



# The ERM Journey

Best practices and lessons learned

**AFERM Summit 2014**

# Introductions

## Panelists

- **Ms. Sheila Conley**, Deputy Assistant Secretary for Finance and Deputy Chief Financial Officer, U.S. Department of Health and Human Services
- **Mr. Tim Soltis**, Deputy Chief Financial Officer, U.S. Department of Education

## Moderator

- **Ms. Shelly Turner**, Director, PwC

# Agenda

## The ERM Journey

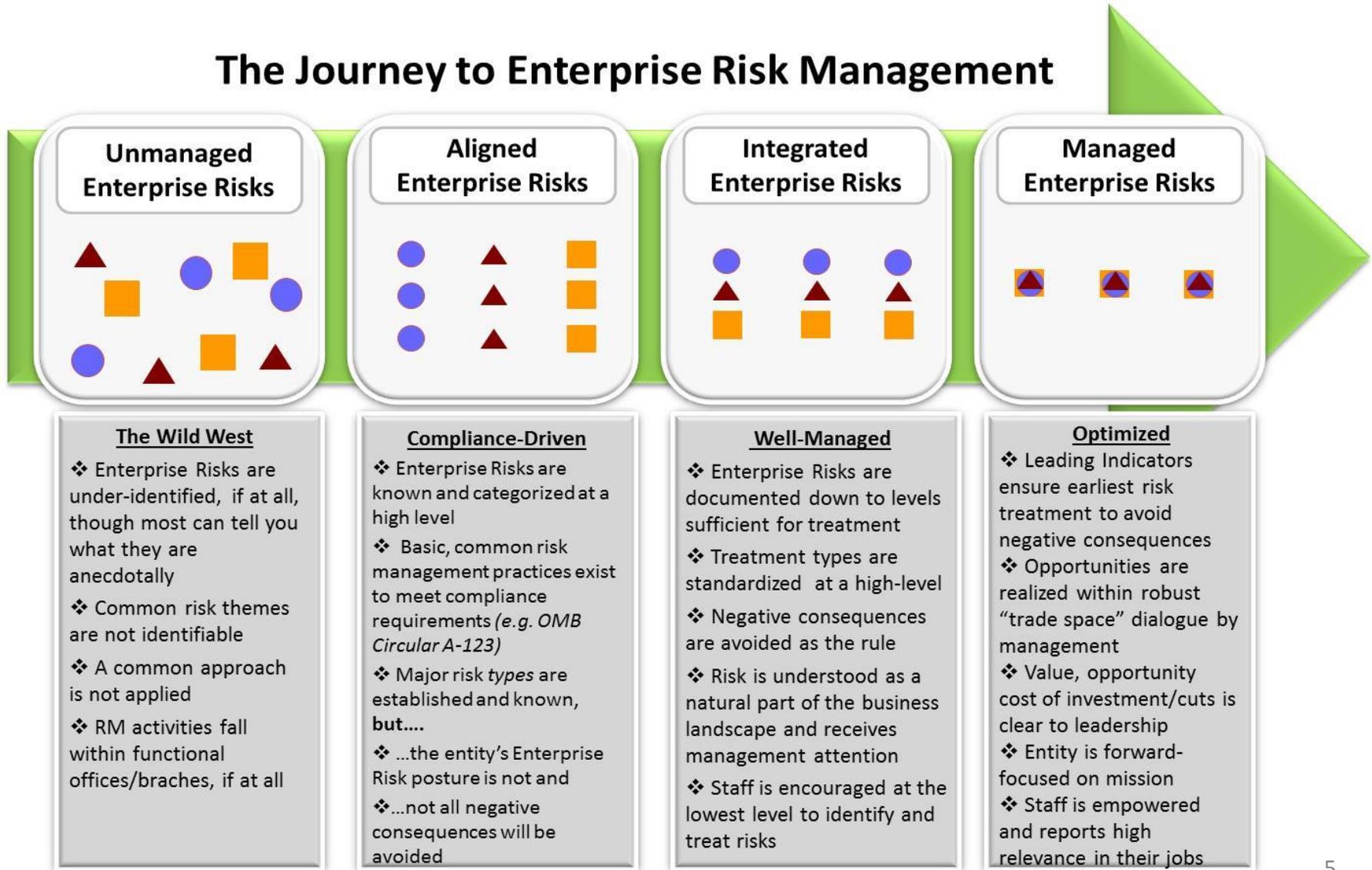
- ERM defined and ERM maturity model
- 2013 ERM survey findings
- The ERM journey for our panelists and their organizations
- Lessons learned
- What's next for ERM
- Audience polling
- Wrap up

# ERM Defined

AFERM defines Enterprise Risk Management (ERM) as a discipline that addresses the full spectrum of an organization's risks, including challenges and opportunities, and integrates them into an enterprise-wide, strategically-aligned portfolio view. ERM contributes to improved decision-making and supports the achievement of an organization's mission, goals, and objectives.

# ERM Maturity Model

## The Journey to Enterprise Risk Management



# 2013 Annual Risk Survey Findings

## **Biggest internal change drivers as rated by public sector respondents**

- Business transformation/change management initiatives (78%)
- Growing reliance on technology and IT systems (66%)
- Changes in talent, staffing, and resources (53%)
- Innovation of products, services, and business models (44%)
- Mergers, acquisitions, and divestitures (6%)

*Source: PwC's 4<sup>th</sup> annual survey, polling 1,940 executives, including a series of in-depth interviews, in 37 countries, representing the financial services, consumer and industrial products and services, technology, communications and entertainment, healthcare, and government sectors*

# 2013 Annual Risk Survey Findings

## **Biggest external change drivers as rated by public sector respondents**

- Technological change and IT risks (67%)
- Government policy changes (64%)
- Changing customer needs/behavior (35%)
- Global economic shifts and uncertainty (33%)
- Increasing regulatory complexity and scrutiny (28%)

*Source: PwC's 4<sup>th</sup> annual survey, polling 1,940 executives, including a series of in-depth interviews, in 37 countries, representing the financial services, consumer and industrial products and services, technology, communications and entertainment, healthcare, and government sectors*

# ERM at HHS



**Ms. Sheila Conley**

Deputy Assistant Secretary for Finance and  
Deputy Chief Financial Officer

U.S. Department of Health and Human Services

# Risk Landscape at HHS

## External Stakeholders

- Administers more grant dollars than all other federal agencies combined
- Serves as nation's largest health insurer, with one in four Americans receiving either Medicare or Medicaid
- Administers more than 300 programs

## Resources

- Represents almost a quarter of all federal outlays
- \$888.2 billion total net outlays in 2013

## Internal Operations

- 11 operating divisions with diverse missions (4 divisions are larger than some Cabinet-level agencies)
- Federated/decentralized structure

## Emerging Risks

- Ebola outbreak
- Unaccompanied minors border crisis
- Laboratory biohazard incidents
- Continuing ACA implementation



ADMINISTRATION FOR  
**CHILDREN & FAMILIES**



National Institutes  
of Health

# Evolution of ERM at HHS



## Initial State

- No standardized enterprise-level risk management methodology
- Focused on reactive rather than proactive strategies
- More focused at identifying financial risks than operational risks that could impact the efficiency and effectiveness of programs

## HHS Program Integrity Focus

- Created governance structure of senior officials from each operating and staff division, known as the Program Integrity Coordinating Council
- Established uniform approach to identifying and addressing risks
- Developed a multi-course training curriculum in risk management to improve program integrity

# Evolution of ERM at HHS



## Initial Results

- Shifted the perception of risk with heightened attention on external risks
- Prioritized response efforts with areas of identified risk/need
- Used analytics to identify cross-cutting risks and develop common solutions
- Launched Single Audit Metrics Initiative to enhance grantees' compliance with A-133

### Examples of HHS Risk Categories

Compliance with Laws

External Factors

Human Resources

Information & Technology

Policy Environment

# Evolution of ERM at HHS



## Current State

- 70+ programs have undergone risk assessments
- Embedded ERM into current HHS-wide business processes such as improper payments, financial reporting and Single Audits
- Tested and rolled out an electronic platform for the HHS-wide risk assessment process
- Continued to identify cross-cutting risks and corresponding solutions
- Enhanced current efforts by instilling P3I --- the Integration of Planning, Performance and Program Integrity processes and business operations

# A Better Path Forward-P31



## Integration at the Department level

Current State (Contained, Exclusive, Partial)



Strategic Planning Community

**Purpose:** Establishes Strategic Vision, Goals and Objectives at both HHS and OPDIVs

Performance Community

**Purpose:** Tracks progress in meeting defined goals and objectives

Program Integrity Community

**Purpose:** Identifies and mitigates risks and barriers to success

P31 Addresses

What are we trying to achieve?

How do we know we are on track?

What is preventing our success? How can we do things better?

Working **across** communities to develop accurate, holistic information and data-driven answers to....

P31 State (Coordinated, Inclusive, Holistic)

# Lessons Learned/Best Practices



## Achieving goals

- ERM should align with and inform strategic goals/objectives
- ERM cannot succeed in isolation and must be integrated into business operations

## Communications

- Communications is a critical component of effective ERM
- “Risk Appetite” must be understood and communicated

## Governance

- Tone at the top is crucial
- Elevation of the appropriate issues to the appropriate people at the appropriate time

# ERM at Education



**Mr. Tim Soltis**

Deputy Chief Financial Officer

U.S. Department of Education



# Sources of Uncertainty

## External Stakeholders

- About 16,000 school districts - over 98,800 public and 28,000 private schools
- About 50 million public elementary/secondary students
- About 21.6 million students attend over 6,000 colleges, universities, and other postsecondary institutions
- Over 300M Americans with wide ranging views on education

## Internal Operations

- Policy
- Management of financial resources
  - \$1Trillion in financial assets
  - Annual disbursements of over \$200B
- Employee actions
- Information technology and data



# ERM Incremental Journey



## Established Risk Management Processes

- Grants
- Financial/Contract Management
- Information Technology
- Political/Reputation

## On-going Risk Management Activities

- Operational - program management and mission support
- Compliance – legal, civil rights, audits/investigations

## Emerging Risk Factors

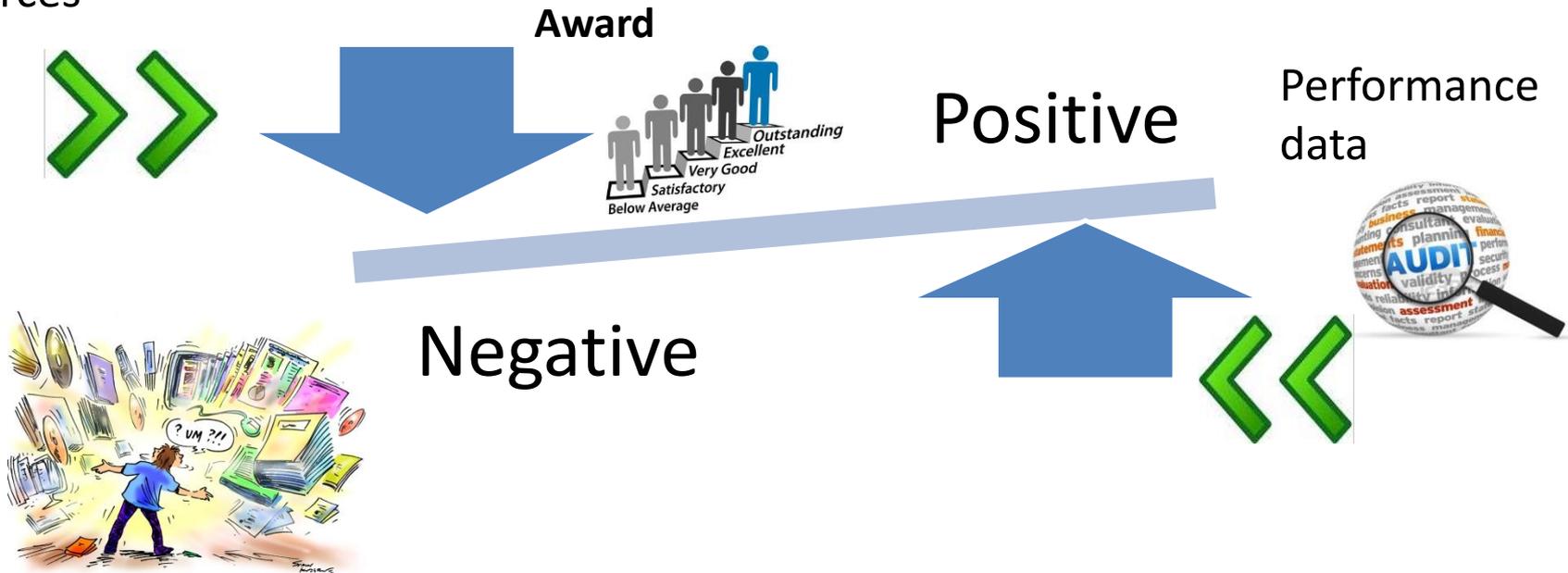
- Performance Management (strategic)
- Data Management
- Human Capital Management
- Space Management



# Managing Grant Risk



Entity Information  
Sources



Grant Entity's Risk Profile Strength

# ERM Success Factors

- Managing across inter-related portfolios
- Selecting an appropriate ERM framework
- External governance
- Defining risk appetite/risk tolerance
- Available options to avoid /transfer risk
- Standardization
- Sustaining a risk management culture
- Using risk factors to re-allocate resources



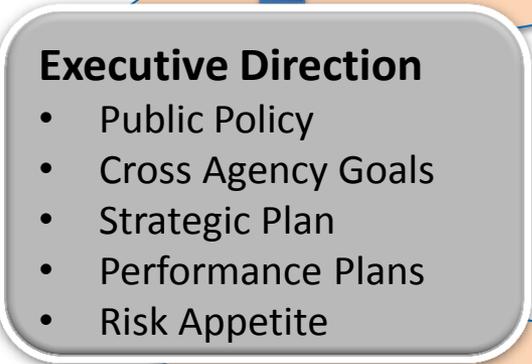
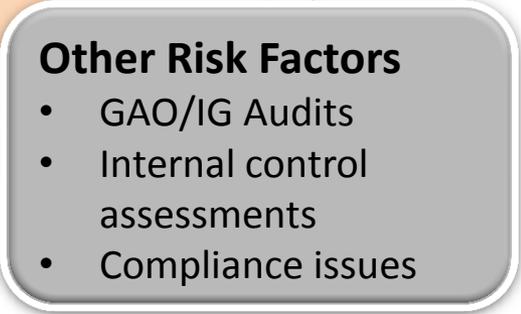


# ERM Relevance to FM Cycle



**EXECUTE**

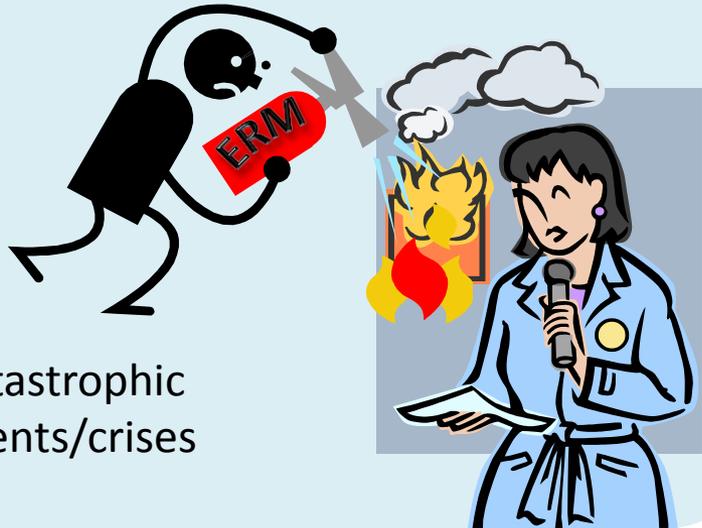
**ANALYZE**



**DECIDE**



# Paths to ERM



Catastrophic events/crises



Independent projects across the agency come close

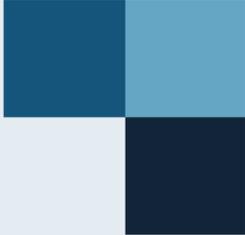
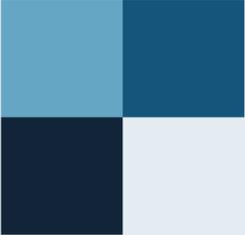


Legislative mandate



Executive-sponsored, agency-wide ERM program

# **Audience Polling Questions**



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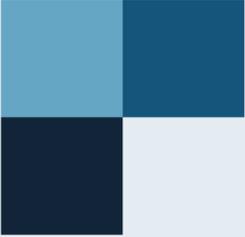
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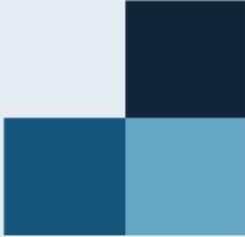
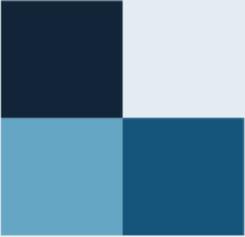
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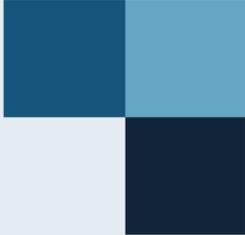
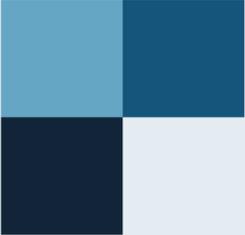
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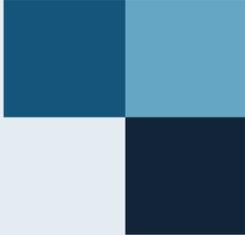
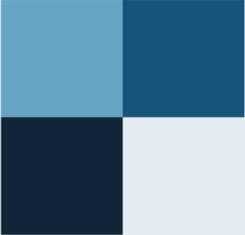
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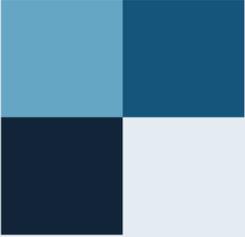
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# Panel Session Wrap Up

- Questions/Answers
- Concluding Comments

# Thank you for your participation!



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**Mr. Tim Soltis**, Deputy Chief Financial Officer, U.S. Department of Education