MASTERING RISK

WAYS TO ADVANCE ENTERPRISE RISK MANAGEMENT ACROSS GOVERNMENT

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PARTNERSHIP FOR PUBLIC SERVICE

Deloitte.

INTRODUCTION

The federal government is no stranger to risk. The COVID-19 pandemic has reminded citizens of the immense scale and responsibilities of government and made evident the complex array of risks that government agencies face. Each day, federal agencies confront risks that threaten programs, operations and the overall success of their missions, and do so in an ever-changing landscape.

The federal government has moved to enterprise risk management, an effective practice used widely in the private sector, to address these risks. ERM helps agencies identify, prioritize and respond to the risks they face in a manner that can improve decision-making and program outcomes in the face of uncertainty.

Since the 2016 revision to Office of Management and Budget Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," agencies have made significant progress in establishing ERM programs to create a comprehensive view of risks to their organization and manage them to an acceptable level. ERM acts as a window into an agency's exposure to risks that impact its mission, strategic goals and objectives, and operations.

It can enable decision-makers to anticipate and address crises ranging from program failures to responses to national emergencies. ERM's look at potential risks can help strengthen an agency's preparedness for crises and increases resilience to risk following a crisis by continually identifying opportunities to be more effective in the future.

Since 2015, the Partnership for Public Service and Deloitte have convened chief risk officers, inspectors general, agency leaders and other ERM stakeholders several times a year to assist them in developing mature and effective ERM programs that get woven into the culture and fabric of the organization. As part of this collaboration, we held working sessions to explore current progress and achievements in federal ERM and identify leading practices for making ERM an integral part of agency management.

Particularly important to our collaboration has been the effort to harness the relevance of ERM to help agencies deal with key risks and crises. Through panel discussions, interviews and focus groups, we gathered leading practices and lessons learned from agencies that successfully used ERM to improve their decision-making processes and operations.

This issue brief explores the groundwork agencies laid in response to the requirements of the OMB circular and to maximize the value of ERM for effective agency management. The brief highlights some of the programs that have been successful at advancing federal ERM and provides examples from ERM specialists across the government. These programs have gained momentum by securing buy-in from agency leadership, articulating how much risk their agency is willing to take on and integrating ERM with management functions and core programs.

The brief also lists steps leaders can consider to support greater maturity of ERM programs in their agencies.

BACKGROUND

Federal enterprise risk management traces its roots back to government legislative requirements to report on agency risks, oversight reports such as the Government Accountability Office High Risk List, leading practices from the private sector, international governments and other influences.

The Office of Management and Budget published formal guidance for federal ERM programs in the July 2016 revision of Circular A-123, its policy on internal controls, to provide a management framework for agency leaders on ERM concepts, governance and implementation. The revised guidance introduced an enterprise approach to risk management when it was common for agency leaders to consider risk in silos and express limited tolerance for risk. "Thinking about risk is not about preventing all risk," said Margaret Weichert, OMB's former deputy director for management and a panelist at one of our workshops. "It's about understanding risk and getting everyone involved as part of the line of defense. ERM helps us start thinking differently about risk overall and that we cannot avoid it."

The new requirements encourage agencies to outline a deliberate process for identifying, analyzing and responding to risk in the form of an ERM implementation approach, governance structure and risk profile, a prioritized inventory of an organization's most significant risks.[1] They also position agencies to think in terms of preparedness for catastrophic events and invest in taking risk-based approaches.

The revised circular has enabled agencies to take crucial steps in applying ERM fundamentals consistently across government. After building a foundation in enterprise risk management over the past four years, agencies are ready to manage risk proactively and drive value to their organizations.

Recent evidence of continued momentum includes OMB's newly launched ERM executive steering committee, intended to help federal agencies gain a better understanding of the ERM tools available to enhance their operations. In addition, agencies' inspectors general are increasingly starting ERM programs in their own offices. And, in January 2020, the Council of the Inspectors General on Integrity and Efficiency issued a guide of leading oversight practices on auditing or evaluating ERM programs, called "The Inspectors General Guide to Assessing Enterprise Risk Management."

By evaluating ERM programs and making recommendations for improvement, the IG community's effort could advance ERM maturity through the application of leading practices and lessons learned.

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1   See Appendix II for complete glossary.

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Margaret Weichert
Former Deputy Director for Management
Office of Management and Budget

CURRENT STATE OF ENTERPRISE RISK MANAGEMENT

The Office of Management and Budget's government-wide guidance offers a framework for federal leaders as they implement risk management within their organizations, while allowing the flexibility to tailor enterprise risk management to their agencies' needs. Many agencies across government now have procedures for ERM and established governance and risk profiles that outline their top risks. "We had real success with our agency head and every business unit leader coming together in a workshop to finalize our risk profile, which gave us a common view of the top risks we face," said Jason Bruno, acting deputy special trustee for program management at the Office of the Special Trustee for American Indians.

ERM leadership can build upon these practices to prioritize where to spend precious time and resources by conveying to leadership agency risks and identifying their root causes. "[ERM] helps surface and elevate risks to the right stakeholders, while also keeping them very visible with senior leadership to better enable progress in risk mitigation," said Yashika Rahaman, director of enterprise risk management at the Food and Drug Administration.

The ERM approach has helped facilitate a culture in which agencies and their leaders are more comfortable taking risk into consideration when making decisions. In 2019, more than half of the federal ERM specialists surveyed by the Association for Federal Enterprise Risk Management said the data and information produced by their ERM programs enhanced management decision-making.[2]

Still, many agencies face challenges to fully implement this management practice. While some have been successful at standing up ERM programs, including identifying specialists to support their activities and standardizing risk management processes, programs that typically operate in silos are often not involved in critical decision-making. Several ERM specialists said in interviews that while OMB's framework provided some guidance on how agencies can build ERM programs, their leaders have struggled to find a path forward that best fits their organizations. Others were concerned ERM would be relegated to a "check-the-box" compliance exercise.

Fortunately, some agencies have found approaches that could further strengthen their programs. Looking ahead, agencies will likely need to advance federal ERM beyond the minimal requirements that assesses and reports risk, to an ongoing process that uses risk analysis to inform decision-making.

"Over time, hopefully ERM won't fade into the background, but will blend into the foreground," said Robert Westbrooks, former IG at the Pension Benefit Guaranty Corporation. "What I mean is, ERM should become part of the invisible operating system. It should become second nature and managers shouldn't have to think too much about it. You want the best user experience for managers where they can focus on managing with a consistent risk approach, but ERM shouldn't be their primary focus. Their primary focus should remain delivering on the mission."

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> Pension Benefit Guaranty Corporation

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2   Association for Federal Enterprise Risk Management, "Federal Enterprise Risk Management 2019 Survey Results," October 30, 2019, 8. Retrieved from https://bit.ly/2VSVy99

ADVANCING FEDERAL ENTERPRISE RISK MANAGEMENT

In the past four years, agencies have shown progress in most of the foundational enterprise risk management elements spelled out in the circular's update. They can now build from that foundation to further protect and enhance the organization. Meaningful advancement will come when risk information is used regularly for decision-making. To achieve this, agencies should focus on three crucial areas: gain strong leadership buy-in; develop and apply risk appetite to help leaders prioritize risks; and integrate ERM with management functions and core programs.

The following sections provide insight into how some federal ERM programs have gained momentum in these areas and offer helpful considerations for agencies working to enhance the value of their ERM programs.

Encourage buy-in from leaders and other stakeholders

To pave the way toward integrating enterprise risk management into agency management activities, ERM specialists should involve all stakeholders in their work, particularly key leaders. One way to accelerate buy-in is to establish a consequential governance structure under which discussions about risk take place and where integrated solutions are developed and resourced. This should give leaders of programs seats at the table when critical agency decisions are made, including those associated with crisis response.

One ERM specialist introduced senior leaders to risk and ERM during standing meetings on internal controls, a management concept people were already bought into. A big selling point was that leaders only had to attend a single meeting. "Previously risk had a separate, distinct meeting that was not successful... That helped address one of our most significant barriers to convince people that it was a worthwhile effort to discuss risk and commit to having it as a regular agenda item."

The existence of a governance structure encourages buy-in and helps ERM specialists build a more risk-aware culture. As agency leaders develop a more comprehensive understanding of their organizations, they will have additional opportunities to use risk information for strategic and operational decision-making.

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Develop risk appetite and tolerance to fit an organization

Managing risk appetite and risk tolerance enables agencies to weigh and accept certain risk levels as part of doing business. As agencies gain knowledge about the risks and rewards involved in their work, leaders can encourage employees to take risks to create more opportunities for doing business in new and better ways.

Throughout the enterprise risk management process, agencies produce documents such as risk appetite statements and risk profiles to deliver a tailored, targeted analysis of risks and how they affect program stakeholders. ERM specialists provide valuable data and analysis to agency leaders that can reduce the negative impacts of risk and increase an organization's ability to seize opportunities for innovation. This approach can improve the ability of agency leaders to understand the context behind the information used to make their decisions and track the implementation of their priorities. Part of that context—and a key to risk-informed decision-making—is determining and setting risk appetite across an organization.

The revised 2016 circular cites risk appetite and risk tolerance as key elements to effective ERM. Risk appetite and risk tolerance guide decision-makers to achieve their objectives by defining the overall level of uncertainty the agency is willing to accept across the enterprise, in its core program areas and for specific risks. This gives leaders a measuring tool to inform the development of their risk profile, prioritize resources for response activities and identify opportunities to pursue risks that can lead to positive impacts on mission outcomes.

Risk Appetite

The articulation of the amount of risk an organization is willing to accept in pursuit of strategic objectives and value to the enterprise.

Risk Tolerance

The acceptable level of variance in performance relative to the achievement of objectives.

See Appendix II for complete glossary.

With risk appetite statements, ERM specialists can better illustrate agency risk to decision-makers. In 2016, the Office of the Comptroller of the Currency was the first federal regulatory agency to publish a risk appetite statement. The team started with nine initial risk categories before adding additional indicators to identify where agency risks fall within each of those categories.

These measures helped drive the conversation about the circumstances under which the agency would tolerate risk. Bill Rowe, chief risk officer, and his team also hold monthly conversations on agency risks with risk owners. "We might have a group focused on supervision risk or human capital risk where they sit down with a risk appetite statement and talk about what they are seeing as emerging risk. I think it is starting to pay pretty big dividends," Rowe said. "We are trying to increase the awareness of risk appetite throughout the organization."

At the U.S. Agency for International Development, which works globally in countries that present unique threats and risks to its objectives, Chief Financial Officer Reginald W. Mitchell spearheaded an eight-month process to develop the agency's risk appetite statement. His office formed working groups with staff members from across the organization who came together to discuss risk and agency processes. The statement that emerged identifies the agency's overall risk appetite in relation to seven categories of risk, including security risk and reputational risk, and offered detailed practical examples within each category.

Mitchell then secured buy-in from agency leaders and other key stakeholders by soliciting their input. "Once we developed a risk appetite document, we went on a road trip," he said. "We solicited all the missions, and we talked to the leadership and [the Office of Management and Budget]. And that was just as important as the document itself."

The resulting product was a document that outlined parameters under which agency leaders can operate based on their individual acceptable levels of risk. Mitchell has referred to this document for his work helping leaders make better decisions on reducing fiduciary risk.

At the Government National Mortgage Association, an agency that funds government-backed mortgage loans and is better known as Ginnie Mae, the risk team spent a year and a half working with senior executives to develop a risk appetite statement that aligned with the organization's strategic goals.

The team incorporated lessons learned from outside government to decide which approaches worked best for

the organization. "We had the flexibility to think through and view different programs," said Jason Leecost, director of the operational risk analysis division. "We listened to approaches from outside the federal government and came back and learned to create something new."

Leecost used data metrics from throughout the organization to help create its risk appetite statement and facilitate discussions about trade-offs to develop more realistic agency program objectives. For example, he used performance indicators such as the number of open positions and the percentage of top talent at risk for leaving to help determine the agency's appetite for human capital risk.

These organizations used risk appetite to strengthen risk-based decision-making by asking the essential question on risk: "Have we done enough to reduce the risk?" Risk appetite is an important foundational step to enable risk-based decisions that prioritize both near-term response and long-term recovery actions.

Integrate enterprise risk management with other management functions

Integrating enterprise risk management with management and mission-support activities, such as strategic planning and budgeting, improves agency decision-making, which should lead to better performance. This integration is championed through ERM guidance beyond Circular A-123, including Office of Management and Budget Circular A-11—the agency's guidance on federal budget preparation—and the ERM integrated framework published by the Committee of Sponsoring Organizations of the Treadway Commission, a private sector initiative that provides thought leadership and guidance on enterprise risk management, internal control and fraud deterrence.

Unfortunately, ERM programs are sometimes limited to specific business lines or managed as an isolated function. ERM should be integrated with both agency management and individual program processes to make progress in managing the risk to agencies as they work to accomplish their missions. The following examples highlight successful integration in agencies.

Strategic Planning

Leaders are equipped to align risk management with the overall strategic direction of the organization by incorporating risk discussions in the Annual Strategic Review process, which is mandated by OMB Circular A-11. An agency's strategic plan needs to be informed by external, real-world risks to the organization as well as the risks, or unintended consequences, of the plan's implementation. Identifying risk during the strategic planning process enables agency planners to move to a strategy that considers current and future risks. The agency strategic review process should cover how to manage risk in the context of the performance outcomes organizations are trying to achieve.

Karen Weber, deputy chief risk officer at the Department of the Treasury, improved strategic planning integration at her agency by holding monthly meetings with staff from the Office of Strategic Planning and Performance Improvement, Office of Performance Budgeting, and the internal controls and audit group. "We talked to the performance, budgeting and internal controls shops [and many other areas around Treasury] about how to help each other and integrate with risk management. That was a powerful tool to form relationships and get a seat at each other's tables," she said.

Budget

The budget process inherently incorporates risk. Although not always articulated, allocating funding for one item over another involves a risk trade-off. Agencies can integrate ERM into budgeting processes by having conversations about how to allocate resources to protect the agency from the greatest risks. This keeps leaders aware of the trade-offs involved in budget decisions.

Similarly, if OMB's budget review reduces an agency's funding, agency ERM teams can help identify the risks created to the mission, enabling agency leaders and Congress to make budget decisions in an informed manner.

Data on agency risks can also be a powerful justification for budget requests. There are implications to acting or failing to act on specific issues that are dictated by funding. A risk profile and a risk appetite statement can be used throughout the process, from formulating budgets to allocating funds. "I had budget analysts working with me to determine the financial impact of risks and present those risks into the budget planning process," said Larry Koskinen, chief risk officer at the Department of Housing and Urban Development, who used budget analysts on detail to his departmental risk management team to help integrate ERM into the budget process.

"These analysts became internal champions for the budget process and helped sharpen risk mitigation efforts," Koskinen added. HUD also used strategic planning analysts and staff from the agency's performance team to create the agency's first risk profile and continues to coordinate risk activities with those offices.

ADDITIONAL NEXT STEPS TO SUPPORT GREATER ERM MATURITY

As an enterprise risk management program matures, there is greater potential to use it as a management tool that gathers data to better drive agency leaders' decision-making processes to action. "As agencies get better and better at [ERM], it's going to provide more timely data, it's going to provide more quantitative and objective data. And I think that's when we're going to mature past an annual paper exercise," said Robert Westbrooks, former IG at the Pension Benefits Guaranty Corporation.

"That's when ERM will be another tool for managers that is every bit as important as information security management or human capital management and will enable more data-driven decisions." Beyond data, ERM can strengthen crisis preparedness and response and agencies can use it to prepare for leadership transitions.

To build upon the foundation established in the four years since the 2016 revision to the circular and work toward ERM becoming a critical function of agency operations, ERM specialists and agency leaders should consider these five next steps:

Push, don't just pull, risk information

Rather than simply gathering risk information from core programs, add value by analyzing the information—such as for a risk appetite statement—and delivering it in a timely way to stakeholders who perform vital management and program functions.

Increase the use of data and analytics

Use data to support an agency's ability to identify and analyze risk, to aid stakeholder decision-making and to track the ERM program's progress in responding to risks.

Use ERM to strengthen response and future risk preparedness

ERM programs can help anticipate threats to effective crisis response—including identifying potential subsequent impacts. This could enable agencies to develop scenario-based contingency plans, test response plans and continually scan for the next emerging risk.

Integrate ERM both at the enterprise and program levels

Increase integration between the ERM program and individual office risk management activities.

Use risk profiles to assist with transitions

Risk profiles—which outline potential threats and opportunities, and plans to manage risk related to them—should be used as key documents when transitioning between administrations or to transition to a new leader or leadership team.

CONCLUSION

In the four years since the revision to Office of Management and Budget Circular A-123, some agencies have helped show a path to further progress in enterprise risk management by strengthening relationships with key stakeholders, using risk appetite to better prioritize risks, and integrating with mission programs and other functions. Taken together these steps have helped agencies use ERM to begin to drive improved decision-making, seize opportunities, mitigate threats and make operations more effective. So what now?

To really take advantage of the power and capabilities of ERM, federal agencies should recognize the value of risk information in decision-making and give risk officers a seat at the table with leaders to share their enterprise-wide view. ERM programs that are isolated in individual offices rather than integrated and central to decision-making will struggle to do more than comply with requirements. Agency leaders and ERM specialists should strive to earn that seat at the table by pushing tailored risk information to management and mission programs. Using ERM to strengthen preparedness for crises, including developing scenario-based contingency planning and testing the risk response to those plans, can help strengthen agencies.

While many agencies can celebrate their progress to date, leaders and ERM specialists also need to address the challenges that remain, or crop up, for ERM to continue to grow in government.

Appendix I
Methodology

Since 2015, the Partnership for Public Service and Deloitte have convened chief risk officers, inspectors general, agency leaders and other enterprise risk management stakeholders to help drive change and work towards developing more mature and effective ERM programs that are woven into the culture and fabric of the organization. Between September 2019 and January 2020, we convened stakeholders across the federal ERM community for a series of workshops to learn about progress on establishing enterprise risk management programs across the federal government and discuss best practices and lessons learned. We also held focus groups with ERM practitioners from agencies at different stages of maturity to discuss the challenges they face and practices they are using to improve. In addition, we conducted interviews with officials from the Office of Management and Budget, Government Accountability Office and other members of the ERM oversight community to explore how they can work successfully with agencies to support ERM advancement.

Appendix II
Glossary
Adapted from Playbook: Enterprise Risk Management for the U.S. Federal Government[3]

Term	Definition
Committee of Sponsoring Organizations of the Treadway Commission	COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting. COSO was jointly sponsored by five organizations: the American Accounting Association, American Institute of CPA's, Financial Executives International, Institute of Internal Auditing and the Institute of Management Accounting. In September 2004, COSO released Enterprise Risk Management - Integrated Framework, which provides guidance and standards for implementing ERM.
Enterprise Risk Management	An effective agency-wide approach to addressing the full spectrum of the organization's significant risks by considering the combined array of risks as an interrelated portfolio, rather than addressing risks only within silos. ERM provides an enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides improved insight about how to more effectively prioritize and manage risks to mission delivery.
Internal Control	A process, affected by an organization's management or other personnel, designed to provide reasonable assurance regarding the achievement of objectives.
Opportunity	A favorable or positive event. In context of risk management, it refers to the possibility that an event will occur and positively affect the achievement of objectives.
Risk	The effect of uncertainty on achievement of objectives. An effect is a deviation from the desired outcome—which may present positive or negative results.
Risk Appetite	The articulation of the amount of risk an organization is willing to accept in pursuit of strategic objectives and value to the enterprise.
Risk Management	A coordinated activity to direct and control challenges or threats to achieving an organization's goals and objectives.
Risk Profile	A prioritized inventory of an organization's most significant risks.
Risk Tolerance	The acceptable level of variance in performance relative to the achievement of objectives.
Uncertainty	The inability to know in advance the exact likelihood or impact of future events.

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3   The Chief Financial Officers Council and the Performance Improvement Council, "Playbook: Enterprise Risk Management for the U.S. Federal Government," July 29, 2016, 103-108. Retrieved from https://bit.ly/2xUHNz5

Appendix III
Acknowledgements

The individuals listed below generously offered their input on this issue brief. We greatly appreciate their time and counsel. However, the contents of this issue brief may not reflect the views of the federal employees who were interviewed. Additionally, the views of participating federal officials do not necessarily reflect positions or policies of the federal government or its agencies.

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