

## CHAPTER 8: FRONT-END RISK ASSESSMENT OF NEW OR SUBSTANTIALLY REVISED PROGRAMS OR ADMINISTRATIVE FUNCTIONS

8-1 **Purpose.** This chapter provides policy for the Front-End Risk Assessment (FERA) process. A Front End Risk Assessment is a formal, documented review by management to determine the susceptibility of a new or substantially revised program or administrative function to waste, fraud, abuse and mismanagement. Its purpose is to detect conditions that may adversely affect the achievement of program objectives and to provide reasonable assurance that the following goals will be met:

- safeguarding of assets;
- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations.

The policies and procedures described in this chapter are to be followed for new or substantially revised programs or administrative functions. They are not applicable to systems development or the design and implementation of systems, (which should follow the Federal Financial Management Improvement Act (FFMIA) of 1996; OMB Circular A-127, Financial Management Systems; Department of Commerce NIST guidance; HUD's System Development Life Cycle Methodology and related requirements).

As described in Chapter 2, risk assessment is an essential function of management. A FERA is a special type of risk assessment that is initiated before a new or substantially changed program or administrative function is implemented. It is a management tool to ensure that risks have been identified and a plan for mitigating these risks to an acceptable level is in place before implementation. The FERA also provides a framework for tracking the planned actions needed to reduce risk to a reasonable level.

8-2 **Policy.** The Secretary, Deputy Secretary, or Chief Financial Officer can designate any program, function, or activity in HUD for a FERA review. Assistant Secretaries or Primary Organization Heads (POH), as listed in Exhibit 1-1, are responsible for designating programs, administrative functions, or activities in their respective areas of responsibility for FERA review. Program managers should begin to evaluate the need for a FERA when they initiate or anticipate regulatory or budget action for new or substantially revised program activity.

A FERA must be conducted for:

- New programs or administrative functions with a funding level or costs over \$10 million. This program funding or cost level applies to the expected annual level related to the new program when fully implemented. A FERA is also required if the POH determines that a new program or administrative activity has significant potential risk of fraud, abuse, waste or mismanagement.
- Substantially revised programs or administrative functions with an increase or decrease in annual funding or costs of over \$10 million and a 5 percent change in the affected budget line item. A FERA is also required if the POH determines that a substantially revised program or administrative activity has significant potential risk of fraud, abuse, waste or mismanagement.

The following indicators should be considered when making the risk determination:

- high visibility;
- significant changes in program eligibility requirements;
- significant changes in the way program funds are delivered to participants;
- significant changes in authorization or benefit limits;
- significant changes in HUD staff functions or responsibilities.

Block 10 of Form HUD-22, the Departmental Clearance and Approval Record, or an equivalent electronic certification, must be completed for all clearances to serve as a record of the program office's determination about the need for a FERA. The program office documents whether (1) a FERA has been performed, (2) a FERA is underway or planned, or (3) a FERA is not needed for the new or revised rule, handbook, or other policy or procedural directive.

The main elements of a FERA are:

- Description of the program or function, details about program goals, and the performance measures that would allow for program evaluation.
- Explanation of how the program will operate, using flow charts and narrative descriptions of the event cycles (series of related steps that constitute distinct processes) in sufficient detail to allow for a meaningful assessment of internal control objectives.
- Evaluation of program risk using risk factors.
- Documentation of risk abatement strategy and controls planned for each event cycle.
- Description and scheduling of planned actions to develop needed controls to reduce risks to an acceptable level.
- Certification of the completion of the FERA process.

The required FERA documents are outlined in Section 8-4, D. To the extent practical, managers should build upon or adapt HUD's existing control environment for similar program activities to address the risks of the new or substantially revised program activity.

A FERA should be initiated when funding has been approved for a new or substantially revised program or administrative function, and the program or function has been defined sufficiently to allow meaningful risk analysis. However, even before funding is approved, or changes are authorized through new legislation, regulations, or other directives, managers must consider the internal control and funds control structures that will help to ensure that the intended results can be achieved. Risk assessment must be an ongoing, integral part of program development and should continue even after implementation. Establishment of controls is an essential part of any program design. The FERA provides the discipline and framework to ensure a systematic consideration of potential risks.

### **8-3 Roles and Responsibilities for Conducting a FERA**

- A. Assistant Secretary/Primary Organization Head (POH): The POH is responsible for ensuring that the FERA is performed and adequate internal controls for new and revised programs or administrative functions are planned and established. Specific requirements are:

1. Notify the Chief Financial Officer (CFO) of the intent to perform a FERA. See Section 8-4 A, below. The format for this notification can be found in Exhibit 8-1.
  2. Certify completion of the FERA and forward the certification with the documented FERA to the CFO for approval.
- B. Program Manager: Program managers are responsible for performing FERAs for new or substantially changed programs or administrative functions that fall within their area. Managers may be assisted by:
1. Internal Control Coordinator (formerly called Management Control Coordinator)
  2. CFO's Risk Management Division
  3. Internal staff and contractor support
- A FERA is the product of the program office and represents the program office's assessment of risks and necessary internal controls. This is so, regardless of whether the FERA is conducted entirely by internal program office staff or is conducted with contractor support.
- C. Internal Control Coordinator (ICC): The program office ICC is responsible for coordinating, scheduling, tracking, and reviewing the FERA documentation for quality and scope prior to submitting it to the CFO.
- D. Inspector General (IG): The Office of the IG may be consulted to provide technical assistance and guidance.
- E. Chief Financial Officer (CFO): The CFO must approve all FERAs. The Office of the CFO is responsible for ensuring that the policies described in Section 8-2, regarding when FERAs should be conducted on new or substantially revised programs and administrative functions, are being followed. The Risk Management Division of the Office of the CFO is available to provide technical assistance on the conduct of FERAs.

#### **8-4 Conducting a FERA: Procedures, Format and Forms**

- A. Notify the CFO of the intent to perform a FERA. Format for this notification is found in Exhibit 8-1. Program managers must initiate each new FERA by scheduling a "FERA Planning Session" with the program office's Internal Control Coordinator and a member of the Risk Management Division in the Office of the CFO to obtain advice and assistance in planning for an efficient and effective FERA. Notification should include a brief explanation of program description, funding, objectives and performance measures. When signed by the POH and submitted to the CFO, this will satisfy the requirement that the POH notify the CFO of new FERAs.
- B. Regularly consult with CFO's Risk Management staff during the course of the review. Risk Management staff will meet periodically with the program office and will review FERA documents and provide constructive input to program management during the development of the first draft product(s).
- C. Submit status reports. A status report format is provided in Exhibit 8-6. Status reports from the program office are due to the CFO on the first workday of each month and should include the following information about FERA activities:
1. Responsible Organization
  2. Subject Program or Activity

3. Lead Action Official
  4. Date the FERA was started
  5. Latest Milestone completed:
    - a. FERA Planning Session (see §8-4A),
    - b. Narrative description (see §8-5),
    - c. Assessment of program risk (see §8-6),
    - d. Control objectives and techniques by event cycles and activities (see §8-7),
    - e. Identification of planned actions (see §8-8),
    - f. If FERA was done with contractor support, date of contractor's report;
    - g. POH approval and submission of FERA to OCFO (see §8-9),
    - h. CFO approval,
    - i. Completion of planned actions
  6. Status/comment: additional information about the progress of the FERA.
- D. Complete FERA documents: The CFO's Risk Management staff will be involved in reviewing draft documents as the FERA is being performed. Upon completion of the FERA, the program office will submit the following documents to the CFO:
1. **Coversheet** - Memorandum conveying the FERA from POH to CFO
  2. **Table of Contents**
  3. **Executive Summary** including an overall assessment of risk as high, medium or low for each of the major risk factors and identification of any deficiencies requiring development of additional controls. This summary should concisely identify the risks associated with the new or revised program or administrative function. (*Section 8-9 provides detailed instructions.*)
  4. **Narrative program description** including information about the business processes that will be employed to carry out the program or administrative function. (*See Section 8-5 for detailed instructions.*)
  5. **Narrative description of program risk factors**: (*Section 8-6 provides detailed instructions.*)
  6. **Exhibit 8-2: Summary of Program Risk**: (*Section 8-6 provides instructions for completing the exhibit, which should be done in conjunction with the narrative above.*)
  7. **Exhibit 8-3: Control Objectives and Control Techniques by Event Cycle and Activity**: Assessment of risk and controls classified by activities under business event cycles. (*Section 8-7 provides instructions for completing this assessment and exhibit.*)
  8. **Exhibit 8-4: Schedule of Planned Actions**: (*Section 8-8 provides instructions for developing a consolidated list of actions needed to improve internal controls.*)
  9. **Exhibit 8-5: Certification of Completion by POH**: Exhibit 8-5 shall be used to certify that the program office completed the FERA and that, with reasonable certainty, the program risks have been identified and controls have been or will be put in place to manage these risks. The Assistant Secretary must sign this certification.
- E. CFO reviews FERA. The CFO will review the final FERA document and will notify the POH, via memorandum, of its conclusions. If satisfied that all requirements have been met, the FERA will be approved. If the CFO finds that the FERA document does not satisfactorily verify that risks have been identified and planned for, the document will be returned for further analysis and revision.

- F. Follow up on planned actions. The consolidated list of actions needed to improve internal controls is submitted with the FERA as the “Schedule of Planned Actions”, (Exhibit 8-4) Any actions scheduled for completion during a particular month should be included in the monthly FERA status report, (Exhibit 8-6). Any delays or changes should be noted on an updated Exhibit 8-4.
- G. Close or Cancel FERA. A FERA will be considered closed when all planned actions have been completed, the program or administrative function has been implemented (or canceled) and the CFO has been notified. If the program office cancels a FERA that had been underway, the CFO should be notified immediately of the reason for cancelling.
- H. Revise FERA as a result of changes in program or administrative function. The POH will be responsible for ensuring that an approved FERA is re-examined when events occur which potentially impact a program’s risks or planned internal control techniques. These may be changes in funding or staffing levels, administrative practices, etc.

If any proposed change serves to increase the level of risk, the POH must revise the FERA and identify the control techniques to address new or increased risks. If it is unreasonable to mitigate the risk or it is not cost beneficial to do so, this matter must be brought to the attention of senior Departmental management, through the CFO, for review and approval.

- I. Monitor program. Programs should be regularly monitored and evaluated, using measurable performance goals. See Ch. 3 of this handbook for more information about evaluating internal controls using Internal Control Reviews. A key difference between a FERA and an Internal Control Review (ICR) is that the ICR includes testing, verifying and documenting that internal controls work. FERAs are performed on new programs; testing of controls is not part of the review. ICRs are performed after the program has been implemented.

8-5 **Program description.** A narrative description of the new or substantially revised program or administrative function is required. It should include background useful to understanding the basis for the program, including:

- A. Legal basis, including any relevant citations of statute and regulations;
- B. Funding source;
- C. Program objectives; as stated in relevant enabling legislation and legislative history, regulations, statements of mission, budget materials, etc.
- D. Measurable outcomes that can be used for program evaluation;
- E. Flow charts to graphically depict the major tasks and activities in the new function and how they are linked; and
- F. Process maps of the event cycles, which are the series of related steps that constitute distinct and separate processes and activities in the new or revised program or administrative function.

8-6 **Assessment of Program Risk.** To ensure that a thorough risk analysis is performed, it is necessary to look at risk from several perspectives. The FERA process calls for both a “top-down approach”, using a set of major risk factors to evaluate the program or

administrative function as a whole and a business process approach, evaluating control objectives and control techniques for each major step in each event cycle of the program or function.

The “top-down” approach to assessing risk calls for looking at the new or substantially revised program or administrative function from the perspective of potential sources of risk, identified here as risk factors, listed in C below. Each risk factor will be discussed in narrative form as explained in Section 8-6(A). The intent is to determine if the objectives of the program will be met without fraud, waste, abuse or mismanagement. This may require examination of some factors from various organizational levels, including outside partners who are carrying out parts of the program. Evaluation of each risk factor will then be summarized and scored in **Exhibit 8-2**, FERA - Summary of Program Risk, as explained in Section 8-6(B).

- A. Evaluate program risk addressing each of the factors listed in Section 8-6(C) and any others that apply, providing a narrative for each with sufficient detail to justify conclusions. Include responses to the sub-categories and questions for each factor in the narrative. For each factor:
  - 1. Identify risks.
  - 2. Analyze the possible effects of risk.
  - 3. Estimate the risk’s significance--risks should be ranked on a scale that captures their importance, severity, or dollar amount.
  - 4. Assess the likelihood of its occurrence--risks should be ranked on a scale of frequency or probability.
  - 5. Explain how the risk will be managed (controlled).
  - 6. Identify actions to be taken.
  
- B. Summarize the risk level for each major category on the FERA Summary of Program Risk, Exhibit 8-2. Risks that are rated as unacceptable must include planned mitigating actions.

C. Risk Factors:

**1. Legislative Language / scope of written authority**

It is necessary to determine whether there is a potential for risk simply because of the way the statutory or regulatory authority is worded. In making this determination, consider the following:

- a. Are legislative authority or regulations broad or vague?
- b. Are there any legislative barriers that present problems?
- c. Is the legislative intent clear?
- d. Is the legislation inconsistent with other legislative directives?
- e. Are specific activities defined and/or described in the legislation?
- f. Are the outcomes of the program or function clearly defined?
- g. In the absence of clear directions in the legislation or regulations, are there other Departmental issuances that do provide clear direction – e.g., notices, letters, published opinions, website content?
- h. Other

**2. Program objectives and Performance Measures**

Using the performance objectives and performance measures defined in the program description section; determine if goals are achievable and measurable. The following questions should be addressed since they often tend to contribute to fraud, waste, and abuse:

- a. Are the goals or mission too broad or vague?
- b. Are the objectives clearly stated?
- c. Are the objectives measurable?
- d. Are the objectives obtainable?
- e. Are the objectives consistent and do they reinforce one another?
- f. Are there competing priorities that may result in conflicts?
- g. Are time frames realistic?
- h. In addition to program objectives, are Department-wide policy objectives incorporated clearly in performance objectives and measures as well as cross-cutting regulatory requirements?
- i. Other

**3. Program structure**

How the program is structured is an important factor in assessing potential weaknesses in a new or substantially revised program or administrative function. In determining whether the program structure is satisfactory, it is essential to consider the following:

- a. Are program activities well defined?
- b. Will the program or function activities lead to stated objectives?
- c. Are the approaches to be employed proven or accepted?
- d. Is there a high degree of complexity?
- e. Are there third party beneficiaries?
- f. Do activities involve the payment of entitlement or competitive funds?
- g. Do activities involve the handling of significant cash receipts?
- h. Do activities involve approval of applications, granting of authority, certifications, issuance of licenses or permits, inspections, or enforcement?
- i. Are there program features that guard against the participation by debarred or suspended organizations or individuals?
- j. Other

**4. Organizational structure**

Determining if the organizational structure is satisfactory is also necessary when measuring potential weaknesses. A proposed organization chart should be included in the evaluation of this factor. In analyzing this factor, one should consider the following:

- a. Are both accountability and responsibility clearly assigned and commensurate with the organizational level?
- b. Are the lines of authority and reporting responsibilities clearly defined?
- c. Are activities duplicated?
- d. Are there gaps in responsibility for program or function oversight?
- e. Is procurement assistance involved?  
Some programs or administrative functions may utilize contractors. The involvement of contractors allows for a higher susceptibility to waste, loss, unauthorized use, or mismanagement. Therefore, it is important in this analysis

to determine whether the program or administrative function will involve procurement assistance.

f. Other

**5. Program Administration**

- a. Is the program or function administered by participants, such as recipients of Federal funding or financial assistance?
- b. Is it managed and controlled on a day-to-day basis by a non-Federal organization? Programs supported by grants, contracts, or loans would fall into this category.
- c. Is the program decentralized?
  - 1) There is a greater risk of error when several HUD Assistant Secretaries/Offices or outside organizations are involved in carrying out the processes of the program or function.
  - 2) If program or function is centralized, is the degree of centralization appropriate for the activity being conducted?

**6. Coverage by written procedures**

- a. Are there written procedures?
- b. Are written procedures comprehensive?
- c. Do written procedures provide current specific guidance with little or no discretion or do they allow for significant discretion?
- d. Are written procedures vague or incomplete?

**7. Personnel adequacy**

The competence, integrity and commitment of adequate staff to a program or administrative function are essential. In measuring the adequacy of the personnel to determine if it is satisfactory, the following should be asked:

- a. Are adequate numbers of staff available?
- b. If not, how will the program or function be staffed?
- c. What is the impact if they are being transferred from an existing program or function?
- d. Are the competency levels of the staff adequate for the tasks to be performed?
- e. Have the training needs been assessed?
- f. Have plans been made to make the training available as needed?
- g. Is supervision adequate for the number and skills of the organization's personnel?
- h. Is there adequate monitoring capability for overseeing contracted out functions, if applicable?
- i. Do managers possess the experience and knowledge necessary to effectively manage the program or change?
- j. Other

**8. Systems/ IT Considerations**

When utilized, several aspects relating to IT systems should be assessed to determine if this is an area for potential weakness in the program's or administrative function's implementation and operation. Questions to be considered are as follows:

- a. Have information requirements and system needs been defined?

- b. Is the present systems' capability adequate?
- c. Is there a systems development/implementation schedule in place?
- d. Has funding for system related purchases been secured?
- e. Have qualified vendors been procured?
- f. Are security measures in place to limit system access to authorized personnel?
- g. Will system data be useful, timely and accurate?
- h. Other

**9. Funding and Funds Control Plan**

A major factor to be assessed in this phase of the FERA process is the adequacy of the appropriation and verification of an acceptable plan for funds control for the program or administrative function. The following questions should be considered to determine if this factor is satisfactory:

- a. Have funding resource requirements been identified for all program and administrative costs, including IT systems costs?
- b. Has the adequacy of funding resources been assessed?
- c. Are contingency plans available for meeting any shortfalls?
- d. Have levels of expectation for various resource levels been defined?
- e. Has a funds control plan been prepared or updated and submitted for approval to the CFO in accordance with HUD Handbook 1830.2 REV-5?
- f. Other

**10. Management Attitude and Responsiveness as Related to Internal Controls**

In determining whether this factor is satisfactory, it is necessary to answer the following questions:

- a. Are all participants aware of the importance of internal controls?
- b. Have managers, through their actions, conveyed the need for and support of internal controls to employees?
- c. Is there a tracking mechanism in place to monitor controls?
- d. How complex are the coordination procedures?
- e. Other

**11. Delegation and communication of authority and responsibility**

In assessing the new or substantially revised program or administrative function, it is important to determine whether, as planned, the delegation and communication of authority and responsibility are satisfactory.

- a. How is authority for managing this program or administrative function delegated?
- b. Do the delegations of authority clearly outline duties, authority and responsibilities?
- c. Do delegations of authority prevent overlapping, duplication, and conflicts of duties/authority/responsibilities?
- d. Do delegations grant sufficient authority to perform the necessary program activities?
- e. Are there sufficient delegations of authority, inter-office protocols, or other written directions on coordinating the program office with other offices to enforce Departmental requirements?
- e. Other

**12. Organizational checks and balances**

It is necessary to determine whether the organizational checks and balances are satisfactory as planned. Does the program or administrative function adequately include the establishment of an appropriate level of financial and other internal controls and internal auditing?

- a. Will program or activity reviews be made at reasonable intervals?
- b. Will review recommendations be implemented in a timely fashion?
- c. Has a Quality Assurance Plan been created, if needed?
- d. Have procedures been written to ensure that transactions are recorded correctly and in a manner that minimizes the likelihood of fraud?
- e. Is there a clearly defined separation of authority (segregation of duties) to authorize transactions from the responsibility to control and account for transactions?
- f. Other

**13. Documentation**

- a. Is the program structure well documented?
- b. Are system requirements well documented?
- c. Are procedures in place to accurately document program outputs and outcomes, to establish program goals and to hold executives, managers, staff and business partners accountable for these goals?
- d. Are procedures in place to document monitoring activities?

**14. Monitoring**

- a. Will procedures be in place to monitor program activities?
- b. Will data mining techniques be used?
- c. Will risk targeted monitoring be used?
- d. How will monitoring be coordinated between the program office and the other offices responsible for compliance with regulatory requirements?

**15. Special concerns or impacts**

Often, the existence of special concern for an activity may indicate that for some reason it is highly susceptible to waste, loss, unauthorized use, or misappropriation, and should be treated as such. Therefore, consideration should be given as to whether the program or administrative function has been the focus of the following types of special attention:

- a. Special interest exhibited by the President, Congress, OMB, or the Secretary.
- b. Deadlines imposed by legislation.
- c. Media attention.
- d. Litigation.
- e. Prior reviews

Any prior reviews, of this program or administrative function or any similar or related program or function, should be analyzed for indications as to whether the program or administrative function has previously been subject to losses due to waste, fraud, abuse, or mismanagement. The amounts of estimated losses, if any, and the period covered by the prior review also should be considered. Programs or functions with minimal audit coverage or with significant and repeated

findings should be considered more susceptible to waste, fraud, abuse, or mismanagement. Sources of prior reviews may be OIG or GAO audits, or risk management control reviews, etc.

- f. Other

**16. Other**

Any other factors that are relevant to risk assessment for the subject program or administrative function should be listed and evaluated.

**8-7 Control Objectives and Control Techniques by Event Cycles and Activities:**

As stated above in section 8-6, another way of looking at program risk is to evaluate the control objectives and control techniques for each step in each business process. Using the event cycles identified in the narrative description of how the proposed program or administrative function will operate, **Exhibit 8-3** should document the potential risks and controls for each step in the process. The major event cycles should be broken down into the significant activities involved in each. For each of these activities, consider what could go wrong. For each risk (what could go wrong), define a control objective or an explanation of what has to go right. Then, list the control techniques that are in place or planned to ensure that each control objective will be met. This exercise will make it easier to recognize any gaps in controls and will help to mitigate any risks that management is unwilling to assume. It will provide a comprehensive record of the controls in place and controls planned and will help safeguard an activity from loss.

- A. Control Objectives - List each risk identified and develop a specific goal that provides reasonable assurance of adequate control. Control objectives for each risk must be brief, measurable and defined within the parameters of the management control standards specified for government programs and administrative activities by the Comptroller General of the United States.
- B. Control Techniques - For each control objective identified, list the control technique(s) that will be used to ensure that the objective is met. Examples of types of control techniques include:
  - 1. Documentation – Written procedures, organizational charts, etc.
  - 2. Records – progress reports, cash receipts, inventories, transaction ledgers, etc.
  - 3. Procedures -- separation of duties, system edits and checks.
  - 4. Authorization -- proper level of approval, required signatures, etc.

**8-8 Develop Consolidated List of Planned Actions.** The completion of the previously discussed Exhibits 8-2 and 8-3 permits the reviewers to make a determination of a component's susceptibility to waste, fraud, abuse, and mismanagement.

In **Exhibit 8-4**, record the planned actions, identified in Exhibits 8-2 and 8-3, that are needed to achieve the necessary controls. This exhibit will include the target date for completion of the planned action and the action official. It will be submitted with the initial FERA and will also be used to report monthly on the status of each planned action after the FERA has been approved. The Risk Management Division will use this Exhibit to verify the progress and completion of all planned actions.

8-9 **Executive Summary:** Upon completion of the narrative and Exhibits (8-2 through 8-5), the Assistant Secretary shall prepare an executive summary. It should be brief and concise, yet comprehensive enough to inform the CFO of the risks and risk mitigation actions associated with this new or substantially revised program or administrative function. It should contain the following components:

- A. A brief description, including the legislative authority, mission, goals and objectives of the program or administrative function reviewed.
- B. A succinct overview and highlights of the results of the analysis performed during the FERA process for the following:
  - 1. Legislative Language/Scope of Written Authority
  - 2. Program Objectives and Performance Measures
  - 3. Program Structure
  - 4. Organizational Structure
  - 5. Program Administration
  - 6. Coverage by Written Procedures
  - 7. Personnel Adequacy
  - 8. Systems/IT considerations
  - 9. Funding/Funds Control Plan
  - 10. Management Support
  - 11. Delegation and Communication of authority and responsibility
  - 12. Organizational Checks and Balances
  - 13. Documentation
  - 14. Monitoring
  - 15. Special concerns or impacts

At a minimum, the information provided above should state whether each factor is adequate or whether additional actions are planned to address the inadequacy, including the resources and time required to implement the actions.

- C. An overall rating of HIGH, MEDIUM, or LOW regarding its susceptibility to waste, fraud, abuse and mismanagement is required. In making this overall rating, the following criteria should be considered:
  - 1. High Risk - Does the program/or function have the potential for significant control weakness, large dollar volume, high media exposure, or strong Congressional interest, that will require major revisions and/or resource commitments?
  - 2. Medium Risk - Does the program/or function have known problems in areas where internal controls are not sufficient, but can be corrected without major revisions and/or resource commitments?
  - 3. Low Risk - Does the program or function have internal controls built in that are effective and efficient? Minor problems may have been identified, but they can be corrected with minimum resource commitments.

As certified by Exhibit 8-5, a copy of all exhibits/documentation supporting the FERA should be maintained in the office of the program manager responsible for performing the FERA. This documentation must be available for review by the CFO upon request. The Office of the Chief Financial Officer will monitor and track the planned actions identified on Exhibit 8-4 to ensure that they are achieved in a timely manner.

**Exhibits:**

- 8-1: Notification of Initiation of Front End Risk Assessment
- 8-2: FERA – Summary of Program Risk
- 8-3: FERA – Event Cycle Risk Assessment
- 8-4: FERA – Schedule of Planned Activities
- 8-5: FERA Certification of Completion
- 8-6: Monthly Status Report: FERAs in Process and MCR/AMCRs in Process

**Exhibit 8-1**

**NOTIFICATION OF INITIATION OF FRONT END RISK ASSESSMENT**

**Program Office:** \_\_\_\_\_

**Program/Administrative Function or Change:** \_\_\_\_\_

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**I. Description of New or Revised Program/Administrative Function:**

**II. Funding**

**II. Program Objectives:**

**III. Performance Measures:**

**IV. Proposed FERA Planning Session Date:** \_\_\_\_\_  
(A representative from OCFO-Risk Management must be present at the session)

**V. Expected Completion Date:** \_\_\_\_\_

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**Program Manager:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Primary Organization Head:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**FERA -- SUMMARY OF PROGRAM RISK**

Program Office: \_\_\_\_\_

Program/Administrative Function or Change: \_\_\_\_\_

| RISK FACTORS<br>(Sources or Contributors to Risk)  | RISK RATING<br>(Based on probability and impact)<br>0 or NA = None<br>1 = Low<br>2 = Medium<br>3 = High | SATISFACTORY<br>(Low risk or risk mitigated) |    | PLANNED ACTIONS<br>(Must be completed for unmitigated high or medium risks.) |
|--|---|--|----|--|
|  |   | YES  | NO |  |
| 1. Legislative Language/Scope of Written Authority |   |  |    |  |
| 2. Program Objectives and Performance Measures     |   |  |    |  |
| 3. Program Structure                               |   |  |    |  |
| 4. Organizational Structure                        |   |  |    |  |
| 5. Program Administration                          |   |  |    |  |
| 6. Coverage by Written Procedures                  |   |  |    |  |

| <b>RISK FACTORS</b><br>(Sources or Contributors to Risk)                               | <b>RISK RATING</b><br>(Based on probability and impact)<br>0 or NA = None<br>1 = Low<br>2 = Medium<br>3 = High | <b>SATISFACTORY</b><br>(Low risk or risk mitigated) |    | <b>PLANNED ACTIONS</b><br>(Must be completed for unmitigated high or medium risks.) |
|--|--|---|----|---|
|  |  | YES   | NO |   |
| <b>7. Personnel Adequacy</b>   |  |   |    |   |
| <b>8. Systems/IT Considerations</b>  |  |   |    |   |
| <b>9. Funding/ Funds Control Plan</b>  |  |   |    |   |
| <b>10. Management Attitude and Responsiveness As It Relates To Management Controls</b> |  |   |    |   |
| <b>11. Delegation and Communication of Authority and Responsibility</b>                |  |   |    |   |
| <b>12. Organizational Checks and Balances</b>  |  |   |    |   |
| <b>13. Documentation</b>   |  |   |    |   |
| <b>14. Monitoring</b>  |  |   |    |   |
| <b>15. Special concerns or impacts</b>   |  |   |    |   |
| Other (list):  |  |   |    |   |

Note: All planned actions identified in this table will be entered on Exhibit 4 - FERA - -Summary of Planned Actions.

**Overall Assessment:**

Prepared by: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_

Date: \_\_\_\_\_

**CONTROL OBJECTIVES AND CONTROL TECHNIQUES BY EVENT CYCLE AND ACTIVITY**

Program Office: \_\_\_\_\_

Program/Administrative Function or Change: \_\_\_\_\_

| Event Cycles and Activity | Risk | Risk Rating<br>0 = None<br>1 = Low<br>2 = Medium<br>3 = High<br>NA = Not App. | Control Objective | *Control Technique | In Place/<br>Sat. |    |
|---------------------------|------|---|-------------------|--------------------|-------------------|----|
|                           |      |   |                   |                    | Yes               | No |
|                           |      |   |                   |                    |                   |    |
|                           |      |   |                   |                    |                   |    |
|                           |      |   |                   |                    |                   |    |
|                           |      |   |                   |                    |                   |    |

\*All control techniques not yet in place ( evaluated as being a “No” under the “In Place/Satisfactory” column) are considered planned actions and must be entered on the Exhibit 4 - FERA-Summary of Planned Actions

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

**FERA -- SCHEDULE OF PLANNED ACTIONS**

Program Office: \_\_\_\_\_

Program/Administrative Function or Change: \_\_\_\_\_

| <b>*Planned Actions<br/>(Control Techniques Not Yet In Place)</b> | <b>Status</b> | <b>Action Official</b> | <b>Target Date</b> |
|---|---------------|------------------------|--------------------|
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |
|   |               |                        |                    |

\*The Reference Number and Planned Actions are taken from Exhibits 8-2 and 8-3 and consolidated on this exhibit.

**Exhibit 8-5**

**THE FRONT-END RISK ASSESSMENT PROCESS (FERA) CERTIFICATE OF COMPLETION**

Program / Administrative Function or Change:

\_\_\_\_\_

Program Office: \_\_\_\_\_

This is to certify that I have identified, evaluated, and documented with reasonable certainty those risks for which I am responsible and that adequate controls have been or will be put in place to successfully manage those risks. I have prepared a written FERA for the above-identified program or administrative function/change in accordance with Chapter 8 of HUD's Departmental Management Control Handbook. Furthermore, I understand that the FERA will be the internal control plan for the program/change activity during its implementation and it is my responsibility to update it as needed. A copy of the FERA with supporting exhibits and other schedules as appropriate will be provided to the Office of the Chief Financial Officer.

Program Manager: \_\_\_\_\_ Date: \_\_\_\_\_

=====

**APPROVED BY:**

Program Office DAS: \_\_\_\_\_ Date: \_\_\_\_\_

Assistant Secretary: \_\_\_\_\_ Date: \_\_\_\_\_

**MONTHLY STATUS REPORT**

**Exhibit 8-6**

**FRONT-END RISK ASSESSMENTS IN PROCESS AS OF \_\_\_\_\_**

| ORGANIZATION | PROGRAM/<br>ACTIVITY | ACTION<br>OFFICIAL | DATE<br>STARTED | TARGET<br>COMPLETION<br>DATE | LATEST MILESTONE* | STATUS/COMMENTS |
|--------------|----------------------|--------------------|-----------------|------------------------------|-------------------|-----------------|
|              |                      |                    |                 |                              |                   |                 |
|              |                      |                    |                 |                              |                   |                 |
|              |                      |                    |                 |                              |                   |                 |

\*Milestones are described in HUD Handbook 1840.1, Ch. 8: (a) FERA Planning Session (see §8-4A), (b) Narrative description (see §8-5), (c) Assessment of program risk (see §8-6), (d) Control objectives and techniques by event cycles and activities (see §8-7), (e) Identification of planned actions (see §8-8), (f) If FERA was done with contractor support, final report from contractor; (g) POH approval and submission of FERA to CFO (see §8-9), (h) CFO approval, (i) Completion of planned actions

**MCR/AMCRs IN PROCESS AS OF \_\_\_\_\_**

| ORGANIZATION | PROGRAM/<br>ACTIVITY | ACTION<br>OFFICIAL | DATE<br>STARTED | TARGET<br>COMPLETION<br>DATE | LATEST<br>MILESTONE* | STATUS/COMMENTS |
|--------------|----------------------|--------------------|-----------------|------------------------------|----------------------|-----------------|
|              |                      |                    |                 |                              |                      |                 |
|              |                      |                    |                 |                              |                      |                 |
|              |                      |                    |                 |                              |                      |                 |
|              |                      |                    |                 |                              |                      |                 |

\*Milestones consist of (a) MCR/AMCR planning session; (b) Testing of controls; (c) Draft report; (d) Final report.