Using ERM to inform OMB’s Strategic Review process

What is the Strategic Review, when does it occur, and what should it include?

The annual Strategic Review assesses departments’ and agencies’ progress in meeting the mission, management, and crosscutting strategic objectives contained in their strategic plans. It informs strategic decision-making, budget formulation, near-term actions, and annual performance reporting. Section 260 of the Office of Management and Budget (OMB) Circular A-11, Preparation, Submission, and Execution of the Budget, provides guidance on Performance Reviews, Strategic Reviews, and Enterprise Risk Management (ERM) and requires covered organizations to submit a Summary of Findings to OMB in Spring 2019. The Summary of Findings must include a discussion of the key findings from their updated ERM Risk Profile. The ERM guidance in Circular A-11 is expanded on in OMB Circular A-123, Management’s Responsibility for ERM and Internal Control. The table below shows which types of organizations are covered by OMB’s guidance.

<table>
<thead>
<tr>
<th>Organization Type</th>
<th>Required to meet OMB Requirements stated in…</th>
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<tbody>
<tr>
<td></td>
<td>OMB Circular A-11 for Strategic Reviews</td>
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<tr>
<td>Departments: Cabinet-level organizations with direct-reporting agency components</td>
<td>✓</td>
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<tr>
<td>Agencies: Organizations directly reporting to departments</td>
<td>Agencies should follow department guidance</td>
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<tr>
<td>Independent agencies: Organizations that do not report to a department. The heads of these organizations may serve on the Chief Financial Officer (CFO) Council or have the status of cabinet-rank</td>
<td>Possibly, depending on the independent agency’s status</td>
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As part of the Strategic Review, covered organizations should consider performance goals and other indicators for each strategic objective, as well as challenges, risks, external factors, and other events that affected progress in meeting their objectives. Covered organizations can be better positioned to answer these three questions:

1. **How is the organization performing on its Strategic Objectives?**
   - Informs
   - Long-term strategy
   - Where to focus limited resources
   - Annual planning and budget formulation

2. **What are the organization’s greatest operational challenges?**
   - Identifies
   - Where additional evaluation, other studies, or analyses of performance data are needed
   - Where additional skills or other capacity are needed
   - Where opportunities for improvement exist, including risk management

3. **What are the risks to the organization’s performance and how is the organization managing them?**
   - Enhances
   - Decision-making response time
   - Transparency
   - Collaboration on crosscutting issues

ERM is designed to make the Strategic Review more robust, enabling risk informed decision-making, budget formulation, and performance analysis and reporting.

How to integrate ERM into the Strategic Review process

Departments and covered independent agencies prepare for and undergo a Strategic Review and have flexibility in choosing how to provide ERM implementation guidance to their agencies, if applicable. Departments should work with their agencies to share risk information to inform the Strategic Review process. This supports the department in meeting the requirements for incorporating its risk profile into the Strategic Review as described in Section II, C of OMB Circular A-123, Management’s Responsibility for ERM and Internal Control.

### Department level
- Establish ERM points of contact within each agency, bureau, or component
- Develop processes to collect and consider agency risk profiles
- Use the consolidated risk profile to inform the Strategic Review process

### Agency level
- Establish processes to collect and consider program-level risk information
- Develop a risk profile and share it with the department, as required
- Use the risk profile to inform agency leadership in making risk-based decisions

### Independent agencies
- May or may not be required to participate in Strategic Reviews
- Implement ERM as a leading practice
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How to use ERM to identify and manage risks to an organization’s performance

Engage the right stakeholders at the right time

Effectively integrating ERM into core, on-going business processes requires engaging critical stakeholders and obtaining their support.

**How can ERM programs engage the right stakeholders at the right time?**

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<tr>
<td>Develop a strategy to gain executive-level support and support from other key stakeholders</td>
<td>Executive-level sponsors and stakeholders should help communicate the importance of ERM and how it can be used as a tool to help improve organization-wide decision making in areas including strategic planning, budgeting, and performance</td>
</tr>
<tr>
<td>Be proactive in sharing information with department, agency, and program offices</td>
<td>Increase knowledge and understanding of ERM throughout the organization and share key takeaways and materials</td>
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<tr>
<td>Encourage colleagues to attend events to learn more about OMB Circular A-123’s requirements</td>
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Incorporate the Risk Profile

Effective ERM implementation involves breaking down silos and increasing transparency.

**How can ERM programs incorporate the risk profile into the Strategic Review process?**

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<td>Identify a Performance Improvement Officer (PIO, or office responsible for strategic plan development and Strategic Reviews)</td>
<td>Obtain the PIO’s perspectives on how can ERM can add value to the Strategic Review by discussing the goals and objectives of ERM implementation and the level of ERM maturity</td>
</tr>
<tr>
<td>Talk to the PIO about the risk profile and how to share the risk profile to inform the PIO’s processes</td>
<td>Enable the development of a more robust ERM program and risk profile which can, in turn, add more value when considered as a data source to inform the Strategic Review</td>
</tr>
<tr>
<td>Develop a collaborative plan for the ERM program and PIO to share information designed for organization’s operating environment</td>
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Define the missed opportunities of not addressing the Risk Profile

Without using the risk profile to inform the Strategic Review process, department or agency leadership could potentially fail to understand risks that can only be effectively addressed through an organization-wide action plan.

**How can ERM programs define the opportunities missed by not addressing the risk profile?**

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<tr>
<td>Show department or agency leadership the impact of using the risk profile’s data and findings to make decisions</td>
<td>The risk profile assists leadership in making risk-informed decisions that address issues affecting the organization as a whole. By not considering the risk profile in decision-making, organizations could focus on single, small issues that only affect aspects of their operations and programs. Failing to address systematic issues and risks could potentially prevent organizations from meeting their goals</td>
</tr>
<tr>
<td>Communicate how the organization could be affected if the risks contained in the risk profile are not systematically addressed</td>
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