART 1. ASSESSING THE GENERAL CONTROL ENVIRONMENT

GENERAL CONTROL ENVIRONMENT. Blocks 4-10 cover organizational, procedural, support and operational factors which can have an impact on the effectiveness of management controls.

4. Emphasis on Management Controls. Select one of the following:

Major Emphasis: Management controls are used systematically in planning and operating the functions and programs at each level of the organization: Risk Assessments, Management Control Reviews and related verification cover the entire organization and are implemented based on planning schedules.

Moderate Emphasis: Controls are selectively considered in one or more of the following: evaluation of operations, performance appraisals, and external requirements. Reviews do not cover all levels of the organization or all levels of risk.

Minor Emphasis: There is little evident consideration of management controls at most levels within the organization. Reviews are not coordinated and follow-up corrective action verifications are not conducted.

5. Coverage by Written Procedures. Written procedures are based on general delegated authority. Management controls must ensure that these procedures are clearly written, specific, available and uniformly understood by the staff. Procedures should be reviewed periodically to ensure that they are current. Some procedures require more discretion than others. For example, time and attendance is a process with detailed and specific procedures; allocation of staffing or budget formulation are processes which frequently permit significant discretion. Programs, functions, or activities with more discretion have more potential for abuse or inconsistency, and consequently, the need for close monitoring of procedural controls increases.
6. Specifying Goals and Measuring Accomplishments. Establishing program and budgeting goals provide a POHs and their employees with benchmarks for measuring accomplishments and monitoring expenses. Goals and implementation planning must be established for each significant organizational element, reviewed annually, updated, and disseminated to employees to ensure effective management controls. The HUD Management Plan and Personnel Rating Systems are examples of planning and measurement processes.
7. Adequacy of Checks and Balances. Checks and balances are procedures to ensure that authority for certain functions is shared among two or more employees or organizational levels to minimize the potential for fraud, waste, abuse or mismanagement. Duties must be separated so that no single individual can control a series of related transactions from beginning to end. Written delegation of the scope of authorization and approval authority must be current and specific. Determine if checks and balances are appropriate and adequate for the type of program, function, or activity being rated to protect resources from manipulation or misappropriation. A functional area involving financial transactions must have clearly established separation of authorization and approval authority. One with complex ADP and program interrelationships must be carefully reviewed for the adequacy of check and balance controls between organizations.

8. Automated Data Processing (ADP) Used for Reporting or Operational Data. Many functions are highly dependent on ADP for either operations or for providing information on which management decisions are made. As a result, ADP management controls are a vital part of the General Control Environment and must be in place to ensure that ADP data is reliable and timely. For example, ADP users should be polled annually to prevent generation of obsolete or unnecessary reports; ADP Security must include physical security, adequate back-up capabilities, and a thorough knowledge of changing system software capabilities to prevent computer fraud; and ADP systems must be adequately planned and integrated. Inadequate ADP system capabilities impact on program productivity and management controls. If ADP is not used for the program, function, or activity being assessed, check the "Not Applicable" box.
9. Personnel Resources. Select the choice which best depicts both the number of needed personnel available to perform the function and the extent to which these personnel have the level of skill necessary to ensure effective performance. If there is a pattern of poor performance ratings, significant employee turnover, inadequate training or extensive and continual use of overtime, the personnel resource controls are potentially at risk.
10. Management Attitude. Management commitment to a strong system of management controls must be communicated to employees through actions and implementation of effective controls. Management support is not reflected in any one aspect of managers' actions but is fostered by management commitment to achieving strong controls through management control training, effective communication of control objectives and use of performance ratings to enforce effective management control techniques. Management which is uncooperative, resists change, or fails to provide a well planned management control framework adversely impacts staff morale and management control objectives.

PART 2. ANALYSIS OF INHERENT RISK

ANALYSIS OF INHERENT RISK. Blocks 11-22 deal with a program, function, or activity's inherent potential for waste, fraud, abuse, or mismanagement. Some programs, especially those involving large dollar amounts or processes easily converted to cash, such as grants or funds transfer, are inherently subject to higher risk. Other programs, such as administrative services or personnel management, tend to have less inherent risk.

11. Program Administration. If another government agency or a contractor is responsible for some aspects of the operation, control responsibilities are fragmented and the inherent risk is greater. For example, interagency administration between HUD and Health and Human Services may be complicated by organization and procedural differences. Similarly, HUD's ADP security controls over an off-site contractor may be complicated by contractual limitations.
12. Scope of Written Authority. Each program, function, or activity must have current, precise delegations of authority which are legislatively based and reviewed annually. Delegations must clearly state the authorization and approval authority for each organizational element and how much authority can be redelegated.

Select one of the following:

Precise: Governing legislative regulations, and delegations of authority are current and clearly establish the authority and discretion vested in program officials.

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Clarification Required: Authority and discretion need to be updated and related to specific positions or responsibilities.

No Written Authority: There are no written delegations or other official documentation establishing the limits on administering a program or function.

13. Age/Status of Program. A program, function, or activity which has relative stability over a period of years with the same fundamental mission, can have potentially less risk than a new or substantially revised program, function, or activity. Written procedures, staff resources, and budget requirements are usually well established. Major new responsibilities or significant legislative changes can, however, introduce greater potential for vulnerability. Written procedures, ADP systems, training and additional resources to meet new requirements may not be available. Similarly, functions involving phased out or pipeline programs are at risk of reduced attention and staff resources which impact on management controls because program management expertise and resources may shift to active programs.
14. External Impact or Sensitivity. The potential effect of a program, function or activity on the public (denial of services or adverse public impact) is a critical factor in determining risk. Most programs or functions have some potential for adverse public impact, but the more impact on the public, the greater the potential risk and sensitivity. Programs, functions, or activities with external impact are not limited to specific highly visible programs such as HOPE and HOME; programs such as inspection or construction standards can also have a significant external impact if the public is denied services or products. Management must ensure that adequate controls, including monitoring and early warning procedures, are in place to quickly identify and correct instances of waste, fraud and abuse in programs, functions, or activities with external impact.

Select one of the following:

Not applicable: No external impact or sensitivity.

Low Level: Total number of individuals or organizations affected is relatively small. An example of a program, function, or activity in this category would be training.

Moderate Level: Involves a HUD program, such as Indian Housing, or a process, such as procurement, which serves or impacts on specific interest groups or organizations external to HUD. A program, function, or activity with moderate external impact can generate significant public impact if abuses are not corrected promptly. For example, consistently failing to enforce site selection standards in Indian Housing could have an adverse impact on public sensitivity even if public services were not denied to the general public.

High Level: Involves a program, such as Section 203 (b) or Section 8, which has nation-wide impact due to public interest, high dollar amount or the potential influence on the program by external organizations. Consider the potential for

adverse publicity or denial of public services in your evaluation. A high level of sensitivity exists when program managers must continuously consider the external impact on program operations in their decisions.

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15. Interaction Across Organizations. The degree of centralization impacts on a program or function's risk. If responsibilities for establishing policies and procedures for a program are separated organizationally from operational functions, risk is increased. For example, there is a greater risk of error when several HUD Primary Organization Heads or outside organizations provide input to the processes of the program or function. When several organizations are involved, communication and procedural problems, such as input, timing and quality, may increase and management controls may be fragmented or conflicting. Select one of the following:

Exclusive To One Primary Organization Head: (i.e., personnel classification)

More Than Two Primary Organization Heads: (i.e., information resources collection and distribution)

Involvement With Outside Organizations: (i.e. interagency agreements, or systems which involve more than one government agency)

16. Potential Financial Exposure. Programs, functions or activities that involve access to cash, such as premium disbursements, funds transfers, funds recoupment or settlement/closing activities, are potentially a significant risk. Additionally, the risks of waste, fraud, abuse and adverse public impact increase when access to large dollar amounts makes illegal activities more attractive. Use budget estimates to determine current funding levels and cumulative financial exposure. Consider the program's salaries and expenses in your calculations. Indicate in block 15 the dollar amount of the program being assessed.

17. Type of Transaction Documents. An instrument is a document utilized in the approval/disapproval or execution phases of a process. The basic issue is the convertibility of instruments to cash or personal benefits. Select one of the following:

Non-Convertible Instruments: Memoranda and letters indicating a determination or approval. These are records of transactions and cannot be exchanged for cash or services.

Convertible to Services Only: Numbered items, convertible to services, not cash (i.e., government meal tickets, government travel requests.)

Directly Convertible to Cash: Negotiable items: (i.e., salary checks, checks received by the organization, imprest fund vouchers, etc.)

18. Adequacy of Reconciliations/Adjustments. Reconciliations are a validation of data between two or more sources of records. Reconciliations must be conducted on a regularly scheduled basis. While scheduling will vary depending on the items being reconciled (accounts receivable ledgers are usually reconciled with the control account monthly, while plant property and other tangible assets are often reconciled annually), a planned written implementation schedule must be maintained. Any adjustments to records should be made

promptly and only by individuals authorized to do so. Under the Management Control Program, reconciliation and adjustment procedures are not limited to financial transactions and should include processes such as ADP access lists or product inventories which should be reviewed consistently.

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19. Interval Since Most Recent Evaluation or Audit. The longer the interval between systematic operational reviews, the greater the likelihood that system or operational errors will go undetected. It is important, therefore, that all control systems undergo audits/reviews/ evaluations to detect errors and initiate improvements. Indicate in this block the length of time which has passed since the last audit or evaluation.
20. Recent Instance of Errors or Irregularities. Documented processing errors or irregularities due to mistakes or fraud are indications of either a lack of management controls or ineffectiveness of existing controls. Further, the speed with which these errors are corrected can be an indication of management commitment to minimizing opportunities for waste, fraud, abuse, and mismanagement. Consider in your evaluation completed Office of the Inspector General investigations and hotline complaints identified to management by the OIG. Review GAO and OIG audit reports for criticism by auditors as well as open audit recommendations and any nonconcurrence on them by management.
21. Adequacy of Reports. Consistently overdue, incomplete or inaccurate reports are a potentially serious control problem. The volume, distribution and criticality of reports should be considered in rating this element. Does management continually review the need for the reports? External factors, such as inadequate ADP support, poor quality/inconsistent input data, or resource shortages, which cause delays, should be identified and addressed in rating this factor.
22. Time Constraints. When deadlines due to reporting requirements, production schedules or production cycles are a significant factor, the potential for errors increase and expediency may cause shortcuts in procedures. Management must maintain contingency control plans for peak situations and routinely test them by reviewing past performance, monitoring error reports, observing work flow and tracking milestone dates.

PART 3. ASSESSMENT OF EXISTING SAFEGUARDS

PRELIMINARY ASSESSMENT OF SAFEGUARDS. Blocks 23-24 utilize the reviewer's experience and judgment to determine the adequacy of controls.

23. Assumed Effectiveness of Existing Controls. The reviewer's assessment is based on the adequacy of documentation, direct personal knowledge, and observation. The evaluation should include the work setting, physical security and safety, organizational structure, written procedures and delegations, budgeting, ADP support, reporting, and personnel practices. To ensure accuracy, the reviewer's assessment will be reviewed by the Primary Organization Head's Approving Official, and the ratings will be subject to verification testing by the Office of the Chief Financial Officer.
24. Overall Risk Assessment. A Risk Assessment is the initial review of a program, function, or activity. The Risk Assessment ranking is used to schedule a more detailed Management Control Review. To determine the overall Risk Assessment score for the program, function

or activity, add the assigned value for each ranking factor for a total score: the higher the score the greater the risk. If your assessment finds a potential material weakness or significantly deteriorating condition, it should be identified as part of the Early Warning Reporting.

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25. Comments. Comments on the form should be limited to specific references, which support the assessment score, such as relevant issuances, studies, or audits and where to locate them. More detailed comments should be attached to the worksheet. The extent of these comments may range from a few sentences for an uncomplicated program or function with low risk to a full page for a complicated program or function with a determination of high risk or early warning. The scope and complexity of the program will also impact on the extent of comments. Generally, comments should be limited to a brief discussion of sources used to develop the rating, any unusual aspects or circumstances which justify or clarify the rating, and any external factors which impact on the program, including issues which need to be brought to the attention of higher authorities. Any specific recommendations concerning the assessment should also be included in the comments section.
- 26-27. Risk assessment Conducted by/Approved by. Both blocks must be signed and dated. The Approving Official will be designated by the Primary Organization Head.