

Thought Leadership for the Federal Enterprise Risk Management Community

## In This Issue

A Note from the AFERM President	2
Enterprise Risk Management News	5
From the AFERM Newsletter Team	7
Welcome New Members	9
AFERM Announcements	11
2013 Officers and Committee Members	13
Content and Advertisement Requests	15
Upcoming Events	16
Thank You to Our Sponsors	17



## Reminder

*Please stay tuned to your email for a formal announcement related to the March 2013 bi-monthly meeting!*

Thought Leadership for the Federal Enterprise Risk Management Community

## A Note from the AFERM President



### *The Meaning of ERM*

I am constantly amazed at the diversity of opinion over the meaning of ERM. This would not be surprising if you asked someone outside the realm of risk management. But this vast diversity of opinion was displayed recently in a LinkedIn group focused on risk management, and the contributors were risk management professionals!

One of the objectives of AFERM is to bring some focus to the definition and objectives of ERM in the federal government. Over the past year I have had an opportunity to share in this newsletter a few thoughts on what ERM means from an AFERM perspective. In this issue, I'd like to share a pitfall in implementing ERM based on some observations in recent months in the federal government.

Accountability for risk—just like for mission objectives, performance, cost, quality, schedule, etc.—must be laid on the person or persons making those decisions. Performance, cost and risk must all be balanced in a manner that optimizes stakeholder value in the pursuit of mission objectives. Those individuals making these tradeoff decisions must be accountable for their choices and the consequential results. To maintain such accountability, it is essential that a risk management office not be viewed as taking on responsibility for these decisions. Just as a Chief Financial Officer is not and should not be viewed as controlling decisions where costs are incurred, Chief Risk Officers (CRO) (or centralized risk management offices) should not be given authority to determine the appropriate level of risk for any particular decision, or to decide on necessary mitigation steps. To do so inherently passes accountability for the decision from the organization incurring the risk to the risk management office. If the organization incurring the risk inadequately controls for the risk, or assumes too much or little risk given the potential reward, they cannot appropriately be held accountable for results. This can be especially true when a centralized risk management office or officer made the decision to incur the risk.

This is certainly not to suggest that there is not an appropriate role for a Chief Risk Officer, or for a centralized risk management office. However, that individual or organization must not take on the responsibility for deciding the appropriate level of risk to be assumed on any business decision. CROs and risk management offices can play a critical role in coordinating, facilitating communicating, review, and counsel. Several key roles that the CRO must maintain include the following:

## Thought Leadership for the Federal Enterprise Risk Management Community

### ***The Meaning of ERM, cont.***

**Coordinating:** An effective risk management program greatly benefits from consistent policy applied across the organization. A critical element of ERM is the need to manage the portfolio of risks across the enterprise, and this cannot be meaningfully accomplished without some level of consistent in risk management policy and practices through the organization. A CRO and supporting office can coordinate such policy and take on responsibility for publishing and maintaining risk management policy.

**Facilitating:** Development of a portfolio view of enterprise risk naturally requires the cooperation of all organizational and functional elements of that enterprise. The CRO or a central risk office is well positioned to facilitate the dialog for the necessary interchange of ideas, concerns, etc. For example, the scheduling and conduct of enterprise-level risk training and workshops are examples of how a CRO, while not dictating answers, can be invaluable to getting others together in considering risk at an enterprise level.

**Communicating:** There is clearly a need for a central spokesperson that can share the message of risk management. While this function is sometimes served by the head of the organization or a designee (Chief of Staff, Assistant Secretary for Management, etc.), an individual or central organizational element with this clearly designated responsibility can help focus the message.

**Review:** In some cases, organizations may choose to have the CRO or risk office have an internal review function. This function may be limited to confirming consistent use of approved policies and procedures, or it may go further in evaluating the risk of various organizational decisions and their consistency with published policy and organizational risk appetite. However, as suggested previously, such review should take the form of feedback to organizational units and input to the head of the enterprise or at risk workshops. Action should not extend to assumption of accountability for unilaterally changing decisions made by functional or organizational elements.

**Counsel:** Finally, a central risk management office will likely have more expertise in risk management than most other parts of the organization. As a result, such an office can play a helpful role in advising various parts of the organization on all aspects of risk management. Such advice might include, but not be limited to, appropriate setting of risk appetite, optional training, advice on risk management practices, and any action helpful to the function or business unit in implementing enterprise policies and procedures.

Any risk management function and associated responsibilities will always need to be tailored to the needs of the specific organization. However, it is the hope that AFERM can bring some

## Thought Leadership for the Federal Enterprise Risk Management Community

### *The Meaning of ERM, cont.*

consistency and direction to the application of ERM across the federal government.

## Pivotal Play: The Establishment of AFERM

It takes a vision to bring an organization to life. What started as an idea in 2008 has resulted in the creation of AFERM, which was founded upon:

- Seeing a need
- Building support
- Making it happen

We applaud AFERM and all founding members and sponsors for creating a new platform for government and industry to promote the understanding and adoption of ERM in the federal marketplace.

This is a Pivotal Play.

[Read the full post at pivotalplaysblog.com](http://pivotalplaysblog.com)



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encourage others.*

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## Enterprise Risk Management News

### ***Risk Management Governance Study Available for Free Download***

A recent study released by the Macquarie Applied Finance Centre at Macquarie University in Sydney, Australia may be of interest to AFERM members. Although the research paper, entitled “The Influence of Risk Governance on Risk Outcomes – International Evidence,” is based on studies of risk management programs within financial institutions, the paper presents interesting evidence for the importance of strong risk governance in an organization, including the stature of the Chief Risk Officer. The following is an excerpt from the introduction of the report, available online:

*In our study the [Risk Governance Indices] are developed using principal components analysis which weights a number of governance attributes that we find to be correlated with risk outcomes. This process helps to identify which governance attributes are the most crucial, providing useful insights for those wishing to create more robust [financial institutions] and more focused and effective regulations.*

The application of effective risk management techniques and governance structures often translates between private industry and federal organizations. If you would like to learn more about the importance of different factors in risk governance, please go to: <http://ssrn.com/abstract=2187116>

### ***New IIA Position Paper Related to Effective Risk Management Released***

The Institute of Internal Auditors (IIA) has released a new Position Paper entitled “The Three Lines of Defense in Effective Risk Management and Control”. The release describes the three lines of defense as follows: Operational Management, Risk Management and Compliance Functions, and Internal Audit. These functions are also supported by other key structures, including oversight and external bodies. The IIA’s Position Paper provides a number of recommended best practices and other guidance related to the coordination of these “three lines of defense” for effective risk management. As stated on page 7 of the Position Paper, “...all three lines should exist in some form at every organization, regardless of size or complexity. Risk management normally is strongest when there are three separate and clearly identified lines of defense.”

If you are interested in learning more about implementing and coordinating your organization’s defense against ineffective risk management, please access the IIA’s Position Paper via: <https://na.theiia.org/standardsguidance/Public%20Documents/jppf%20pp%20the%20three%20lines%20of%20defense%20in%20effective%20risk%20management%20and%20control.pdf>

# *The ability to tackle what's next*

Federal agencies are facing significant challenges in the areas of enterprise risk management, process improvement, project and portfolio management, financial management, and cyber security. As a trusted advisor, our Public Sector Practice is helping them address these most difficult challenges. For example, we have worked with the Department of Defense on management, business and financial planning, advised on data security, threat and vulnerability management for the Department of Homeland Security, and consulted on human capital and succession issues for the Internal Revenue Service.

*For more information on how we can help you address your agency's challenges, visit [pwc.com/publicsector](http://pwc.com/publicsector)*



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## From the AFERM Newsletter Team

### *What's Next for AFERM?*

Ring in the new year comes with a number of exciting changes for the members of AFERM. Many of you attended the first 2013 bi-monthly presentation on ERM, supported by John Fraser, a world-renowned speaker on risk management. The Communications and

Finance Committees continue to develop an exciting new website platform for sharing information and communicating with our colleagues. The Membership Committee continues to work to build AFERM membership through various outreach strategies. In addition, the Program Committee is already hard at work planning a dynamic and exciting AFERM Summit for 2013.

AFERM leadership was ecstatic to have such tremendous attendance at the first bi-monthly presentation of 2013 on January 31. The presentation was hosted at the Johns Hopkins School of Advanced International Studies in Washington, DC. During our first session to include lunch for attendees, AFERM members heard an informative presentation from John Fraser, Senior Vice President, Internal Audit and Chief Risk Officer of Hydro One Networks Inc. Among Mr. Fraser's accolades, he is a Fellow of the Institute of Chartered Accountants of Ontario, a Fellow of the Association of Chartered Certified Accountants (U.K.), a Certified Internal Auditor, and a Certified Information Systems Auditor. Mr. Fraser provided attendees with insights into the role of the Chief Risk Officer, and discussed methods for integrating the risk management framework into business practices. His presentation was informed by his more than 30 years experience in the risk and control field, including areas such as finance, fraud, derivatives, safety, environmental, computers and operations. As a recognized authority on ERM and co-editor of a best-selling university text-book about ERM, our membership had the opportunity to hear an impressive perspective on risk management in practice.

Mr. Fraser's presentation to the AFERM members was important for a couple of reasons. First, the meeting provided a valued source of risk management insight for our members, a priority for every bi-monthly presentation that we host. Second, it signaled a renewed focus on connectivity between our members and to potential new members. We plan to continue hosting bi-monthly meetings with a lunch option based on positive AFERM member survey feedback. We have created an AFERM LinkedIn site, to provide a new option for connecting to other Federal ERM professionals all over the world. We will continue working to roll out the new AFERM website, which will also be used to expand our reach to like-minded individuals and provide additional resources for our members. In addition, we continue to increase our membership roster in order to expand the cumulative level of experience available to all of us at AFERM.

As a member of AFERM, 2013 promises a number of exciting changes. Please stay tuned to the AFERM newsletter for more information!

*AFERM relies on its members for informative and educational articles. If you would like to contribute to our monthly newsletter, please contact us at [newsletter@aferm.org](mailto:newsletter@aferm.org).*



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## Welcome New Members!

New Member	Agency/Company
Michael Beland	Deloitte
Mina Cairns	Deloitte
Kelly Loveless	Deloitte
Yvonne Merrill	Deloitte
Chris Musto	Deloitte
Jannell Pannell	Deloitte
Michael Powers	Mpowers Consulting
Gloria Steremberg	Deloitte
Andrew Tiedeman	Deloitte
Katherine Tkac	Smithsonian
Erin Vollmer	Deloitte

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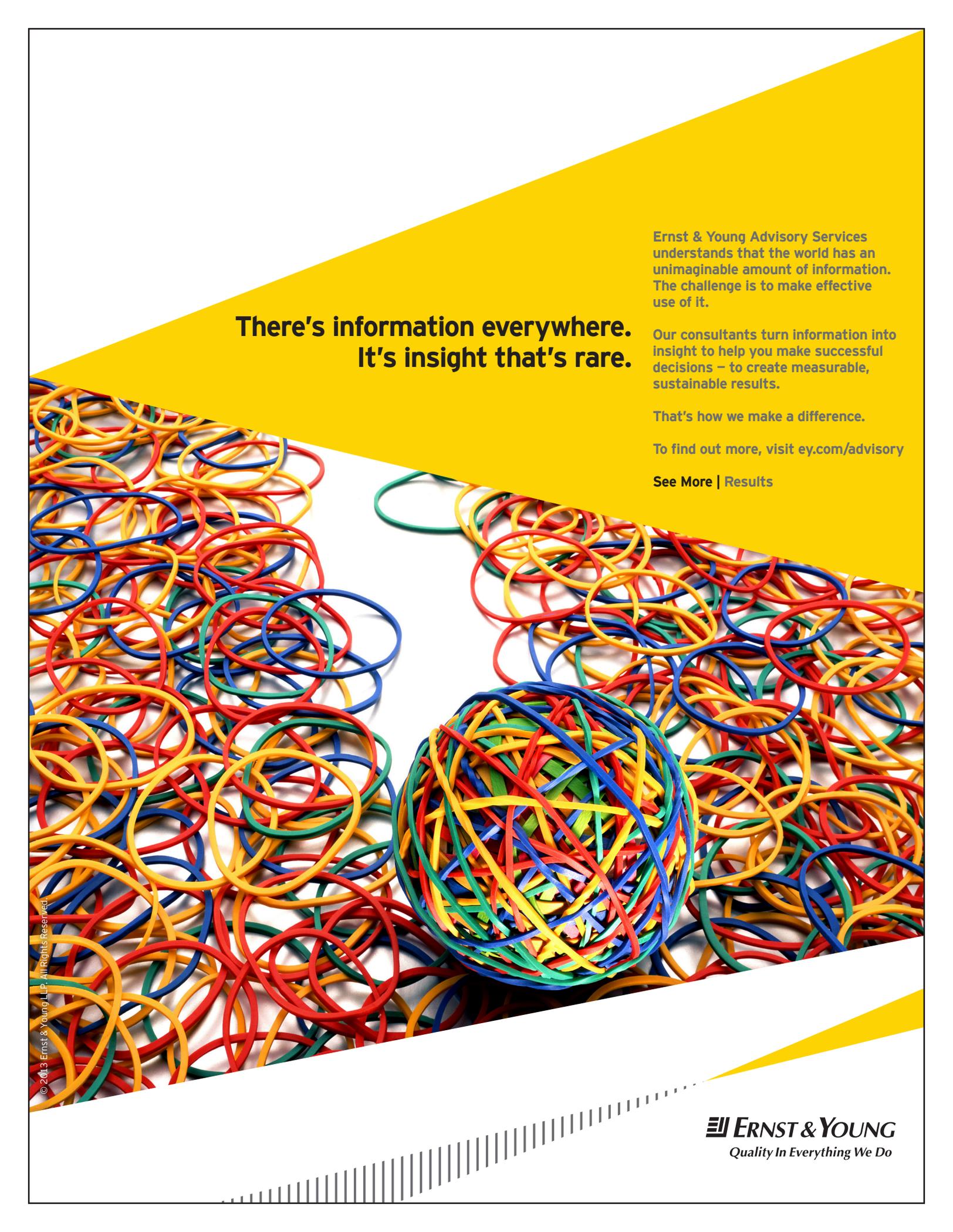


To learn more, please visit [protiviti.governmentservices.com](http://protiviti.governmentservices.com).

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## AFERM Announcements

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### ***Call for New Committee Members***

As a 100% volunteer organization, AFERM relies on the efforts of those of you who choose to contribute time and effort. Please consider adding your name to the list of those who have already volunteered to serve on an AFERM committee for 2013. The need is great and your support will be greatly appreciated!

Please feel free to contact David Emanuel, Membership Committee Chair, if you are interested in learning more about these opportunities. However, if you know of a particular committee on which you would like to serve, please reach out directly to the following individuals:

- Program Committee Co-Chair (Bi-monthly Meetings): Anita Marchion [anita.marchion@treasury.gov](mailto:anita.marchion@treasury.gov)
- Program Committee Co-Chair (Summit): Laurie Champion [laurie.champion@aon.com](mailto:laurie.champion@aon.com)
- Communications Committee: David Fragale [david.l.fragale@us.pwc.com](mailto:david.l.fragale@us.pwc.com)
- Membership Committee: David Emanuel [david.emanuel@activerisk.com](mailto:david.emanuel@activerisk.com)
- Long Range Planning Committee: Catherine Chatfield [Catherine.chatfield@hq.dhs.gov](mailto:Catherine.chatfield@hq.dhs.gov)
- Bylaws, Policies and Procedures Committee: Fred Nunley [Fredrick.nunley@morganfranklin.com](mailto:Fredrick.nunley@morganfranklin.com)
- Audit Committee: Harold Barnshaw [harold.barnshaw@treasury.gov](mailto:harold.barnshaw@treasury.gov)

### ***Members Make a Difference***

As the only organization focusing on the advancement of risk management principals and standards in the federal sector, AFERM is dedicated to instructing, training and informing government managers in the field of ERM. You, as members, provide crucial support of AFERM's operations that allows the AFERM leadership to continue to bring together professional risk managers in the federal government and the community, present innovative approaches, and provide a forum for the interchanges of ideas in this emerging field. Since AFERM is a private, non-profit organization, we depend on the support of our members.

At the time of AFERM's inception in October 2011, the board members had agreed that membership dues would be levied on a calendar year (ending December 31) basis. However, since AFERM's financial year end is September 30, the Board recently voted to change the membership year to coincide with the financial year. Given that AFERM membership dues were collected with the understanding that the membership year would end on a calendar year basis, the change has resulted in all paid members having prepaid their dues for one quarter of the next year (October 1, 2012 to September 30, 2013). To adjust for this prepayment, AFERM will bill renewing members only for the nine months (three remaining quarters). Furthermore, the Board has also authorized that the dues for new members will be prorated on a quarterly basis.

## Thought Leadership for the Federal Enterprise Risk Management Community

To summarize, the following shows the applicable membership dues:

1. Existing members renewal - Membership expires on September 30, 2013 = \$56.25 (75% of dues due to prepayment of 25% dues as part of last year's membership payment)
2. New members joining between **October 1, 2012 and December 31, 2012** = \$75 (100% of dues)
3. New members joining between **January 1, 2013 and March 31, 2013** = \$56.25 (75% of dues)
4. New members joining between **April 1, 2013 and June 30, 2013** = \$37.50 (50% of dues)
5. New members joining between **July 1, 2013 and September 30, 2013** = \$18.75 (25% of dues)



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*President Elect, Al Runnels*

*Vice President, Treasurer, Jay Ahuja*

*Vice President, Treasurer Elect,  
Tom Stanton*

*Vice President, Secretary, Frank Wood*

*Vice President at Large, Sallyanne Harper*

*Vice President at Large, Karen Hardy*

*Vice President at Large, Deb Swedberg*

### Membership Committee

- David Emanuel, Chair
- Anne Beemer
- Terry Boyd
- Calandra Dixon
- Gilda Kolesnikova
- Yehuda Schmidt

### Program Committee

- Anita Marchion, Co-Chair
- Laurie Champion, Co-Chair
- Brian Barnier
- Brack Boone
- Folake Fadayomi
- Thomas Holland
- Janelle Pannell
- Andy Tiedeman

### Bylaws, Polices and Procedures

- Frederick Nunley, Chair
- Lon Cross

### Long Range/Strategic Planning Committee:

- Catherine Chatfield, Co-Chair
- Arnold Hill

### Finance/Budget Committee

- Jay Ahuja

### Audit Committee:

- Harold Barnshaw, Chair
- Betty Norwood
- Kevin Stemp

### Communications Committee:

- David Fragale, Chair
- Pankaj Bhasin
- Irene Ilie
- Ellen Kleiman-Redden
- Steve Leftwich
- Raji Sarma

***To Contact Officers or  
Committee Members,  
please E-mail  
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Download our free **ERM Readiness Guide** at [www.activerisk.com/readiness](http://www.activerisk.com/readiness)

## *Request for Newsletter Submissions and Advertising*

Do you have any comments or suggestions regarding the newsletter? Do you have an article you would like to see in print? Are you interested in advertising space to members of AFERM?

Please send your comments and contributions for inclusion in next month's newsletter to:

Newsletter Team at [newsletter@aferm.org](mailto:newsletter@aferm.org)

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## Upcoming Events

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### *March AFERM Bi-Monthly Meeting*

The AFERM Program Committee is currently planning the next bi-monthly meeting, to be held at the end of March! Please stay tuned for more information as the details are finalized.

As always, we look forward to seeing you at our next exciting event. Please encourage your colleagues to attend. The success of AFERM depends on your active involvement!

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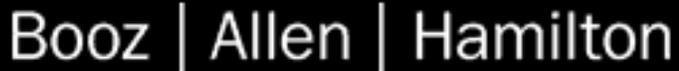
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