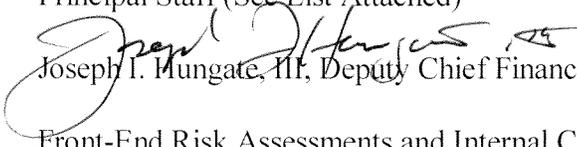




U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

OCT 15 2015

MEMORANDUM FOR: Principal Staff (See List Attached)
FROM: 
Joseph I. Mungate, III, Deputy Chief Financial Officer, F
SUBJECT: Front-End Risk Assessments and Internal Control Reviews
Related to New or Substantially Revised Program Activities

The U.S. Department of Housing and Urban Development's (HUD) management is required to be good fiscal stewards of taxpayer dollars as it fulfills its mission and achieves its goals and objectives. HUD constituents and other levels of government rely on us to execute our responsibilities in an efficient and effective manner consistent with laws and regulations, and to safeguard the assets entrusted to us. Establishing a strong framework of internal controls is a key element in ensuring accountability and maintaining taxpayer confidence.

The performance of a Front End Risk Assessment (FERA) is an essential component of HUD's Internal Control Program under the Federal Managers Financial Integrity Act (FMFIA). A FERA is a formal, documented review of a new or substantially revised program or administrative function conducted to determine the susceptibility to fraud, waste, abuse or mismanagement. Its purpose is to identify conditions that may adversely affect achievement of program objectives and/or performance goals. Additionally, it provides management with reasonable assurance that HUD's assets are appropriately safeguarded and programs are operating efficiently and effectively in compliance with applicable laws and regulations. It is critical that the FERA process be performed to achieve meaningful and useful results and not be regarded as a paper exercise.

The OIG audit report 2015-FO-0002, issued December 8, 2014 found that Front End Risk Assessments were not completed in a timely manner, resulting in some program areas not consistently fulfilling the requirement outlined in Chapter 8 of HUD Handbook 1840.1 Rev. 4 (Handbook) which requires Front End Risk Assessments. In light of actual and potential budget reductions, we must be diligent in our actions to be good fiscal stewards of HUD funds. This memo is intended to remind HUD's program and support offices of the requirement to perform FERAs as outlined in the Handbook.

A FERA must be performed on any: (1) new program or administrative function with a funding level or costs over \$10 million (the program funding or cost level applies to the expected annual level related to the new program when fully implemented); (2) substantially revised programs or administrative functions with an increase or decrease in annual funding costs of over \$10 million and 5 percent change in budget line item. Beginning Fiscal Year (FY) 2016, FERA's must be performed on all functions that meet the aforementioned requirements ***within eight months from the time the apportionment is first made available***. Irrespective of these requirements, the FERA concept should be applied to any significant program changes as a matter of sound management and business practices. In the event the aforementioned requirements are not met within the prescribed time frames, the OCFO typically issues monthly status reports to the General

Deputy Assistant Secretary (GDAS) as an escalation mechanism to notify senior management.

As a part of HUD's leadership, you are required to ensure that FERAs are performed on applicable programs by notifying the Office of the Chief Financial Officer (OCFO) of your intent to perform a FERA, through the use of Handbook Exhibit 8-1, certify and forward the completed FERA document to the OCFO for review and approval, and to follow-up and complete all planned actions in the FERA. The FERA process helps ensure that appropriate risks are taken by choice, not by chance and are accepted by management as necessary to accomplish programmatic goals within available resource levels. It is incumbent upon HUD's managers to be proactive rather than reactive in establishing adequate internal controls in our programs.

As HUD's program managers we must continue to strive to achieve the agency's missions and goals and provide accountability for operations. An evaluation of your program or administrative function's internal control structure should be performed continuously to assure that it is well designed and operating effectively, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the program or administrative function are being achieved. Specifically, HUD managers need to continuously examine the internal controls of existing programs to determine how well they are performing, how they may be improved, and the degree to which they help identify and address major risks for fraud, waste, abuse, or mismanagement. This examination is done by the performance of Internal Control Reviews (ICR), also known as Management Control Reviews. ***ICRs must be completed on major programs every three to five years depending upon your risk assessment. Additionally, you are required to complete a risk assessment of your major programs annually.***

Internal control is a process effected by any entity's oversight body, management, and other personnel that provides reasonable assurance the objective of an entity will be achieved. In FY 2014, The Government Accountability Office (GAO) issued revised "Standards for Internal Control in the Federal Government" GAO-14-704G (Green Book). The Green Book list five components: 1) Control Environment; 2) Risk Assessment; 3) Control Activities; 4) Information and Communication; and 5) Monitoring; along with 17 principles that support the effective design, implementation, and operation of the associated components; and represent requirements necessary to establish an effective internal control system (see attachment). This guidance sets the internal control standards for Federal Entities, and is effective beginning in FY 2016.

HUD's leadership must continue to be effective stewards of HUD's resources. To accomplish this OCFO's representatives will provide technical guidance and assistance using Chapter 8 of the Handbook throughout the performance of a FERA. If your organization received funding in FY 2015 and expects funding in FY 2016 that meets the requirements outlined in this memo, please notify OCFO by **November 2, 2015** by completing and forwarding the "Notification of Initiation of Front End Risk Assessment Memo (Exhibit 8-1)" to the Office of the Chief Financial Officer's Risk Management Division.

Your cooperation and commitment to this process is necessary to ensure that HUD maintains a strong internal control environment. If you have any questions pertaining to this memorandum, please contact Wyneé Watts-Mitchell, Acting Deputy Assistant Chief Financial Officer for Financial Management on 402-3893.

Attachment

ADDRESSEES:

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Seventeen Principle Requirements of the GAO Green Book

Control Environment:

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment:

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities:

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information and Communication:

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring:

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.