Issue 14
4th Quarter, 2014

AFERM Updates

Association for Federal Enterprise Risk Management

Thought Leadership for the Federal Enterprise Risk Management Community

In This Issue

AFERM Newsletter

In this final edition of the 2014 AFERM Newsletter, Nancy Potok, COO of the Census Bureau, discusses why ERM is essential for her agency. Among other reasons: "In government in particular, it's very difficult for people to bring you bad news….They try to fix things themselves, even when they need help. As a consequence, the higher up you get in the organization, the later you find out about the serious challenges. Of course, the later you find out about challenges, the harder they are to address…."

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A Note from the AFERM President

OMB and Growing Recognition of the Importance of ERM

By Thomas H. Stanton

In a welcome development, the Office of Management and Budget is increasingly focused on risk management as a management priority for federal agencies. OMB Controller David Mader recently explained OMB's approach:

Mader said, "OMB is talking to agencies and private sector organizations who have established risk management practices and organizations to figure out how best to proceed." He said OMB will issue guidance or a memo or some sort of document in the second quarter of fiscal 2015. "For sure, we have to have core structure and some core attributes that define this risk program, things that people do need to do…I don't think when you look at the breadth of agencies, one-size fits all. I think if you set the expectations that you will manage risk and allow each of the agencies to decide how best to construct that. I think it will vary across government." (Federal News Radio, October 17)

In January 2013 OMB issued a revised Circular A-129 for federal agencies that provide loans or loan guarantees. An OMB Circular carries weight: it gives information or instructions to guide agencies in implementing their management or budget functions. In the revision OMB prescribed that, "Senior management [should] establish appropriate performance and other indicators for each program, and establish risk thresholds to balance policy goals with risks and costs to the taxpayer."

Without mentioning ERM directly, OMB spelled out the characteristics expected of the risk management functions of federal credit agencies, including:

- Supporting senior officials by informing important policy decisions involving risk and policy trade-offs throughout the loan lifecycle, including the creation or expansion of programs;

- Helping senior management develop and implement core policies and procedures with respect to risk management, including defining risk appetite, and establishing risk thresholds accordingly. Risk appetite defines the amount and type of risk an organization is willing to take in pursuit of its objectives;
- Ensuring the current risk levels and processes are consistent with the established risk thresholds and policies;
- Supporting implementation of effective controls, which may include a quality control or loan review function that monitors for underwriting errors or other deviations from acceptable practice;
- Developing strong reporting systems and analysis that incorporate quantitative and qualitative information to provide effective organization-wide views of risk;
- Identifying emerging risks, concentrations, and other situations that should be properly assessed; and
- Elevating critical issues to appropriate levels within an agency in a timely fashion.

OMB backed this up by requiring each credit agency to conduct biennial program reviews, including analysis of risks and risk-mitigation strategies, and include these as part of the agency's budget submission.

Then in summer 2014 OMB issued an update to Circular A-11, applicable to executive agencies when they submit their budgets, which in a new part calls on agencies to "assess and manage risk as a part of strategic and data-driven reviews in support of the broader organizational risk management framework, as appropriate for their missions, and in accordance with agency-specific programs."

The circular does not require that agencies practice ERM, but rather encourages the application of ERM and presents it in some detail as a best practice. This flexibility is wise; experience has taught that requiring risk management can turn the effort into a formality and compliance exercise and even into a gesture rather than an effective tool that management itself seeks to apply. It is far better to continue to encourage risk management and promote a change in organizational culture and practice rather than to

simply require activities that too easily can turn into a rote exercise. Over time, just as OMB induced agencies to turn the planning elements of the Government Performance and Results Act into a more useful management tool, OMB can encourage agencies to apply ERM in a systematic manner.

OMB is now working on a revision of Circular A-123, setting standards for internal control, and an exposure draft is likely to be published shortly. Informal reports suggest that A-123 also will include ERM, perhaps as an element of the governance structure for properly administering internal control.

The OMB initiative, and especially the care with which OMB is systematically encouraging rather than mandating ERM, is a welcome development that may help an increasing number of agencies develop management practices to protect against the kinds of unpleasant surprises that have affected too many federal programs in recent years.

DRIVE VALUE WITH ERM:

- Reduce the cost of compliance
- Align risk appetite and risk exposure with strategy and mission
- Limit the impact of unexpected outcomes
- Make risk-based and unified management decisions
- Enhance governance and promote accountability
- Optimize allocation of resources
- Strengthen performance and reduce variability
- Protect the value of assets

STILL MANAGING RISK IN SILOS? REDUCE COSTS AND ENHANCE EFFICIENCY WITH ERM

ERM is a more strategic approach to managing risk. By taking a broader view of interrelated risks and mitigation strategies, agencies can direct limited resources on the greatest threats to performance objectives, program goals, and mission success. MorganFranklin Consulting provides strategy, planning, and ongoing support to help agencies manage and sustain high-performing risk management programs.

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Enterprise Risk Management News

Measuring the Success of Enterprise Risk Management

A recent article in the Board Perspective discusses the topic of measuring the value of enterprise risk. While the Holy Grail question is not necessarily answered directly, following are some measures AFERM members can use to garner insights into the contribution of ERM to the organization's success.

1) Accomplishment of management's ERM objectives
2) A difference-maker in reshaping strategy in advance of disruptive change
3) Effective operational risk assessments to improve preparedness for the unexpected
4) Integration of risk assessment into the core management processes
5) An informed and effectively functioning board risk oversight process
6) Identification of emerging risk in a timely manner and implementation of effective early warning systems
7) Reduced performance variability
8) Reducing the number of or avoiding risk incidents or near misses
9) Increased risk sensitivity and awareness in the firm's culture

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

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Enterprise Risk Management Article

Interview with Nancy Potok, COO at the Census Bureau

Nancy Potok, PhD has been Deputy Director and Chief Operating Officer of the Census Bureau since August 2012. Before that she served as Deputy Undersecretary for Economic Affairs at the Department of Commerce where she was part of a small group that decided to implement risk management at the department and at Census in particular.

Q: As COO how do you regard the value of risk management for the Census Bureau?

Risk management is a critically important activity. From my vantage point as COO of a billion dollar organization with 17,000 employees who are involved in diverse activities across the country, it is impossible to know the important risks to our mission simply by relying on people deciding to tell me. In government in particular, it's very difficult for people to bring you bad news. They don't want to tell you when things are going wrong for fear of being blamed and punished. They try to fix things themselves, even when they need help. As a consequence, the higher up you get in the organization, the later you find out about the serious challenges. Of course, the later you find out about challenges, the harder they are to address.

What I wanted to create is a climate where people feel comfortable coming forward with things they need help with at a stage when it's still relatively easy to help them, as opposed to dealing with a full blown crisis much later down the line. When you have an organized risk management system in an organization, then managing risk becomes a way of doing business as opposed to a fearful activity where people are reluctant to ask for help because they don't want blame and bad repercussions. Now risk management becomes just "how we manage." It becomes our standard operating procedure, and people can see role models such that when they identify risks early, they get the help they need mitigating risk. That's the kind of behavior we want to reinforce.

Q: Was risk management established on your watch or had it been there when you came in?

During the decade leading up to the 2010 Decennial Census, the Census Bureau experienced some catastrophic failures in procuring key automated systems. This

resulted in major design changes at the last minute that were difficult to execute and quite costly. During this period, oversight bodies such as the GAO had urged the Census Bureau to put in place best practices for risk management. The Census Bureau then began to look at a more standardized generally accepted approach to risk management, but quite honestly I think that it was more of a paper exercise. People were managing risk as they always had, but began filling out templates and reports with heat maps and so forth. However, I didn't have the impression that people were really managing to the risk reports at all. It was more of a compliance gesture to oversight than a real management tool. The cultural change needed to adopt risk management as a regular practice had not occurred.

Back in 2009, when I joined the Commerce Department, the Deputy Secretary of Commerce, Dennis Hightower, had a corporate background and was very interested in Enterprise Risk Management. Fortuitously, before I joined Commerce, I was running a consulting company that had assisted organizations with implementing risk management. So I volunteered to work on a team the Deputy Secretary chartered to help him, as the COO, better understand the major departmental risks, such as NOAA satellites and the Decennial Census, and help the bureaus in Commerce think more consistently about risks.

As part of this effort, we made recommendations on how we could make sure that Commerce had a good risk review process. Risk review had fallen almost entirely into the realm of IT and acquisition reviews, because many of the risks involved major IT systems. But many risks went beyond IT, such as workforce planning. In addition, we recognized that risk management should be owned by all the senior leadership and not just the CIO. So our small group looked at the existing Commerce-wide risk management structure and suggested substantial changes. .And eventually, a risk management person was brought in and a risk management office was set up to help the bureaus implement risk management throughout their own organizations.

My job at Commerce involved some oversight of the Census Bureau. I worked with the Director [of the Census Bureau] to establish an Office of Risk Management and Program Evaluation that reported to the Census Bureau's Deputy Director and COO and had high visibility., Of course, when I came to Census that area became my responsibility. We've continued to develop and mature how we do ERM here at Census.

Some activities we've undertaken include setting up a risk management governance structure and putting the tools in place that help people assess and manage risk. In addition, we put in place a portfolio management system for all our projects. What we are implementing is a completely integrated program and project management system that rolls into the risk management system. We started by having the risk management office work with each program area to put a project portfolio together and start identifying everything that they were working on. Then we put the information into a portfolio management system that rolled up and integrated with all of our management systems. At the appropriate levels of the organization, we are looking at our investments, prioritizing them, and making sure that what people are working on is aligned with our strategic plan. That portfolio management system goes hand-in-hand with risk management, because we want to manage the risk of the projects we've decided are appropriate to put into the portfolio. Now part of the management process involves identifying and talking about risk.

Within the governance structure we identified what level of the organization is appropriate to deal with different kinds of risks. Because we're a large bureaucratic organization, you don't want to leave this to everyone's individual judgment, So we laid that out in order for everybody to see and understand it. We have an Operating Committee consisting of the COO and leaders of each business line, the CIO and the CFO. We meet once a week and are the top executive leadership of the Bureau. The Operating Committee is the group that looks at the significant enterprise risks.

At specified times we conduct regular risk reviews but if something is identified as a big risk, we can look at it at any time. We've put the governance structure in place so that our approach is not haphazard, and we've also put a common set of tools out there so everyone is doing this the same way, and it's easier to roll our risks up to different levels of the organization.

The risk management office serves as the staff of the Operating Committee, coordinating the risk reviews. They don't manage the risk, because every program office is responsible for managing its own risks, but they are the people who keep the process going for the Operating Committee and provide on-going assistance to the program areas.

Q: Thank you very much for sharing your insights…

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Welcome New Members!

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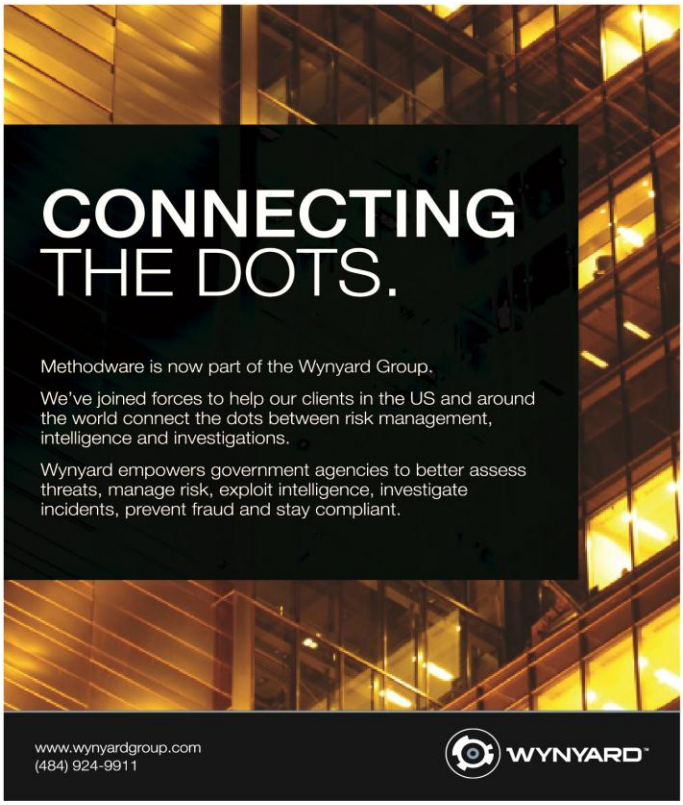
Lara Allen	Department of Justice
Leo Constantino	Future Risk Consulting
Wendell Connerl	Department of Housing and Urban Development (HUD)
Jacob Robert Lee, Jr.	
Sharon Cooksey	
David Coontz	NARA
Sasha Dudis	Deloitte
Lucy Mungle	
Tamika Edwards	Transportation Security Administration
Alex McElroy	Grant Thornton
Jessica Nichols	Department of Housing and Urban Development (HUD)
Jennifer Nielsen	Deloitte
Albert Sica	The ALS Group
Jonathan Wigginton	Ernst & Young



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Request for Your Success Stories

We'd like to hear from you on your experiences in leading or supporting risk management efforts, please send a short description to the AFERM Communications team. We hope to accumulate a series of vignettes that will support continued interest in the benefits of ERM throughout the Federal government.

Please send your success stories to the AFERM Communications team at: **AFERM.Communications@gmail.com**

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Interest in enterprise risk management (ERM) is growing fast among Federal agencies. A number of them have appointed a chief risk officer to manage their ERM efforts. Federal entities are starting to focus on enterprise solutions to manage risks that impact strategic and tactical objectives and use of resources. Along with this, a number of agencies are looking to translate the concept of ERM past the abstract framework into practical solutions that will ultimately support risk enabled performance.

The EY Government and Public Sector Enterprise Risk Management team offers a proven methodology and approach to help agencies leverage their investments in complying with Office of Management and Budget Circular A-123 Appendix A and other requirements by identifying and replacing isolated initiatives and remediation fixes with a holistic approach to integrating internal controls, compliance and risk management initiatives under an ERM framework.

That's how we make a difference.

To find out more, contact Linda M. Springer at +1 703 747 0388 or linda.springer@ey.com or Daniella Datskovska at +1 703 747 0172 or daniella.datskovska@ey.com.

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