AFERM
Association for Federal Enterprise Risk Management

AFERM Updates

Issue 24
December 2017

Thought Leadership for the Federal Enterprise Risk Management Community

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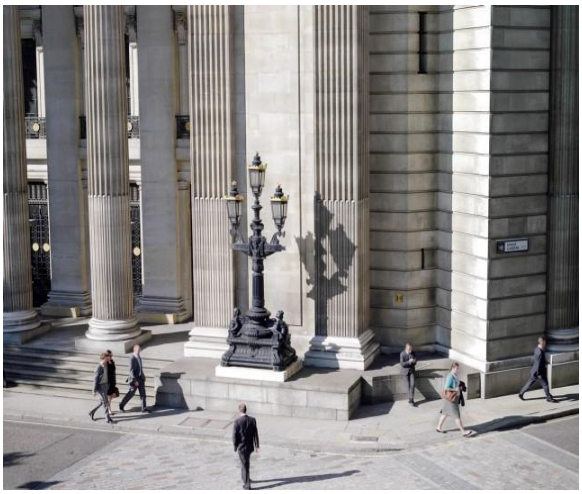

Highlights

This is the 24th issue of the quarterly AFERM Newsletter! It includes an interview with 2017 AFERM Summit Chair Christine Jones and four (4) thought leadership articles from ERM practitioners with BlackFox Strategy, King County, Washington, LogicManager, and AFERM corporate sponsor ACL.

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A Note from AFERM's President

Peggy Sherry

AFERM: Supporting the Federal ERM Community

By Peggy Sherry

Hello, and Happy New Year!

The beginning of a new year is a time for reflection, and as I look back on 2017, I am reminded how important managing risk is to a strong government. The past 12 months have been ones of great change. We've experienced a change in Administration, with new executive orders and policy shifts, including major tax changes; there is a renewed emphasis on operating efficiency with a focus on smaller government; and we experienced another government shutdown and face the uncertainty of more to come.

These events highlight how dynamic and uncertain operating in the federal government can be. This also reminds me why enterprise risk management (ERM) and the work you do is so important to delivering missions and managing risk, while navigating change and uncertainty.

As federal agencies updated their strategic and performance plans, the risk professionals had a great opportunity to ensure enterprise risks were considered and managed. We can also help navigate uncertainty by embedding ERM in the daily operations of our agencies and ensuring that critical decisions are informed by risk. Identifying risks and articulating what is in place to manage and mitigate them is also an important role we play.

AFERM is here to help provide you the tools to navigate and lead through dynamic times. Our website provides you up-to-date thinking and tools; your membership provides you opportunities to network and connect with other risk management professionals in the federal sector; our events are designed to address current issues that we are all working to manage; and we have efforts underway to ensure the practice of ERM in the federal space is professionalized and embedded in all we do.

I am very optimistic about our profession, and I look forward to the many exciting events and offerings AFERM has for all our members. The AFERM New Year began with the wonderful networking event on January 24th. Nandini Kini, Senior Director of Enterprise Risk Management at Capital One, provided great insights on building critical bank-wide risk management capabilities. This was followed by a networking event which I hope provided opportunities to catch up with ERM colleagues and to meet new ones!

This year, I hope you will resolve to get involved and stay involved with AFERM. We are your association, and your involvement and participation makes us stronger. We have many opportunities to volunteer. In fact, we have already begun planning for our Summit, and our Summit Chair, Sean Vineyard, is enthusiastically planning our agenda and recruiting volunteers! If you'd like to be part of this year's event, we would love to have you – volunteer at https://www.aferm.org/about/summit-volunteers/.

Best regards for a wonderful 2018!

Peggy Sherry

Peggy Sherry, AFERM President, may be contacted at president@aferm.org.

ERM Events

Events of interest to ERM practitioners

AFERM hosted a networking event on January 24, 2018, at Clyde's at Gallery Place. The members-only networking event featured a presentation on ERM by Nandini Kini, Senior Director, Enterprise Risk Management, at Capital One. Ms. Kini is an ERM professional with an extensive track record building critical, bank-wide risk management capabilities in support of the Chief Risk Officer (CRO) agenda.

Her risk experience spans all three lines of defense, most risk categories, and over 20 countries. As a senior leader at a large Foreign Bank, she set up, managed, and transformed a global risk middle office function, spanning 18 countries and approximately 250 staff. She recently joined Capital One after 3 years with KPMG's Financial Risk Management practice. She holds an MBA from Duke University, and an undergraduate degree in engineering from the National Institute of Technology, India.

The presentation was followed by a networking reception with refreshments provided. We hope you were able to take advantage of this opportunity to hear about Capital One's ERM program, and we look forward to bringing you more opportunities like this in 2018!

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Other upcoming events that may be of interest include the following:

- Performance Institute's Advanced Performance Management, Washington, DC, January 29, 2018
- Performance Institute's Government Performance Management: Planning and Measurement, Washington, DC, February 26, 2018
- RIMS' 2018 Annual Conference & Exhibition, San Antonio, TX, April 15-18, 2018
- AGA's 2018 Professional Development Training, Orlando, FL, July 22-25, 2018

For more information on the AFERM networking event and the Performance Institute events, visit AFERM's Events page on our website at https://www.aferm.org/events-list/.

Thomas Holland of PwC coordinates the AFERM luncheons, networking, and other events. He may be reached at AFERM.Lunches@gmail.com.

AFERM Association for Federal Enterprise Risk Management

AFERM Updates

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Thought Leadership for the Federal Enterprise Risk Management Community

AFERM's 2017 Summit

An interview with Christine Jones

Christine Jones

On November 1st and 2nd, 2017, more than 400 ERM professionals participated in the 2017 AFERM Summit at the Marriott at Metro Center in Washington D.C. It was the largest AFERM Summit yet, with 15 breakout sessions and upwards of 100 plenary speakers, panel speakers, panel moderators, and volunteers, combined. Registration for the AFERM Summit sold out in record time, and we received very positive feedback from participants.

A successful 2-day event like the AFERM Summit requires advance planning, consideration of feedback from participants and lessons learned, and the dedication of a team of volunteers. The 2017 Summit Planning Committee was comprised of 40 volunteers, 34 subcommittee members, and two fantastic chairs – Christine Jones, Associate Deputy Assistant Secretary for Finance at the U.S. Department of Health and Human Services (HHS), and Ken Fletcher, President and CEO of Kestrel Hawk Consulting Inc., and former Chief Risk Officer (CRO) at the Transportation Security Administration (TSA).

In December, the AFERM Communications Committee interviewed Ms. Jones on chairing the 2017 AFERM Summit Planning Committee. We thank Ms. Jones for taking time to meet with us and share her experience and congratulate her on a great AFERM Summit!

Interviewer: Thank you for taking time from your busy schedule for this interview, and congratulations on a very successful 2017 AFERM Summit!

Christine: Thank you! It was a great experience.

Interviewer: When did you start planning the 2017 AFERM Summit?

Christine: We had our kick off meeting in March 2017 with key AFERM stakeholders and President Sallyanne Harper. Shortly after this meeting we sent out a solicitation for volunteers. Subcommittee chairs were identified in the beginning of April, and we held subcommittee chair meetings every other week for an hour until September when we started meeting every week.

Interviewer: Could you please tell us about how you divided the work into subcommittees and how these subcommittees contributed to the success of the Summit?

Christine: We created an Executive Steering Committee and five (5) subcommittees to help plan the AFERM Summit: the Plenary Subcommittee, the Logistics Subcommittee, the Marketing Subcommittee, the Breakout Subcommittee, and the Sponsorship Subcommittee. Each subcommittee's work load varied based on the different stages of planning for the Summit. For example, the Executive Steering Committee met weekly up until the Summit in November; whereas, other subcommittees had peaks of activity. The majority of the Plenary subcommittee's work was performed May through July, when they were identifying potential speakers and presentation topics for the AFERM Board to approve. Other subcommittees such as the Logistics Subcommittee were busiest in September and October. The Marketing Subcommittee had a steady level of effort from March until November carrying out tasks such as updating the website, sending out emails advertising the Summit, and developing the Summit app for Apple and Android smartphones. The Breakout Subcommittee, in my opinion, had the largest workload identifying topics for 15 breakout sessions, including securing speakers and moderators. The Sponsorship Subcommittee had a steady level of effort securing sponsors for the Summit, coordinating sponsor booth locations and related logistics. Every subcommittee really owned their tasks - they all pulled their weight and delivered quality work that made the event run smoothly. The subcommittee chairs were amazing! They were strong leaders and very responsive and organized.

Interviewer: How was the agenda for the Summit developed?

Christine: We considered the topics suggested by the AFERM Board, attendees of the 2016 Summit as captured in the Summit Survey and the Executive Steering Committee, Plenary Subcomittee, and Breakout Subcommittee. We considered that not all agencies are at the same level of maturity in their ERM initiatives, and so we wanted to offer different tracks that aligned to different maturity levels.

Interviewer: If you could have included any additional programming what would it have been?

Christine: To keep pace with agencies as their ERM programs continue to mature, the AFERM Summit subject matter will need to continue evolving. If I were to do it again, I would have liked to include more "how to" break out sessions with case studies, real life applications, and lessons learned; and I would take a more strategic look at the schedule to incorporate more execution-focused sessions, which may have required changing the schedule format to have fewer but longer sessions.

Interviewer: What are some of your favorite aspects of the 2017 Summit?

Christine: Seeing it all come together after everyone's hard work and seeing the reactions of the Summit attendees, how well it was received and hearing everyone's feedback. Every year the Summit gets better, and I think next year will be even better!

Interviewer: What is one piece of advice you would give the 2018 Summit Chairs?

Christine: One piece of advice is to pick the right venue, as the venue sets the stage for the Summit. To attract the most participants and create a successful learning environment, the venue and its amenities is key. Also, put a lot of care into the agenda and plan it early. Planning the agenda early will give the Summit chairs time to think strategically about how they want it to flow.

Interviewer: What about the 2017 Summit are you most proud?

Christine: I am most proud of the volunteers and the Summit subcommittees! Without the efforts of every person involved, it wouldn't have happened. Every detail matters, and everyone involved cared deeply about the details and the success of the Summit. Also, I couldn't have done this without [Summit co-chair] Ken Fletcher. He was amazing!

Thought Leadership

Staying Ahead with a Root-Cause Approach to Risk Management

By Steven Minsky

2017 unearthed a myriad of corporate scandals, disrupting operations and weakening public trust. Three recent examples include Chipotle which is looking for its second CEO in two years; Uber which is struggling to stay ahead of the competition; and Equifax which is combatting a slew of lawsuits. I have seen and studied corporate scandals over the past 13 years, and I maintain that they were entirely preventable—a view of which some may be skeptical.

Companies that suffer multiple scandals serve as poignant examples of this preventability. After their cross-selling scandal in 2015, Wells Fargo believed they had addressed and resolved the issue. Yet, the bank continues to top news headlines with failures in its auto loans and mortgage departments.

When a business is subject to multiple scandals, we cannot assume they're disjointed, one-off incidents. We need to understand that the problem is more systemic, and, therefore, preventable. All too often, corporations identify the incorrect root cause of the issue, thereby leaving themselves open to similar vulnerabilities in other departments.

In a harshly worded letter from the Office of the Comptroller of the Currency, Wells Fargo's chief regulator said the bank had willingly harmed its customers and repeatedly failed to correct problems in a broad range of areas, not just the auto insurance and mortgage lending units. Wells Fargo is suffering from a systemic lack of enterprise risk management (ERM). Having implemented the tools and systems to identify the true root cause of their first scandal, it would not have suffered the crushing financial and reputational consequences of the second, third, and fourth.

Wells Fargo is an example for all organizations in both the private and public sectors. As unique as they appear, all scandals are connected in that they all have a root cause. If organizations can properly identify root-cause risks, they can better anticipate and address risk before it materializes into scandal. Implementing a root-cause approach is particularly necessary for federal institutions as the current regulatory environment continues to demand increased risk management and transparency.

What Do We Mean by Identifying Root-Cause Risks?

The most effective risk identification techniques focus on root cause, which tells us why an event occurs. Identifying the root cause of a risk provides information about what triggers a loss and where an organization is vulnerable. Mitigation activities should be aimed at root cause and will differ depending on the source of risk.

For example, a risk event may be that you have a headache. One way to remedy a headache is to take a painkiller. The painkiller will make the headache go away, but it does not help prevent future headaches. In order to prevent a headache, we need to know why we have one. If the headache is caused by lack of sleep, then the proper mitigation is going to bed earlier. But if the headache is caused by dehydration, then going to bed earlier won't prevent future headaches.

In this simple example, it's easy to see why creating controls based on risk event/outcome, as opposed to root cause, can lead to very ineffective mitigation activities. Armed with the knowledge of the source of a risk, we can proactively manage risk and avoid future risk events.

Wells Fargo Has Failed to Identify Root-Cause Risk

Within the past year, Wells Fargo has made headlines with four scandals. In examining these scandals, it seems their failure to mitigate root-cause risk has played a monumental role in their repeat offenses.

In 2013, rumors began circulating that Wells Fargo employees had been opening new accounts and issuing debit and credit cards without customers' knowledge in order to meet cross-selling targets. As we now know, 3.5 million false accounts were created this way over the course of five years. Many attributed this scandal to an overly aggressive sales culture. This, however, was not the root cause of the issue.

There is nothing inherently wrong with ambitious sales goals, as long as there are systems in place to ensure employees are not in a position to choose between their own financial security and a customer's well-being. Employees tasked with meeting high-pressure sales targets should not have been in charge of opening new accounts, and they should not have had the administrative rights to do so.

After a six-month investigation into the scandal, the bank's board of directors found that ineffective governance structures and poor risk management processes were at the heart of

the problem. However, the bank seems to have interpreted the board's findings too narrowly. Instead of understanding the root cause as a failure in ERM, they identified the root cause as a failure in risk management in the one department where the scandal occurred, *i.e.*, sales. In 2017, Wells Fargo admitted it charged 800,000 customers a total of $80 million in collateral protection insurance they did not need. Customer and regulator outrage quickly flared due to the tantalizing similarities between these two scandals.

When a new initiative is introduced, such as a new sales strategy, it's imperative to perform objective risk assessments on the processes involved to uncover any potential root-cause risks before they materialize. Had the bank done so, the auto loans department would have seen that there was an inherent risk in their collateral protection insurance policy, that is, a risk of charging a customer for insurance they do not need. From there, controls could have been implemented so employees conducted proper due diligence to verify customers did, in fact, lack auto insurance before they purchases it for them.

Unfortunately, until Wells Fargo implements the enterprise risk management program the OCC originally called for, they will continue to overlook systemic vulnerabilities across their organization and remain the subject of future headlines.

A Root-Cause Approach in an Evolving Landscape

Federal institutions will benefit from adopting a root-cause approach in risk management. Such organizations are dedicated to meeting a wide range of community and customer needs as per their missions. The challenge is that these expectations are not static, but always evolving. While community expectations are reflected in regulations and standards that organizations strive to meet, it's now the case that consumers are taking it upon themselves to voice their expectations loud and clear. Social platforms like Glassdoor, Yelp! and Twitter have created a see-through economy in which consumers are empowered to make their needs explicit far more quickly than regulations can.

Consider a current example: Facebook's revenue relies largely on selling targeted advertisements, which the company has done without regulation and limited scrutiny for many years. Recently, however, Facebook reported that Russian-linked accounts bought thousands of politically divisive ads during the 2016 campaign that reached 126 million users. By the time Senator John McCain and other lawmakers could introduce a new "Honest Ads Act" that would hold sites like Facebook and Twitter to the same federal disclosure requirements as advertisements sold on television, the community had already spoken up against Facebook, and the damage was already done.

Risk professionals across federal agencies must consider this trend in the public's expectations of conduct and transparency with respect to their organizations. The risk processes and systems in place should facilitate awareness by identifying risks that could impact the community's expectations, and, therefore, evolve the organization's goals on an on-going basis.

Taking a root-cause approach makes it possible to thrive as the environment surrounding your institution is constantly evolving. Such an approach keeps risk professionals apprised of the risks that could severely impact the organizations' mission, which, in turn, offers them a sense of stability in an ever-evolving landscape.

How to Take a Root-Cause Approach

Orienting towards root cause is often easier said than done. Typically, senior management tends to think in terms of outcomes or events they want to avoid or achieve and the effects of such events. While there is a limitless set of outcomes, risk managers need to operate at the root cause level. Start by integrating root cause categories into the risk assessment process. Consider prompting process owners and business areas to select the root cause category of their concern.

Some examples of root cause categories are:

- External – Risk caused by outside people, entities, environment, and other circumstances
- People – Risks involving people who work for the organization
- Process – Risk arising from the organization's execution of business operations

Assessors should then be able to drill down further into factors, or root cause sub-categories, to accurately describe the risks. For example, a risk might fall under the category of "people" and sub-category of "misuse of confidential information."

Beginning with a root-cause risk library enables organizations to track the selection of root-cause risks across multiple business areas. This helps to identify systemic risks throughout the organization, as well as areas of upstream and downstream dependencies. From there, controls can be designed to directly mitigate the root cause of a risk, rather than its outcome.

Those who take a root-cause approach to risk management reap multiple benefits. They are well-equipped to stay ahead of regulatory change, avoid scandal, reduce the risk of litigation, and uphold their reputation. Above all, though, they are capable of effecting positive change

within their organizations and their communities, as systemic problems can only be resolved by uncovering and addressing the root causes of widespread issues.

Steven Minsky is the CEO of LogicManager and author of the RIMS Risk Maturity Model framework and assessment tool. He is also a recognized thought leader, presenter, and writer on many risk management topics.

2017 AFERM ERM Awards

Recognizing Excellence in the ERM Profession

Three years ago, AFERM began recognizing ERM professionals who make lasting impacts on federal organizations through the AFERM ERM Awards Program. At the annual AFERM Summit in November 2017, we recognized the following five individuals for their outstanding contributions:

Enterprise Risk Management Leaders of the Year: This award honors leaders in the public sector that demonstrate sustained leadership while making exceptional contributions to the ERM discipline.

- **Roy Wright**, Deputy Associate Administrator for Insurance and Mitigation at the Federal Emergency Management Agency's (FEMA) Federal Insurance and Mitigation Administration (FIMA)
- **Montrice Yakimov**, Chief Risk Officer at the U.S. Treasury Department's Bureau of Fiscal Service

Enterprise Risk Management Professionals of the Year: This award honors federal professionals who have demonstrated exceptional initiative, professional development, achievement, and leadership.

- **Lindsey Coates**, ERM Lead Program Analyst at the National Credit Union Administration (NCUA)
- **Nahla Ivy**, ERM Officer at the U.S. Department of Commerce's National Institute of Standards and Technology (NIST)

Enterprise Risk Management Hall of Fame: This award honors federal professionals that have made extraordinary contributions to advancing the ERM discipline within the federal sector.

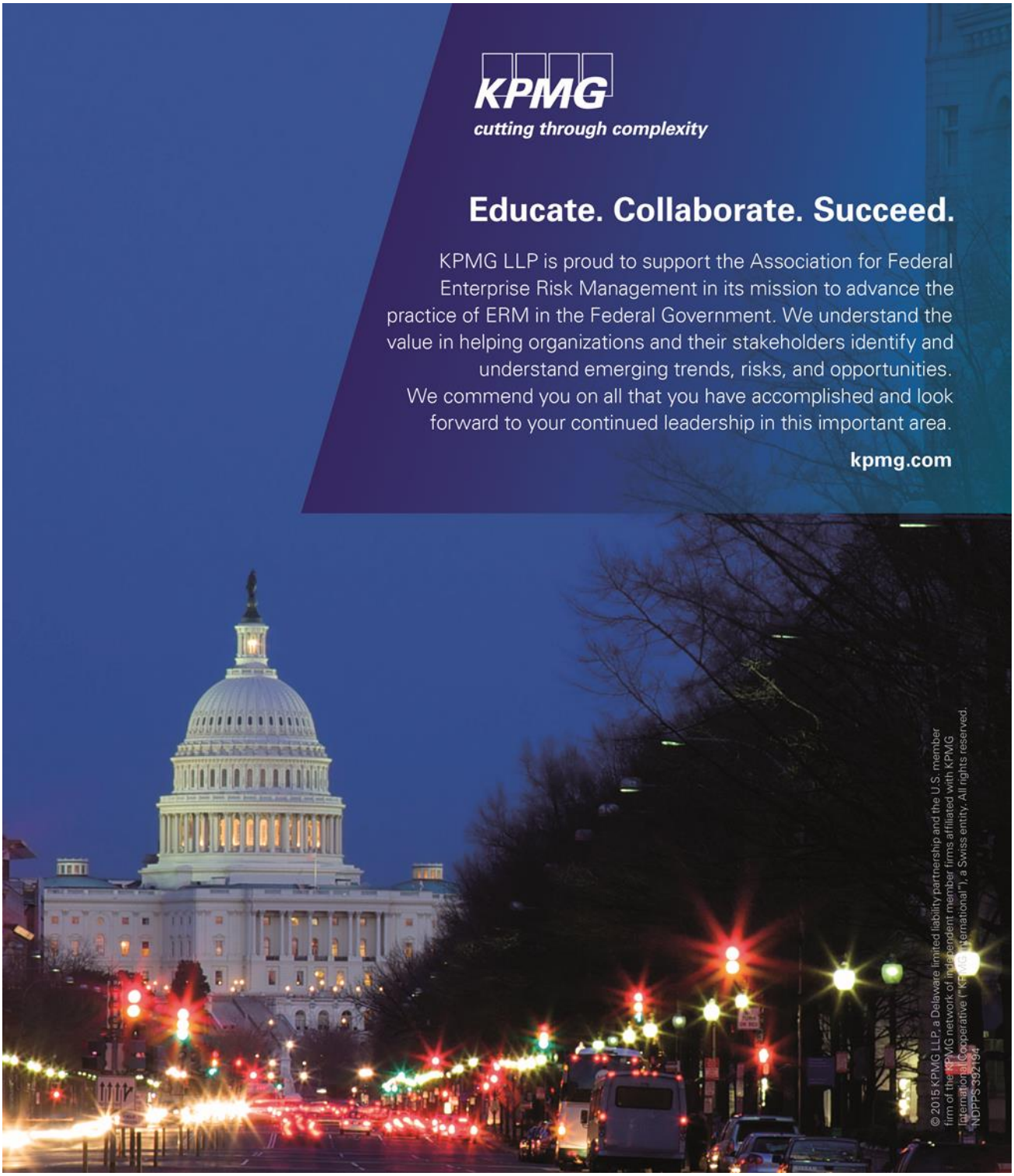
- **Dr. Karen Hardy**, Deputy Director for Risk Management at the U.S. Department of Commerce

From Left: Nahla Ivy, Lindsey Coates, Peggy Sherry, Sallyanne Harper, Karen Hardy, Montrice Yakimov. Not Pictured: Roy Wright. Photo: David Fox.

Congratulations to our 2017 AFERM ERM Award recipients! We thank you for your dedication to the federal ERM profession!

If you wish to nominate an outstanding federal ERM professional for a 2018 award, please download a nomination form from AFERM's website at https://www.aferm.org/awards/. Nominations should be submitted via email to AFERM.Awards@gmail.com.

Your feedback and suggestions on the AFERM Newsfeed is welcome and may be submitted at AFERM.Webmaster@gmail.com.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Educate. Collaborate. Succeed.
KPMG LLP is proud to support the Association for Federal Enterprise Risk Management in its mission to advance the practice of ERM in the Federal Government. We understand the value in helping organizations and their stakeholders identify and understand emerging trends, risks, and opportunities. We commend you on all that you have accomplished and look forward to your continued leadership in this important area.
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ERM News

Staying Current on ERM News

Following are headlines of just some of the many news articles identified by AFERM as relevant to federal ERM this past quarter on our ERM News page:

- **AFERM's 2018 Board of Directors Announced.** At the annual AFERM Summit in November, we ratified the new Board of Directors.
- **AFERM's 2017 Annual Summit Presentations Available for Download.** If you missed the event or want to review some of the presentations you saw, many of them are now available for download.
- **AFERM's and AGA's ERM Workshop: Beyond Compliance, Driving Organizational Value.** In June, AFERM partnered with AGA to present the 2017 ERM Workshop: Beyond Compliance, Driving Organizational Value. This summary report shares the information discussed during this workshop.
- **COSO Issues Important Update to ERM Framework.** The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its highly anticipated ERM Framework: Enterprise Risk Management–Integrating with Strategy and Performance. This new document builds on its predecessor, Enterprise Risk Management–Integrated Framework, one of the most widely recognized and applied risk management frameworks in the world.

To view the newsfeed, visit "Resources" on the AFERM website and choose "Newsfeed" or use the following link: https://www.aferm.org/erm-newsfeed/. The "Resources" page provides multiple ways to sort the large library of content by audience, content type, and resource or choose "View All Resources" to scroll the full library.

Your feedback and suggestions on the AFERM Newsfeed is welcome and may be submitted at AFERM.Webmaster@gmail.com.


EY
Building a better working world
Embracing risk for better performance
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 Werner Lippuner at +1 202 327 8389 or werner.lippuner@ey.com or Daniella Datskovska at +1 703 747 0172 or daniella.datskovska@ey.com

Thought Leadership

King County's ERM Success

By Jennifer Hills

King County, Washington, is the most populous county in the state with a population of over 2.1 million according to a 2016 census estimate. King County is the 13th-most populous in the United States. The county seat is Seattle, which is the state's largest city.

Under the leadership of Jennifer Hills, Director of Risk Management Services, King County has implemented a successful enterprise risk management (ERM) program. The King County ERM program is comprised of several key components, including the following:

- Board-level Oversight
- Risk Assessments
- Enterprise-Wide Risk Committee
- Risk Visualization (Priority Risk Register)
- Risk Management Planning
- Risk Appetite and Value Creation Frameworks

Jennifer and her team align ERM with the mission and vision of the county. This allows Risk Management to support county departments' efforts to articulate risks, prioritize resources, discuss mitigation strategies, and deliver objectives in alignment with the county's priority areas. In June of 2017, King County adopted new business planning standards that require every county department to assess its opportunities and risks and address any gaps in a Risk Profile. The Risk Profiles are to be submitted with budget requests for the 2019-2020 biennial budget. The Risk Profile requirement emphasizes the management of risk rather than the avoidance of risk and fully integrates ERM into business and strategic planning in King County.

In 2012, King County was facing a risk management crisis. Three (3) significant losses between 2002 and 2009 were resolved in 2011 for a total of $26 million. This was in addition to $15 million paid out on all other claims that year. King County's long-standing relationships with insurers became uncertain. To prepare for what Jennifer anticipated would be a very difficult insurance renewal, she hosted an Underwriter Forum in Seattle, Washington. Incumbent and prospective underwriters from around the country gathered in Seattle to meet with King County leaders. Jennifer marketed King County to the underwriters through presentations made by King County Executive Dow Constantine (pictured in the illustration

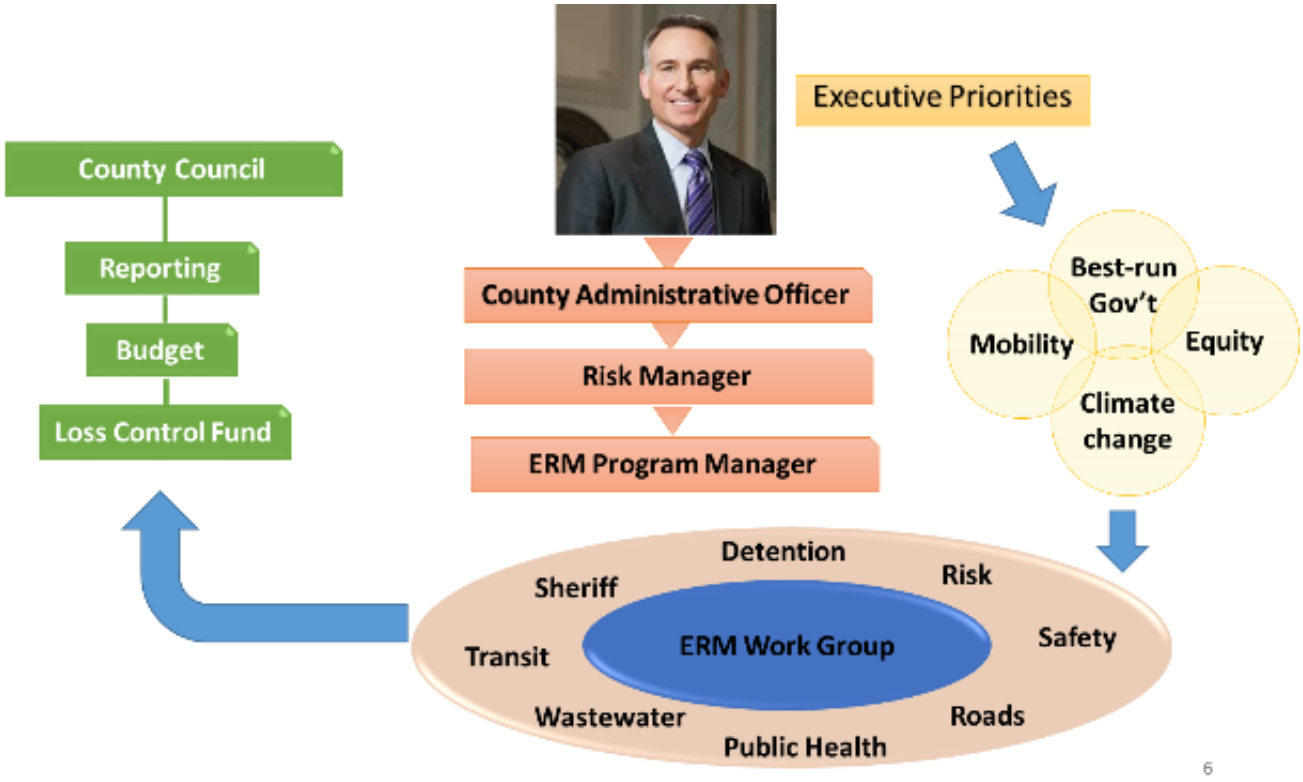
below), the Sheriff, the Director of the Department of Transportation, and herself. The presentations underscored King County's management systems, safety and loss control efforts, and why insurers should continue to partner with King County. The incumbent carriers renewed under a different structure; King County's self-insured retention more than doubled from $3.5 million per occurrence to $7.5 million and premiums increased.

2012 also included a performance audit of the King County Office of Risk Management with a recommendation to implement an ERM program. Also during that year, King County asked the Office of Risk Management to participate as one of four pilot agencies trying a new form of budgeting, called a "Line of Business Budget." This budget process includes an environmental scan to identify opportunities and threats, problem statements, and possible countermeasures, along with a 10-year planning horizon to evaluate the demand for service and the capacity to provide service that will best meet customers' needs.

Based on the combination of large losses, audit recommendations, and a new budget format, Jennifer determined King County had been practicing advanced risk management, but it needed to fully embrace ERM. Jennifer had established a strong business relationship with Executive Constantine through the King County settlement authority and risk management discussions, he was not only open to solutions but willing to help. The King County Executive supported Jennifer's proposed new direction, negotiated with the King County Council to add an ERM position to the Office of Risk Management's budget, and became a champion of ERM.

King County now has a Priority Risk Register, addressing the top 30 risks facing King County and identifying the likelihood and impact, risk owners, and action plans. King County's ERM program provides improved insights for prioritizing risks and opportunities by addressing the full spectrum of significant risks (strategic, financial, reputational, and compliance), not just operational risks addressed within the silos of each department. Jennifer and her team host a quarterly ERM Working Group meeting, attended by representatives of all King County's large agencies including the Sheriff's Office, Adult and Juvenile Detention, Public Health, Transportation, Wastewater, and Human Resources. The group reviews recent past losses, summaries of new losses and events, any follow-up on prior losses, emerging risks, and progress on the ERM roadmap.

The Office of Risk Management developed annual risk reporting to the county's elected officials, and it integrated ERM practices into strategic and business planning processes. Recently, losses have developed more favorably than predicted by the actuary, and the Office of Risk Management rebated $20 million from undesignated fund balance to county departments in the 2017-2018 biennial budget. King County's ERM program has led to a better understanding of risks and opportunities and, therefore, enabled informed decision making.



High-level Illustration of King County's ERM Program

Jennifer Hills is the Director of Risk Management Services for King County, Washington. She may be contacted at Jennifer.Hills@kingcounty.gov.

AFERM's 2017 Federal ERM Survey Results

Three Years of Data on Federal ERM

Fall 2017 marks the third annual ERM Survey conducted by AFERM and PwC. It is designed to provide federal risk managers and leaders perspective on the current state and trends of ERM in the U.S. federal government.

Twenty-five (25) federal organizations participated in the 2017 Federal ERM Survey, primarily from the Executive Branch, including 12 of the 15 Cabinet agencies. The survey was conducted between July 19th and August 18th, 2017.

The 2017 Annual AFERM ERM Survey results are organized in three (3) broad categories: Characteristics of Federal ERM Programs; Focus and Priorities; and Execution and Performance. Execution and performance also includes an ERM and Culture subcategory. The Survey results also include our analysis of the trends in the data over the last three (3) years. Here are some primary observations based on responses received:

- More than 75% of respondents indicated that their organization has an existing ERM program, representing an increase of approximately 50% from the previous two years
- Operational risk tops the list for both management's current risk focus and its perception of it as having the highest impact to current risks
- 61% of Agencies with ERM programs cited management's enhanced decision-making as a benefit of ERM, down from 81% last year

The 2017 AFERM Federal ERM Survey Report includes a comparison of the 2015 and 2016 results. Thank you to David Fisher and corporate sponsor PwC for conducting the survey and compiling the results!

The 2017 AFERM-PwC Federal ERM Survey Report is available on the AFERM website at https://www.aferm.org/about/surveys/.

Thought Leadership

How to "Do ERM" and Actually Achieve Desired Results

By John Verver, CPA, CA, CISA, CMC

Alignment with what enterprise risk management (ERM) should be

It seems that every study, article, and report on risk management comes to the same conclusion: That a smart approach to ERM improves organizational performance and shifts the traditional focus FROM risk aversion increasingly towards risk awareness and opportunity. There is universal agreement that risk management silos are a problem and that home-grown, spreadsheet-based systems are cumbersome, resource-intensive and, often, simply not up to the job. The objective now is to shift organizational attitudes towards risk management and take an enterprise-wide, integrated approach in which the downside of risk is intelligently balanced against the upside.

Key drivers for change in ERM

A recent publication by Deloitte and the Fortune Knowledge Group, "Shift risk strategies, accelerate performance", concludes that there are three (3) primary change drivers: Strategy; culture; and measurement.

1. Strategy

Break down the wall between risk management and strategic planning. Start by inviting risk professionals to strategic planning sessions. Risk professionals and business leaders can and must share ideas on the threats and opportunities facing the organization. Only by openly discussing business problems can the two sides understand the other's points of view and act on this knowledge.

2. Culture

Create a culture where risk is everybody's business. Involve leadership in risk conversations and educate professionals to understand their roles in risk management. This change doesn't occur simply by telling employees that risk is everybody's business. Individuals must be trained to identify risks; calibrate their responses; and, ideally, act on the knowledge that for every threat, there is a business opportunity.

3. Measurement

Employ data analytics to measure risk and predict trends. Data analytics is a major enabler of a value-focused risk strategy. Business has reached a level of complexity that demands a more scientific approach to the information generated inside and outside the organization. Technology is only as good as the people who use it. Data analytics requires skilled people to ask the right questions to uncover the most useful answers.

These three (3) areas resonate strongly as the place to start creating change. It is important to overcome the gaps between what the C-suite cares about and what risk management teams traditionally focus on, if there is to be an aligned enterprise-wide approach. The cultural issue is also critical: Shifting attitudes from risk management being the job of a specialized team to that of risk-oriented thinking being an integral part of all business management.

Data and technology are driving ERM

An emphasis on measurement and data analytics is being fundamental to ERM, and, historically, this has been missing from most risk management practices. Without this critical ingredient in ERM programs, it has meant that for many organizations, risk management decisions have been based on a mix of subjective opinions and outdated perceptions of what has taken place, instead of what is actually happening and most likely to happen in the future.

I would offer one more element to successfully driving and implementing change in risk management: The approach needs to be technology-driven in practice. This is not just the technology of analytics, but the technology needed to enable all the people and activities on which risk management depends. Without effective technology enablement, the key drivers for transforming risk management are themselves at risk of being just good concepts, instead of actual realized shifts in the ways that organizations operate.

John Verver is an advisor to ACL, having spent 20 years as a vice president with ACL, with overall responsibility for product and services strategy, as well as leadership and growth of ACL's professional services organization, including customer success services, training, and technical support.

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AFERM's Small Agency Community of Practice

Supporting Small Agencies' ERM Pursuits

The AFERM Small Agency Community of Practice (SACoP) engages Federal ERM professionals who serve small Federal agencies. Small agencies are defined by the "Small Agency Council" (see https://sac.gov/about/members.htm for guidance).

Upcoming activities for the AFERM SACoP include the following:

- ERM and OMB with Dan Kaneshiro, January 10, 2018
- Cybersecurity and ERM, March 14, 2018
- ERM Performance Monitoring, Mary 9, 2018
- ERM and Fraud Risks, July 11, 2018

For more information on the SACoP, please reach out to **Valerie Lubrano** at AFERM.SACoP@gmail.com or **Tal Seaman** at tseaman@Navigatorsol.com.

Thought Leadership

Mission Critical: The Essential Link Between Risk and Strategy

By Erin Sedor

When I speak to risk managers the number one complaint I get is that they are not being heard at the top. When I speak to leaders about risk management, the main concern I hear is their risk managers lack big-picture understanding or are tunnel-visioned. My response to risk managers is generally "Are you talking about the right stuff?" and to executives is "Are you giving your risk managers enough information to understand the big picture?" More often than not, an awkward silence follows and then I suggest we grab a cup of coffee.

Communication up and down the ladder is always a challenge, but risk professionals can be impacted even more because of the nature of their responsibilities and the desire for this most fabulous thing called Enterprise Risk Management (ERM). ERM is a cross-functional and multi-tiered discipline that requires risk managers to step out of their traditional functional roles to facilitate a more cohesive and holistic risk mindset throughout the organization. Of all the obstacles they face, developing a compelling value proposition that resonates with leadership may be the greatest.

A Limited View

Risk managers understand risk. They eat it, live it, and breathe it every day. They understand how to identify, analyze, and control or transfer it away. The challenge comes with taking that skillset and applying it outside of a functional hazard-loss perspective in order to capture strategic exposures. It's not enough to understand risk – you must also understand strategy. A limited view is further exacerbated by a lack of strategic information flow up and down the organizational hierarchy. The ability to implement a risk competency across operational programs is the call sign of a good risk manager, but pushing that competency up to integrate with strategy is its own special exercise in fire walking.

While leaders intuitively understand the need to infuse risk management across the organization and within operational plans, the reality is that the identification and treatment of risk within the strategy development process is left to the upper echelon. I often find that risk management, strategic planning, and resilience planning are developed as separate programs by various people situated in different functional areas. To address this, we must re-think the way we approach strategy, risk, and resilience by focusing on the Mission Critical aspects to connect the most essential pieces of each. Regardless of what framework or best practice you currently follow, identifying and protecting the assets, activities, and resources that are Mission Critical to achieving the strategy will add value to your organization.

Essential Strategy

There are a myriad of frameworks, theories, and best practice standards that vary based on industry, business model, and public/private sector. While the risk management process itself is fairly straightforward, what is not so clear is how to successfully integrate a risk capability in a way that directly impacts strategic objectives. Risk managers must possess a technical understanding of best practice in order to select or design an appropriate process framework, taking into consideration their organization's leadership, culture, and operational maturity. But that only gets us so far.

Risk managers must also understand the strategy process, as well as the organization as a whole – its mission, vision, and strategic objectives for growth and survival. Depending on the communication style of the entity, some or all of these elements may or may not be shared broadly, or even at all. This lack of insight creates a myopic view that inhibits risk managers from breaking out of their traditional roles to participate in a more meaningful way with respect to strategic risk capture and mitigation.

Essential Strategy is an approach for breaking down barriers between strategy, risk, and resilience programs. It focuses on three foundational elements – Mission, Growth, and Survival – that every organization, regardless of size, type, sector, or industry, must encompass within their strategies. As a risk manager, understanding these three elements is the first step in overcoming a limited view.

- Mission is all about purpose. Every organization has a purpose that is fulfilled by the successful carrying out and completion of its daily activities. While some mission statements may seem far removed from what happens at the desk or in the field, it is important to realize that every activity is a small part of a larger whole intended to achieve a grand Mission and far-reaching vision.
- Growth is about agility and the organization's ability to fulfill its mission on a larger scale. In the competitive world, Growth is an easy concept (revenue, market share, stock price), but in the federal sector it's not always so clear. Federal entities ultimately exist to serve a greater public good, so Growth translates into a capacity to do or achieve more within their core purpose.
- Survival is about resilience and an organization's ability to rebound and recover from any manner of adversity that impedes its mission. Survival reaches beyond catastrophic scenarios, and for the public sector in particular includes loss of key talent, funding, and political turnover that can short-circuit plans and programs overnight.

So, let's take the next step. In order to implement a strategic risk program, we must have a clear understanding of what strategy actually is. I could lament for the next page and a half about my frustration in finding a suitable definition of strategy to help explain the concept to my clients, but I'll jump to the end with the definition I finally developed myself:

> ***Strategy - A set of decisions made at a given point in time, based on business intelligence, that when successfully executed, support the mission, growth, and survival of the organization.***

Every piece of this definition is important: Decisions are made (otherwise, it's just a discussion) based on business intelligence (internal and external), captured at a point in time (remember that risk is constantly evolving and emerging), that when successfully executed (if it sits on the shelf there's not much point in it), that support mission, growth, and survival (the strategy foundation).

Now, contrast it with the well-known definition of ERM:

> ***Enterprise Risk Management: A strategic business discipline that allows an organization to manage risks and seize opportunities related to the achievement of its objectives.***

As would be expected, the two are not so different. ERM was designed to support strategy, and thus, an understanding of strategy is integral for its successful design and implementation. You don't have to be at the executive table to gain an understanding of strategic objectives, you simply need to understand the basics and pose logical questions that are relevant and meaningful to your senior leaders. Remember, *Strategy* enables growth and survival in order to fulfill mission; *Risk* mitigates weaknesses that inhibit growth, and *Resilience* fortifies against threats to support long-term survivability. This is how these programs were meant to integrate.

Mission Critical

Now, let's talk about glue that holds it all together. Every risk management process begins with establishing Context – broadly defined as *the circumstances that form the setting for an event, statement, or idea, and in terms of which it can be fully understood and assessed*. In other words, Context is the frame that defines the scope, borders, and assumptions of the thing being analyzed. Without Context, we are left with a wide-open universe of possibilities to assess, and any reasonably sane person would throw their hands up in defeat. This is where many ERM efforts go astray of their intended purpose because they become bloated, off-course, and ineffective in identifying critical exposures in a timely manner.

> ***When we define Mission Critical based on strategic objectives to achieve Mission, Growth, and Survival, then we establish the context for ERM.***

Essential Strategy recognizes 'Mission Critical' as *any activity, asset, resource, service, or system that materially impacts (positively or negatively) the organization's ability to successfully achieve its strategic goals and objectives*. As the strategic goals of the organization allow it to fulfill purpose, this fits well within the mission, growth, and survival foundation already established. Mission Critical will be different for every organization, but will always be grounded in its strategic objectives. Before you can determine what is Mission Critical, you must first:

- Have an understanding of Mission, Vision, and Strategy;
- Clearly understand all Strategic Objectives and their priority;
- Develop a definition (unique to the entity) of Mission Critical; and
- Work with leadership to define of Risk Appetite, Tolerance and Capacity as it relates to Mission Critical *(don't get too hung up on this – get a good run at it and let it evolve as the program matures)*

As many of you reading this are fully aware, not every risk is a Mission Critical risk, so you know it's important to be critical and use restraint when checking this box. It doesn't imply that other risks aren't important or should be left untreated, it simply means that in the grand scheme of things, strategic risks bubble to the top, as they should. *Mission Critical becomes a new risk measure along with frequency, impact, and velocity.* Consider the most common risk categories:

- **Catastrophic Exposure:** Focus on exceptional, external events that would overwhelm service infrastructure such as utilities, communications, and transportation, and expected to cause a business interruption exceeding the organization's capacity to control in terms of duration and impact. Such events include natural disasters, acts of terrorism, pandemics, and cyber warfare. *This element is hyper-critical for those entities charged with public welfare and protection, as they must manage impact on two fronts. Thus, continuity planning is a Mission Critical endeavor.*
- **Operational Risk**: Focus on exposures surrounding critical assets, staffing, systems, and processes. Assessment should be keenly focused on the efficacy of controls in areas like cyber security, employee safety, supply chain, critical service providers, and emergency response. *Particular attention should also be given to the efficiency of processes and resources, as budget constraints present a significant risk to federal entities. Thus, creating efficiency may no longer be a nicety, but instead a Mission Critical effort for growth.*
- **Political, Regulatory & Competitive Landscape:** Focus on external forces to capture shifts in the political, regulatory, and competitive landscape that may present strategic opportunities or threats to the organization. *Many public entities consider competitive analysis to be applicable only to for-profit ventures. However, they are competing nonetheless against other entities and divisions for funding, resources, and intelligence. Developing key relationships or partnership may be a mission critical effort for survival.*

- **Information Flow:** Focus on information flow (up, down, and across the organization) to ensure that mission relevant data is transmitted to the right people at the right time to support critical decision-making processes. *Disconnects in this area represent a significant exposure for any organization, correcting them may become Mission Critical.*

Execution Essentials

When I first entered the world of risk management, I was incredibly frustrated at the lack of clarity within the voluminous materials, models, and standards that existed. I was looking for an ABC manual that would allow me to plop a program into place and call it good. That was, of course, not possible, and for good reason. I came to learn that along with the science, there is an art to designing, implementing, and sustaining meaningful programs. Understanding Mission, Growth, and Survival and focusing on Mission Critical will certainly help you gain credibility with your leadership team, but if you want to keep it, you must also understand the key success factors for program sustainability.

- **Lesson One: Organizations = People.** If you want to make real change, you must anticipate the impact that any modification of process/practice/methodology will have on people.
- **Lesson Two: The program must functionally fit the organization.** If a system, method or process is not operationally feasible within available resource, it will be rejected before it has time to prove its worth – it simply cannot be designed without consideration of the operation.
- **Lesson Three: Value drives sustainability.** This feels a bit obvious, but it's important enough to call out. Tangible value must be articulated for every process – people are more easily persuaded to adopt change when they perceive a personal value to following a new routine. It doesn't have to be big, sometimes just knowing that their participation in the process gives them air cover through more transparent decision processes is all that's needed.
- **Lesson Four: Sustainability requires persistence.** Program designers must recognize and plan for staff turnover, complacency, and change in business practice. While implementation is the main hurdle, regular maintenance of the program is required. New employees must be trained, program key performance indicators (KPI) must be tracked and reported, and failsafe measures built-in for those who just don't like to follow rules.

Erin Sedor is the owner of Black Fox Strategy, and she serves as an Executive Strategy Coach and Board Advisor to her clients. She may be reached at erin@blackfoxstrategy.com.

AFERM 2017 Membership Survey

Membership Provides Access to Valuable Resources

As of December 2017, there are **over 600 ERM professionals** who are members of AFERM. There are 16 corporate sponsors of AFERM who support AFERM. For a list of our corporate sponsors, see page 36.

In November 2017, we invited our members to participate in the annual AFERM membership survey. We wanted to gather members' input about our trainings and activities, and their overall experiences with the AFERM organization.

A summary of the member survey results includes the following:

- AFERM members value knowledge, networking, and community involvement as the aspects most important to them
- Advance notice of events and different speakers and topics will increase members' ability/willingness to attend AFERM events

On feedback on ERM training events, nearly 89% of respondents indicated the following:

- Speakers and topics at AFERM events are excellent or good
- The relevance/timeliness of topics at AFERM events is excellent or good
- Knowledge gained in meetings or workshops very important
- Networking opportunities are very important.

We will continue our efforts to effectively communicate with our members and to provide everyone with adequate support to advance their career.

AFERM serves the Federal government and the public through sponsoring efforts for full and fair accountability for managing risk in achieving organizational objectives. AFERM maintains a forum for discussion of the Federal risk management profession, sponsoring educational and training programs, encouraging professional development, influencing risk management policies and practices, and serving as an advocate for the profession.

Benefits of AFERM membership include the following:

- Education, training, and knowledge
- Insights on emerging trends, tools, and techniques
- Career advancement and networking opportunities
- Direct access to risk management professionals in the public and private sectors
- Annual Federal ERM Summit for advancing industry best practices

To join AFERM, please use the following link: https://www.aferm.org/membership/.

The chair of the AFERM Membership Committee is **Yehuda Schmidt** of Cotton & Company at AFERM.membership@gmail.com.

Request for Your Success Stories

Communicating the Value of ERM

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 Committee at AFERM.Communications@gmail.com. The Committee is led by **Shelly Turner** of PwC with **Morgan Fuentes** and **Andrew Glover** of PwC.

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