OMB Circular No. A-123: Management’s Responsibility for Enterprise Risk Management and Internal Control

From 1-2-3 to E-R-M

Association for Federal Enterprise Risk Managers
November 7, 2016
Enterprise Risk Management and A-123

- ERM has been a **common practice in the private sector** for years now, and not entirely new to government.

- **Risk management** as a government program management practice is **currently in use**.

- For example, the **Department of Treasury has a Chief Risk Officer** who is charged with providing risk management across the department.

- This Circular A-123 **guidance** includes **ERM** which builds off these **best practices** and requires their use across the government.

- ERM consolidates all the challenges from various parts of the organization to ensure that a **portfolio view of risk** is available to the **highest levels of leadership**.
Enterprise Risk Management and Internal Control

Risk is the effect of uncertainty on objectives. It is typically addressed within functional, programmatic, or organizational silos.

Enterprise Risk Management is:
“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.”

Internal Control is a process effected by an entity’s oversight body, management and personnel that provides reasonable assurance that the objectives of an entity will be achieved. (GAO Green Book)

A process to help achieve objectives (GAO Green Book)

In other words, things you do to make sure good things happen and bad things don’t.

Internal Control System is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity’s objectives will be achieved. (GAO Green Book)
Outcomes and Benefits of ERM

**Outcomes:**
- An increased likelihood of successfully delivering on agency goals and objectives.
- Fewer unanticipated outcomes encountered.
- Better assessment of risks associated with changes in the environment.

**Benefits:**
- An increased likelihood of successfully delivering on agency goals and objectives
- Allows for increased preparedness before adverse events occur which helps minimize surprises and losses
- Provides a holistic view of risks and interdependencies
- Helps align and allocate resources
- Improves operational effectiveness and efficiency
- Reduces decisions based on risk aversion
- Improves stakeholder confidence and trust
What Is Required to Implement ERM?

• **Risk Profiles:** Establish a “risk profile” with the following components:
  - Identification of Objectives
  - Identification of Risk
  - Inherent Risk Assessment
  - Current Risk Response
  - Residual Risk Assessment
  - Proposed Risk Response
  - Proposed Risk Response Category

• **Integration:** Risk profiles to be integrated with management evaluation of Internal Control (Reasonable Assurance Process)

• **Disclosure:** A-123 recognizes that the risk profiles will often include pre-decisional, sensitive and confidential information, and therefore will need to be treated as sensitive decision-making documents. Agencies should consult with their OGC when making determination on disclosures.
The Current Risk Environment

- The Federal government is facing greater change than at any other point in time
- Current budget realities mean agencies compete for limited resources as never before
- Budgets will go to those who best show value
- There is greater scrutiny and expectations from internal and external stakeholders for agencies to respond to risk faster and more effectively
- The continual focus of risk management on financial areas has limited the broader considerations of risk within organizations

Major Management Challenges
Could they have been avoided?
Could the impact have been minimized and more manageable?

What will be next?
OMB Circular No. A-123 History

- 1982 – OMB Issued Internal Control Guidelines and the Federal Managers Financial Integrity Act (FMFIA) was enacted
- 1986 – OMB Updated A-123 to Require Management Control Plans to guide efforts
- 2006 – OMB First Issued A-123 Appendix B for Government Charge Cards and Appendix C for Improper payments (Appendix C updates 2006 to 2014)
- 2013 – OMB First Issued A-123 Appendix D for Compliance with the Federal Financial Management Improvement Act (FFMIA).
- 2014 – OMB updated A-11, *Preparation, Submission, and Execution of the Budget* and includes Enterprise Risk Management and Internal Control
Expanding on the Green Cube To Include ERM

I. Incorporating Strategic Objectives

The inclusion of a strategic process to risk management and internal control

II. 2016 Update to A-123

The organization of internal controls as introduced in the 2014 Green Book

III. 2017 Requirements of A-123

The introduction and refinement of ERM components to be integrated into existing internal control processes
Federal Performance Framework

**Agency-level**
- Cross-Agency Priority Goals
  - Mission-focused
  - Management
- Strategic Goals
  - Strategic Objectives
- Agency Priority Goals (APGs)
  - Performance Goals

**Gov’t-wide**
- Cross-Agency Priority Goals

**Planning**
- Every 4 yrs.
- Annually
- Quarterly
- Federal Performance Plan
- CAP Goal Action Plan Updates
- Agency Strategic Plan
- Annual Performance Plan
- APG Action Plan Updates

**Evidence, Evaluation, Analysis, and Review**
- Quarterly
- Annually
- CAP Goal Reviews
- APG Reviews
- Strategic Reviews

**Reporting**
- Quarterly
- Annually
- CAP Goal Progress Updates
- APG Quarterly Progress Updates
- Annual Performance Report

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**Decision-making and Learning to Improve Outcomes and Productivity**
Operational, policy, and budget decisions; and updates to plans including milestones and improvement actions

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**Management feedback**

**Stakeholder feedback**
ERM and Internal Controls

A-123 Future State

Source: Based on COSO
After the passage of the GPRA Modernization Act, OMB established annual Strategic Reviews. These reviews are an annual assessment which synthesizes broad sources of evidence to inform budget, legislative, and management decisions.

- One of the priority maturity areas is to better manage risks to goal achievement.

Components of a Strategic Review
A-123: The Foundation for ERM

- Risks and Uncertainty
  - Strategic
  - Operational
  - Reputational
  - Financial
  - Etc.

- Strategic Decisions (OMB A-11)
  - Mission/Vision
  - Goals/Objectives
  - Strategic Reviews

- Budget Decisions (OMB A-11)
  - Policy
  - President’s Budget
  - Congressional Justification

- Program Management (OMB A-11)
  - Agency Priority Goals
  - Cross Agency Priority Goals
  - Fed Stat

- CXO/Operations Support (OMB A-123)
  - Operational Control Objectives
  - Reporting Control Objectives
  - Compliance Control Objectives
  - Risk Assessments
OMB Circular A-123 and Playbook  
External Rollout Plan

Overlapping and Concurrent Outreach Approach

• Continue to participate in AGA, PPS, AFERM and other public events.
• **Internal Briefings:** Focused on CFO Act Agencies and Small Agencies.
  - Schedule will be coordinated with PIC and RMO’s.
  - CFO Act Agency schedules will be coordinated through OMB through designated POCs.
  - Small Agency schedule will be coordinated through Small Agency Council, and other venues.
• **OMB Follow-up:** OPPM and OFFM will work with agencies to address key challenges and gaps, including developing a plan for providing targeted training and supporting agency resource needs.
• **Post-transition Guidance:** OPPM will lead development of guidance to agencies following the transition for consideration of risk as part of the annual Strategic Reviews, new Strategic Plans, and budget process.
• **Town Hall briefings:** OMB will provide status updates and address commonly asked questions and concerns to Public and Government.
Internal Control Over Financial Reporting

Not a typo!

Source: COSO
Revised OMB Circular A-123
ERM and Internal Control Requirements

ERM Implementation Plans

- Agencies are encouraged (not required) to develop an approach to implement Enterprise Risk Management.

Internal Control Assessments in Accordance with 2014 Updates to GAO Green Book

- Agencies must complete updates to their internal control assessments in accordance to the 2014 updates to the GAO Green Book which expanded the scope of internal control assessments from the 5 components to the 17 principles of Internal Control.

Initial Risk Profile

- Agencies must complete their initial risk profiles in coordination with the agency Strategic Reviews. Key findings should be made available for discussion with OMB by May 15, 2017 as part of the Initial Risk Profile in FY 2017, assurances on internal control processes must be presented in the Agency FY 2017 Annual Financial Report (AFR) or Performance and Accountability Report (PAR).

Integration with Management Evaluation of Internal Control

- For those risks for which formal internal controls have been identified as part of the Initial Risk Profile in FY 2017, assurances on internal control processes must be presented in the Agency FY 2017 Annual Financial Report (AFR) or Performance and Accountability Report (PAR).

Updated Risk Profile

- No less than annually, agencies must prepare a complete risk profile and include required risk components and elements required by this guidance. CFO Act Agencies, at a minimum, must complete their risk profiles in coordination with the agency Strategic Review. For these Agencies, key findings should be made available for discussion with OMB by June 3rd as part of the Agency Strategic Review meetings and/or FedSTAT.

As soon as practicable, prior to June Initial Risk Profile deliverable

- September ‘16

- June ‘17

- Sept ‘17

- Annually, June 3, 20XX
OMB Circular A-123 and Playbook Outreach Efforts and Major Milestones

Known dates are provided. Approximate timeframes are provided for events which are in the planning phase.
ERM Implementation Playbook

ERM Playbook Overview

Playbook Purpose: To provide an ERM Framework and practical guidance to support A-123 compliance and effective ERM implementation across agencies.

ERM Playbook Steering Committee
Set project policy and established the timeline for the project.

ERM Playbook Working Group
Implemented the project goals set by steering committee and keyed up decisions and recommendations for the Steering Committee.

Multi-disciplinary representation from across the federal government

- Financial Management
- Procurement
- Risk Management
- Internal Controls
- Human Capital
- IT
- Performance Management
- Grants Management
- Federal Credit

Over twenty federal agencies represented
More Questions?

Please Contact
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