

Thought Leadership for the Federal Enterprise Risk Management Community

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## Reminder

*On Jan 31, AFERM is planning to host John Fraser, an internationally recognized risk expert, from Hydro One in Ontario, Canada at our next membership meeting.*

*Please stay tuned to your email for a formal announcement related to the January 31 membership meeting.*

*We'd like to thank our friends at PwC for making this event possible!*

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## A Note from the AFERM President



### ***ERM – Not Just About Risk***

Enterprise Risk Management has added great value to organizations as a means of integrating various functional, programmatic, and other elements of risk management into a broader, strategically-aligned portfolio view of risk across the enterprise. However, ERM has much more to offer than simply becoming a wrapper for risk management activities. Perhaps the largest challenge remaining is changing the mindset of far too many in both the public and private sectors that management of risk is separate from the management of cost and performance. Rather than considering risk an inherent element of any well-formed business decision, too many view risk management as a check-the-box exercise after decisions have otherwise been made.

The federal government has placed significant focus on performance management since at least the 1990s. The Clinton-Gore administration established the National Performance Review (NPR), the Bush-Cheney administration had the President's Management Agenda (PMA), and the Obama-Biden administration established the Accountable Government Initiative. Congress passed the Government Performance and Results Act (GPRA) in 1993, and followed that with the GPRA Modernization Act of 2010. The importance of organizational performance will not come as a surprise to anyone focused on federal government management.

Similarly, the cost of providing for such performance has long been a concern within constrained budgets. As those constraints continue to tighten, the concern over cost of operations and delivering expected performance is certain to grow.

What may come as a surprise, however, is that no administration has placed a similar focus on the management of risk. The federal government clearly has regulations and policies related to risk in specific areas (e.g., financial risk in bank oversight, information technology risks, protection of personally identifiable information, acquisition and contracting risks, etc.). However, while government-wide programs exist for performance and cost management, there exists no similarly sweeping guidance on risk management. OMB Circular A-123 provides a partial solution for operational risks, but the federal government has yet to provide broad guidance on risk management designed to ensure considerations of risk are captured in all business decisions in order to maximize overall value.

Best practices today recognize that maximizing organizational value requires the optimal balancing of cost, performance and risk. ERM helps make the case for such an argument, and AFERM is positioned to help spread that message over the coming year. Please consider joining that effort by volunteering to serve on an AFERM committee, if you have not already done so.

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## Enterprise Risk Management News

### ***New Certification in Risk Management Announced***

The Institute of Internal Auditors (IIA) has announced the development and release of a new certification for professionals in risk management, the Certification in Risk Management Assurance (CRMA). According to the IIA website, this designation will help members of the risk management community demonstrate their ability to “provide assurance on core business processes in risk management and governance, educate management...on risk and risk management concepts, focus on strategic organizational risks, [and] add value for your organization.”

Qualified practitioners who are members of the IIA can apply for this designation through the Professional Experience Recognition (PER) provision through December 31, 2012, with a deadline to provide related paperwork on January 31, 2013. Following the PER deadline, the IIA will begin to administer the CRMA exam in July 2013.

If you would like more information about this important designation, please go to <https://na.theiia.org/certification/crma-certification/pages/crma-certification.aspx>.



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## Ask a Risk Specialist

### *Federal Risk Management and the Dynamics of Downsizing*

To the extent that today's budget pressures turn into budget cuts, some agencies and programs may face substantial reductions in size. Active risk management, already important, will become even more essential to guard against major unexpected consequences as resources become constrained.

Past experience of downsizing suggests that it may be accompanied by buyouts and other staff reductions, deferred investment in information systems and other program infrastructure, and, if downsizing is not implemented well, management confusion and low workforce morale. One consequence may be what some call "hollow government" as agencies and departments try to spread resources thinly across multiple programs and activities, thereby skimping on many of them.

Often, to avoid disappointing stakeholders of particular programs, budget-cutting may aim at administrative functions such as travel, training, and oversight. This already happened with government procurement. Dan Gordon, Administrator for Federal Procurement Policy, testified in 2011 that, "...lack of capacity has caused harm at every step of the acquisition process..."

Budget restrictions on the Federal Emergency Management Agency (FEMA) in the years before Hurricane Katrina were especially costly. While funding levels were not FEMA's only problem, the DHS inspector general, not usually a supporter of spending more money, explicitly stated in its review of FEMA's performance in Katrina that additional investment "is necessary to establish basic case management capabilities...More resources must be afforded to FEMA..."

Cuts in travel budgets also may have unexpected effects. As one official put it, if he wanted to set up an operation to defraud one of his agency's programs, he would locate his facility where the agency didn't have a regional office; constrained travel funds could prevent the agency from documenting the fraud for a long time.

In her insightful analysis of the space shuttle disasters, Julianne Mahler highlights another problem: agencies facing budget pressures may pretend that they can do more with less or, in the slogan at NASA between the two shuttle disasters, that they can operate "faster, better, cheaper." As the joke goes, policymakers usually may have any two of these attributes, but not all three. Mahler argues that NASA faced the loss of congressional support if it openly confessed its inability to maintain a rigorous schedule of shuttle launches, even though budget pressures had caused staffing reductions, including those in the agency's safety organization.

OMB is well-positioned to help agencies protect themselves against unexpected adverse events. OMB should seriously consider establishing a position of Chief Risk Officer, supported by a small staff, to monitor major emerging risks and provide support as agencies seek to "do more with less" as the

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### **Ask a Risk Specialist, cont.**

optimistic saying goes. For government as for the private sector, effective risk management is an integral part of good management more generally. While good management has always been important, it will be essential for agencies to cope successfully with the combination of budget uncertainty and actual cutbacks that are likely to characterize the coming years.

**Thomas H. Stanton** teaches at Johns Hopkins University and wrote *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012). He serves on the board of the Association of Federal Enterprise Risk Management (AFERM).

Comments and critiques, as well as specific questions or suggestions for future topics, are always welcome at [newsletter@aferm.org](mailto:newsletter@aferm.org).

## 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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## AFERM Announcements

### ***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)
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- 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.

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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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Active Risk understands the unique challenges faced by government entities, and has extensive experience helping our government clients manage risk. By implementing Enterprise Risk Management (ERM) practices, government agencies can run more like a business by proactively managing the risk across their entire portfolio of programs. Managing risks across the portfolio helps break down the inherent silos between each program to provide improved transparency across departments. It helps anticipate the impacts of short-term budgets "fixes," enabling leaders to act proactively, improving your agency's reputation.

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

### *January AFERM Membership Meeting*

The first AFERM membership meeting of 2013 will be held at the end of January! Please stay tuned for more information as the details are finalized.

With thanks to PwC, we look forward to having **John Fraser** join us for this exciting meeting. Mr. Fraser's bio is as follows:

John Fraser is the Senior Vice President, Internal Audit & Chief Risk Officer of Hydro One Networks Inc, one of North America's largest electricity transmission and distribution companies. 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. He has over 30 years experience in the risk and control field mostly in the financial services sector, including areas such as finance, fraud, derivatives, safety, environmental, computers and operations.

Prior to joining Hydro One, Mr. Fraser was:

- Senior Vice President, Quality Assurance, at Newcourt Credit Group Inc. (equipment leasing),
- Director, Internal Audit, at Scott's Hospitality Inc. (fast food chains, school buses and hotels),
- Vice President, Investment Banking Auditing, Canadian Imperial Bank of Commerce, where he pioneered the auditing of financial derivatives in the early 1990's,
- Vice President and Director, Wood Gundy Inc. (investment dealer), and
- Senior Computer Audit Manager, Coopers and Lybrand, Chartered Accountants, where he pioneered computer auditing in the 1970's.

Mr. Fraser is:

- Chair of the Conference Board of Canada's Strategic Risk Council;
- a Practitioner Associate Editor of the Journal of Applied Finance; and
- a past member of the Risk Management and Governance Board of the Canadian Institute of Chartered Accountants (publisher of the 20 Questions series for Directors).

He is a recognized authority on enterprise risk management and has co-authored three academic papers on ERM, and co-authored the CICA's publications: "20 Questions Directors should ask about Risk" and "20 Questions Directors should ask about Internal Audit". He is co-editor of a best selling university textbook released in 2010: "Enterprise Risk Management: Insights and Analysis on Today's Leading Research and Best Practices". He has been quoted frequently in publications such as: Conference Board of Canada, Harvard Business Publishing, Protiviti, and Compliance Week.

He developed and taught the inaugural course on ERM at Schulich School of Business in 2011/2012. He worked with Harvard Business School to produce a case study on Hydro One's ERM methodology and a mini case study on smart meters for a risk workshop simulation (2011). He teaches ERM at the Directors College and a Masters degree course at York University, and is a popular public speaker on ERM.

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