AFERM
Association for Federal Enterprise Risk Management

AFERM Newsletter

Issue 29
June 2019

Thought Leadership for the Federal Enterprise Risk Management Community

Contents

Highlights

This is the 29th issue of the quarterly AFERM Newsletter! It includes thought leadership articles from ERM practitioners with Galvanize, KPMG LLP and Morgan Franklin Consulting. Also, AFERM Summit 2019 registration is open with early bird pricing for a limited time.

AFERM Association for Federal Enterprise Risk Management

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Thought Leadership for the Federal Enterprise Risk Management Community

A Note from AFERM's President

AFERM President Tom Brandt

ERM as an innovation enabler

By Tom Brandt, AFERM President

At a recent conference, I was stopped by an agency leader who told me they are not supportive of enterprise risk management (ERM) because they need their managers and employees to focus on innovation and to embrace change. In their view, they felt that ERM would only make government more risk adverse than it already is. In the five minutes we had to chat, I spoke about upside risk and downside risk, attempting to emphasize that risks, in and of themselves, are neither good nor bad, and that ERM is not just about preventing bad things from happening. It's also about enabling good things to occur. I wasn't sure as we parted ways, that I'd made a convincing argument.

Since that exchange, I've noticed comments in news articles and other media that have suggested similar views toward ERM. Based on my experience, government, on the whole, does tend to be more risk-adverse, in part, because it is reflected in the mission of many agencies – they exist to prevent bad things from happening to the American public. However, it's also the mission of many agencies to promote innovation, to foster research and development, and to take risk.

Regardless of whether an agency mission is more focused on risk-prevention than risk-acceptance, a common denominator we face across government is that when something goes wrong, the level of attention and scrutiny that results typically far outweighs what is experienced in other sectors. The spotlight tends to shine brighter and the desire to assign blame usually runs far ahead of figuring out what actually happened.

It should be no wonder then, that those working in this environment are more attuned to risk and generally act in a more cautious way. This is probably not a bad thing, considering the scale of the decisions we make in government, where the actions we take have widespread impact, not only across the U.S., but often throughout the world.

In these instances, I want the decision-makers to have fully considered and weighed the risks before choosing a course of action.

Like any organization, innovation is essential in government. Yet, innovation, by its very nature, involves risk. We may know the outcome we desire by undertaking an action, but whether we will end up achieving that outcome is uncertain. ERM, when practiced well, can help increase the likelihood that action will be successful in achieving the desired outcome by providing us with insight not only into what could go wrong, but also with an understanding of what must go right. That insight equips us with the ability to monitor and track innovation efforts to ensure they are staying on course, while also giving warning signals when they are not, allowing the opportunity for course corrections before risks manifest.

AFERM, through the workshops, seminars, training, and thought leadership it offers, strives to emphasize that ERM is not about achieving zero risk. Rather, the objective is to have a proactive, collaborative program in place that properly identifies and assesses risks and provides leadership and management the information needed to make sound decisions, with risk being one of the core elements of the decision-making framework.

So, in my view, ERM is an innovation-enabler! Let me know your thoughts and reactions.

Tom Brandt, AFERM President, may be contacted at president@aferm.org.

ERM Events

Upcoming events of interest to ERM practitioners

Following is a list of events upcoming that may be of interest to ERM practitioners.

Event	Organization	Date	Location
2019 Professional Development Training (PDT)	AGA	July 21-24, 2019	New Orleans, LA
ERM for Government Executives Seminar Series: Enabling Mission Success through ERM	AFERM, Guidehouse, and SEA	September 5, 2019	Washington, DC
2019 ERM Summit, Next Generation of ERM: What You Need to Know	AFERM	October 29-30, 2019	Washington, DC
2019 ERM Conference	RIMS	November 4-5, 2019	New Orleans, LA

Please visit our website for more information at https://www.aferm.org/events-list/.

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

Thought Leadership

Bolstering public trust through effective agency ERM programs

By David Riddell, Managing Director, North American Federal Practice, Galvanize

The phrase "your reputation precedes you" can be either a glowing compliment or a sharp criticism, depending on the quality of your reputation. Commercial organizations have long been concerned with public perceptions of their brand and the impact on their bottom lines, as a poor or damaged reputation in the commercial marketplace can spell disaster for a business. And it's no different for government agencies, which must be concerned with protecting and promoting public trust in their official actions. Public confidence in a government agency is a key component to its effectiveness in providing value to citizens, managing limited resources, and carrying out its mission.

The four objectives of ERM

Developing and embracing a more risk-aware culture is essential to bolstering and protecting positive public support for an agency. In fact, OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control , encourages federal agencies to adopt an ERM program to help identify challenges early, to quickly escalate substantive issues to agency leadership, and to develop corrective actions to mitigate risks.

The OMB Circular states that proper ERM programs address four key objectives:

- Strategic, which focus on adopting and supporting strategic goals and objectives that promote an agency's overall mission;
- Operational, which emphasize making efficient and effective use of limited agency resources to avoid fraud and waste;
- Reporting, which concentrate on the reliability of an agency to give an accurate account of its activities, such as information provided in semi-annual reports (SAR) or on public-facing websites; and
- Compliance, which address an agency's ongoing fulfillment of its responsibilities pertaining to relevant statutes and regulations.

The OMB Circular also warns of the dangers of failing to identify and protect against reputational risk that can undermine these four key agency objectives. An appropriate ERM capability helps safeguard assurance of financial reporting accuracy, increases transparency and integrity in agency conduct, improves compliance with existing laws and rules, and results in increased levels of public confidence.

Creating a culture of risk awareness

Too often, risk management is viewed negatively as time-consuming, burdensome, and complex. Fixating on risk prevention can lead an agency to confront only "safe" risks,

while hobbling its ability to address more difficult, long-term threats. Creating a culture of risk awareness is integral to risk prevention and mitigation. Improving risk awareness is the first step to developing appropriate risk management activities that enable organizations to properly balance risk awareness with risk prevention and mitigation.

Many different risk attributes can and should be measured, with risk criteria varying among agencies. However, in general, an ERM program that emphasizes risk awareness should, at a minimum, address three key risk factors:

1. The likelihood of that particular risk occurring;
2. The nature or impact of the risk on the agency's effectiveness; and
3. The velocity or rate of damage that risk could entail for the agency.

Enabling ERM effectiveness with data analytics

Active and continuous risk evaluation, monitoring, and detection capabilities must be developed that can identify risk patterns and predict potential threats. Continuous efforts to highlight emerging risks as they are occurring is a much more effective approach than resourcing damage control later.

For example, financial reporting risk is a constant and ever-present concern in federal agencies that provide SARs to oversight authorities. Using data modeling and analytics tools, an agency can mine relevant data and combine and normalize disparate data in performing meaningful analysis. This review can reveal discrepancies, outliers, and statistical anomalies, while providing a framework for predictive analysis. When equipped with a workflow tool, an agency can rapidly route these financial exceptions in real time to the appropriate team for resolution.

Similarly, third-party risk can have a substantial impact on an agency's risk exposure. For instance, agencies commonly scrutinize potential suppliers and contractors at the time they are provisioned. Nevertheless, agencies may not regularly examine these third parties for continued compliance and consistent performance. Applying data analytics to continually scour sanction lists, tax records, Office of Foreign Assets Control (OFAC) lists, criminal databases, and other publicly available data sources can elevate an agency's confidence that its vendor and contractor population represents a low risk-exposure.

In addition, reputational risk is often overlooked in adopting an ERM program. Public sentiment expressed through social media channels can pose significant risk. Commentary that "goes viral" from disgruntled employees, unauthorized disclosures, inaccurate information, and other types of postings represent potential reputational harm to an agency. This information can be disseminated globally in an instant and cause long-term harm. Modern computational systems can use data analytics, predictive modeling, and text and sentiment analyzers to precisely identify and classify high-risk social media postings on Twitter, LinkedIn, Facebook and other outlets, and properly route them for appropriate adjudication.

Closing thoughts

Only through active monitoring and agile and swift responses to events and exceptions can an agency retain public confidence and oversight integrity. No amount of guesswork, estimation, or assumption can replace the power and insight that a data-driven governance approach can offer through an ERM program. The likelihood of risk, its nature and impact, and potential velocity represent inherent risks to any organization. An effective ERM program that properly evaluates, monitors, and helps foresee risks, along with an effective resolution program, can give agency leadership the assurance and confidence necessary to carry out the agency's mission and policy objectives.

So, with an effective, technology-driven ERM program in place, the next time someone states, "your reputation precedes you," your agency will know it is meant to be high praise.

David Riddell may be contacted at david.riddell@wegalvanize.com.

AFERM Summit 2019

Register for the next AFERM ERM Summit

AFERM's 2019 Summit is October 29th through 30th at the Ronald Reagan Building and International Trade Center at 1300 Pennsylvania Avenue, NW, Washington, DC. This year's theme is ***Next Generation of ERM: What You Need to Know***.

The AFERM Summit Planning Committee is actively engaged with planning already, and this year marks the 12th annual event. With **Nicole Puri** of Grant Thornton as the Chair, and **Meredith Stein** of the National Institutes of Health as the Co-chair, this two-day event is expected to draw over 500 ERM professionals.

Offering opportunities for attendees to advance their knowledge of ERM and continue the ERM dialogue within the federal sector, the AFERM Summit includes different learning tracks based on area of interest and level of experience; livestreaming for remote attendees; vendor demonstrations of tools for managing enterprise risks; and insights and lessons learned from experienced ERM professionals.

Registration information

Early bird registration opened June 17th, offering a discount of $100 for a limited time. Registration for the 2019 AFERM Summit is accessible via AGA at the following link: AFERM Summit 2019 Registration. Note there is a live streaming option for attendees who cannot join in person.

Volunteer to help shape the 2019 Summit

Our biggest event each year is our Annual ERM Summit, and volunteers working as part of the Summit Planning Committee are vital to its success! Last year the Planning Committee had over 30 volunteers who did phenomenal work in producing our most successful Summit yet.

The Summit Planning Committee Sub-committees include the following: Breakout Sessions Sub-Committee; Marketing & Outreach Sub-Committee; Plenary Speakers Sub-Committee; Logistics Sub-Committee; and Sponsorship Sub-Committee.

If you have questions about the 2019 Summit, please contact the **Summit Planning Committee** at aferm.summit@gmail.com.

If you are interested in volunteering some of your time on one of the Summit Planning Committee Sub-committees, please contact our **Volunteers Coordinator** at aferm.volunteers@gmail.com.

AFERM's ERM Podcasts

AFERM's podcasts continue the ERM dialogue

AFERM added four more podcasts this spring, conversations with Chief Risk Officers (CRO) and risk management professionals in the federal sector. The most recent podcasts cover a wide range of ERM topics:

- *Episode 12* – Jonelle Pianta, Chief Risk Officer, Housing and Urban Development, Office of the Inspector General (OIG) on why her organization decided to start its own ERM program, the unique challenges an OIG faces, audits of ERM programs, and why other agency OIGs may want to consider setting up their own ERM programs
- *Episode 13* – Cynthia Vitters of Deloitte, Sean Vineyard of 11th Hour Consulting, and Ken Fletcher of Kestrel Hawk Consulting on the new book they helped author *Public Sector Enterprise Risk Management: Advancing Beyond the Basics*
- *Episode 14* – John Basso of the Veteran's Administration on the agency's ERM program and how it relates to planning, budgeting, performance, governance, strategy, portfolio analysis, and data analytics
- *Episode 15* – Frank Petersen, Cherisse Aquil, and Larry Shaw of the National Aeronautics and Space Administration on the ERM program they implemented for the agency

Listen to these and other AFERM podcasts on our website at https://www.aferm.org/aferm-risk-chats/, and if you are interested in participating on a podcast, please contact Paul Marshall, Vice President, MILCorp, and Tal Seaman, Owner and CEO, Navigator Solutions.

Paul Marshall may be reached at pmarshall@milcorp.com, and **Tal Seaman** may be reached at tseaman@navigatorsol.com.

ERM News

Staying current on ERM news with AFERM's Newsfeed

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:

- Sworn to Secrecy: Protecting Trade Secrets and Intellectual Property
- Checks and Balances: Reevaluating the Role of External Audit
- New Opioid Lawsuits Hold Executives Liable
- Preparing Employees for Travel Risks
- The Case for Uniform Data Breach Reporting
- Strengthening Third-party Risk Management
- Solving the Talent Crisis in the Risk Profession
- How a Strong(er) Strategic Risk Management Program could have Helped Boeing
- Ginnie Mae: Risk Management and Staffing-related Challenges Need to be Addressed
- What Makes a Successful Risk Leader?
- The Dangers of Shadow Apps
- Breaking Strategic Risk Management Barriers
- Building an Extended Enterprise Risk Management (EERM) Toolkit
- Do You Speak Digital
- Tips to Prepare Your Organization for an Older Workforce
- Spotlight on Risk Management's Resilient Women
- RIMS Report: Active Shooter Preparedness for Your Organization

To view the AFERM 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.

Thought Leadership

Measuring ERM maturity: adopting a multi-dimensional approach

By Marcus Melton, Director, Risk Consulting, and Donovan M. Chase, Manager, Risk Consulting, Federal Advisory, KPMG LLP

Establishing ERM as the heart of Office of Management Budget (OMB) Circular A-123 represents transformative change to the way federal agencies have historically viewed risk management and internal controls.[1] It will take time for agencies to build mature ERM capabilities that become part of normal day-to-day programs and operations; thereby providing continuing long-term value.

A maturity-based approach to ERM adoption continually evaluates how implementation is progressing, while providing accountability and a roadmap for future progress. Agencies can benefit from a multi-dimensional approach to measuring maturity aligned to the expectations and requirements of Circular A-123. This allows for ongoing evaluation of key ERM elements, such that agencies can better understand their accomplishments and shortfalls and better facilitate a targeted, iterative approach to further advance ERM implementation. Leading organizations view ERM as a marathon, not a sprint. Adding value to the business of government, and not rote compliance, is the ultimate measure of maturity.

The challenge

Circular A-123 calls for agencies to "develop a maturity model approach for the adoption of an ERM framework." The Circular "recognizes that not all components of an ERM program are fully operationalized in the initial years, and agency leadership must set priorities in terms of implementation." By design, Circular A-123 provides high-level maturity model guidance, arming agencies with flexibility to tailor their ERM programs to their specific needs. The Federal ERM Playbook (Playbook) provides additional guidance based on leading practices.[2] The Playbook advises against taking on "too much too quickly" and suggests that "management should consider an incremental approach." The Playbook notes that "Evaluating and improving the ERM of an organization is a long-term process that needs to develop and change over time and will be shaped by the unique needs, formal and informal decision making structures, culture, capacity, and mission of the organization."

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[1] OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016. (https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf).

[2] "Playbook: Enterprise Risk Management for the Federal Government," Federal Chief Financial Officers Council and the Performance Improvement Council, July 29, 2016 (https://cfo.gov/wp-content/uploads/2016/07/FINAL-ERM-Playbook.pdf).

The Playbook also points out that by assessing ERM maturity, agencies can set realistic improvement targets that align with their overall strategy, technical and financial capacity, and cost-benefit analysis. The Playbook provides two models as examples – a multi-level model and a multi-dimensional model. Neither model is meant to provide the "how to," which is left up to each agency. For either ERM model (and there are other models as well), the agency would need to establish an evaluation approach to identify needed changes over time in establishing and maintaining a mature ERM program.

A multi-level maturity model

The multi-level maturity model highlighted in the Playbook includes five levels as shown below in Exhibit 1.

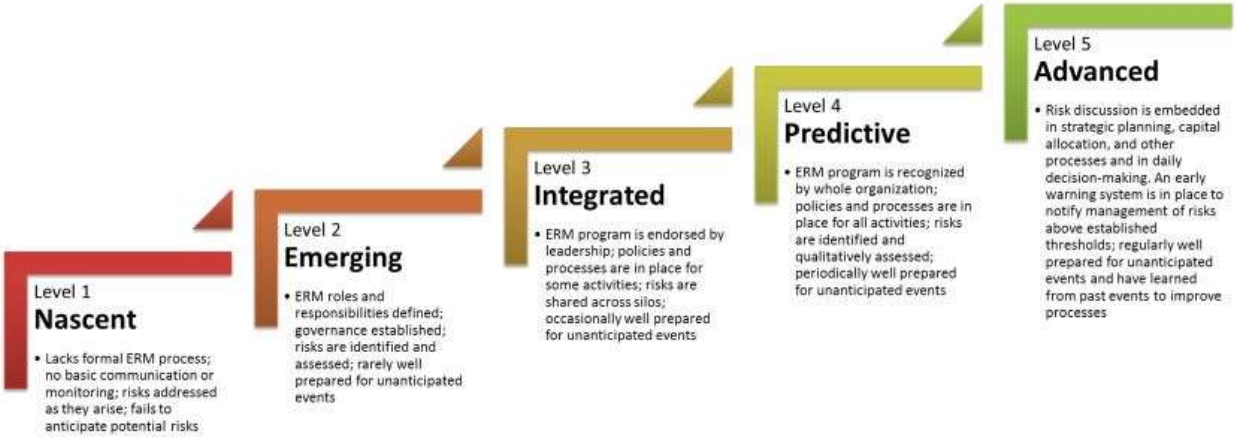

Exhibit 1 – *Federal ERM Playbook "Five Step" Maturity Model*

There is progressive ERM maturity as agencies move through the five levels. This may work for some agencies, but not for others. For example, consider an agency with the following eight characteristics:

1. ERM is recognized as an agency-wide initiative.
2. All agency offices have policies and procedures in place for risk identification and assessment.
3. Risks are identified, assessed, and shared across organizational silos.
4. There is endorsement by top leadership.
5. There is not yet strong "tone-at-the-top" to drive ERM as a fundamental principle and management priority.
6. Formal governance has yet to be established.
7. Identified risks are not examined to determine how well the agency is prepared to address unanticipated events.
8. Risk appetite and risk tolerance have not yet been defined.

Applying the first four characteristics, an agency may gauge that it falls in Level 4, "Predictive," or is close to it. However, characteristics five through eight could represent an organization still grappling to navigate Levels 1 and 2. Also, not all key elements are covered in the five levels. For example, risk appetite, described by Circular A-123 as "key to achieving effective ERM," is not a criteria in this maturity model.

A multi-dimensional maturity model

Certain limitations of a multi-level maturity model can be alleviated when multiple dimensions of maturity are independently evaluated. The Playbook's multi-dimensional maturity model example consists of five major risk maturity dimensions—culture, process-analytical, process-organizational, implementation, and outcome –along with 11 sub-dimensions. Multi-dimensional models are more adaptive to evaluating agency risk challenges and also specifically address risk tolerance. This more comprehensive model would be enhanced by adding an additional dimension covering risk monitoring, which is critical to ERM.

Multi-dimensional evaluations provide critical insight into an agency's true level of maturity and offer the following benefits:

- **More targeted evaluation of maturity.** As noted with the multi-level maturity model example, it can be difficult and potentially misleading to simply find one aggregate level of maturity for the agency. Multi-dimensional models help remove areas of ambiguity by targeting dimensions and sub-dimensions. This is not to say that a multi-level maturity model could not be designed to provide more detailed insights within a maturity level.
- **Better understanding of strengths and weaknesses.** With multi-dimensional models, more mature processes in certain areas of ERM can be identified, allowing for replication and targeted investments to bolster less mature areas. Similarly, maturity models can be applied throughout an organization by risk dimension at the individual program and operational levels. Such evaluations can identify areas within an organization where higher-level risk maturity standards are already in place and can be used as leading practice for others in the agency to emulate.
- **More sophisticated strategies of identifying the target maturity state.** n agency may determine that a specific dimension or sub-dimension may not require the highest state of maturity given the environment, cost, and/or impacts on mission achievement. As a rule of thumb, "[t]he advanced level may not always be the target maturity at a particular point in time, especially when agencies are just beginning to adopt ERM. Rather, the target should reflect

management's view on what is critical to successfully manage risk and the benefits it wants to achieve."[3]

For example, in the Playbook's multi-dimensional model, the "Outcome: Unanticipated Risks" sub-dimension's highest maturity level is described as having "Regularly executed well-prepared responses to unanticipated events and learned from the events to avoid recurrence of related events while also integrating the level of understanding throughout the performance management process." While achieving the highest level is certainly valuable, based on facts and circumstances and risk to the agency, it may be reasonable to adopt a level of maturity one level lower. In this case, the maturity level is described as having "Periodically executed well-prepared responses to unanticipated events and learned from the events to avoid recurrence."

It is important to note that multi-dimensional models have their limits. Consider a hypothetical model with 100 dimensions of ERM maturity. Tracking this many dimensions of maturity would certainly allow low levels of granularity and greater specificity, but it may also miss how processes in ERM are designed to be interrelated. Risk governance should help define risk assessment, which should in turn affect risk monitoring. A few dimensions are too few, while 100 are assuredly too many.

Dimensions of risk maturity

When determining what dimensions should exist in an ERM maturity model, agencies can look to the requirements in Circular A-123 and the Playbook for guidance. For example, **Risk Governance** has a dedicated section within A-123, and there is a spectrum of guidance, ranging from ad hoc councils and individual manager priorities to formally recognized agency-wide risk management councils to a dedicated chief risk officer. **Risk Appetite and Tolerance** should also be evaluated given its key nature to the functioning ERM process. Additionally, both Risk Governance and Risk Appetite and Tolerance are primary drivers of many ERM-related activities, such as monitoring, and should certainly have some level of dedicated evaluation of their maturity.

Methods of evaluation – **Risk Assessment, Management, Monitoring, and Reporting** – should be examined, as well the underlying **Data and Technology** supporting ERM at an agency. These may be combined or separated as appropriate within each maturity model.

A key dimension of risk maturity is the **Risk Culture,** which together with leadership-related challenges, is considered the most prominent barrier to ERM implementation.[4] Culture needs to be an enabler. A sophisticated risk culture "is paramount to

[3] "Navigating uncertainty through ERM – A practical approach to implementing OMB Circular A-123," KPMG Government Institute, November 2016 (https://institutes.kpmg.us/content/dam/institutes/en/government/pdfs/2016/A123-erm.pdf).

[4] "2018 Federal Enterprise Risk Management Survey," Guidehouse in collaboration with AFERM, October 2018.

successfully implementing ERM. The culture focus must come from top leadership and be widely understood and embraced throughout the organization."[5] In order to develop a stronger, more mature risk culture, agencies should examine if "leaders and all staff will have to be motivated to the right thing and recognize the critical importance of installing a positive risk culture in the fiber of the organization, so that it becomes a facilitator and not a barrier to ERM."[6]

Final remarks

There is a natural tendency for any executive or manager to want to know the bottom line answer to the question "How are we doing?" Multi-level maturity models offer a seductive answer to such a question. However, just as ERM is designed to help drive a view with a "full spectrum of the organization's external and internal risks,"[7] the full spectrum of maturity generally cannot be confined to just one answer. A multi-dimensional approach, with a targeted number of dimensions together with sub dimensions as needed, provides a full maturity spectrum. At the same time, properly designed, it does not divide the answer to the question into segments so discrete and small as to defy a bottom line answer and practical actions to address identified maturity shortfalls.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

Marcus Melton may be reached at marcusmelton@kpmg.com.

[5] "Your Risk Culture: An ERM enabler or barrier?" KPMG Government Institute in collaboration with AFERM, October 2018 (https://institutes.kpmg.us/content/dam/institutes/en/government/pdfs/2018/risk-culture-erm.pdf).
[6] See footnote 3.
[7] See footnote 1.

AFERM's ERM Blog

ERM resources for federal practitioners

AFERM's "Ask the Experts" blog continues to generate some great conversations on ERM! Our blog is hosted by ERM professionals **Tom Erickson**, NTT Data, **Ken Fletcher**, Kestrel Hawk Consulting, and **Sean Vineyard**, 11th Hour Consulting.

Here are some recent discussion topics:

- I am a recent college graduate and am trying to gain more information on the workd of risk management. What information would be helpful for a young adult with a finance degree and specialization in insurance/risk management? I have been reading up on ERM frameworks and am currently working in a claims role. There is extensive information out there, and I have no idea where to look [first].
- How can ERM help bring value and insight during the strategic planning process?
- How can Chief Risk Officers (CRO) and ERM practitioners support cyber risk professionals to integrate existing cyber risk management models into the overall framework?
- What is the difference between a challenge and a risk?
- What are some proven methods to generate more active involvement of stakeholders in ERM efforts?
- What are some common strategies to identify and assess emerging risks with a longer horizon?

Join the ERM discussion at AFERM's Ask the Experts blog - www.aferm.org/ask-the-expert/.

Thought Leadership

How a comprehensive risk appetite framework can help improve organizational decision making

By Joie Hayes, Public Sector Manager, MorganFranklin Consulting

In the same way that a good ERM framework can help federal agencies better allocate resources under tightening budgets, aligning strategy and a risk appetite framework can empower federal agencies to make better-informed decisions. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines risk appetite as "the articulation of the amount of risk, on a broad level, an organization is willing to accept in pursuit of strategic objectives and the value to the enterprise." Clearly defined risk appetite statements should help an organization verbalize, at a high level, how much risk it is willing to take and in what areas.

Defining risk appetite helps guide organizational risk management activities. But too often, risk appetite statements have been relegated to standalone documents that are either loosely connected to organizational strategy or not connected at all. Additionally, risk appetite statements are seen only as a means to limit or control risk-taking. As many federal executive leaders know, some amount of risk-taking is necessary to drive innovation and transformation. Risk-taking should be closely aligned to an agency's strategic goals and objectives to optimize value. The President's Management Agenda (PMA) lays out a long-term vision for modernizing the federal government into a 21st century entity that is more agile, less bureaucratic, and focused on improving mission outcomes. To this end, developing a dynamic risk appetite framework will help federal leaders manage the full spectrum of risks within their agencies, while capitalizing on opportunities to improve performance, save costs, and innovate. A strategy-integrated risk appetite framework provides a structured approach to the management, measurement, and control of risk, while focusing on the biggest risks to the achievement of strategic goals and objectives, as depicted in Figure 1.

Figure 1: Risk Appetite Framework

Below are five important considerations for developing your agency's risk appetite framework:

1. **Identify and understand your agency's strategic goals and objectives.** An agency's risk appetite is directly related to its strategic goals and objectives. By highlighting what the agency wants to accomplish, federal leaders can articulate how much risk the organization is willing to take to achieve those goals. Review your agency's strategic plans, as each presents the long-term objectives an agency hopes to accomplish at the beginning of each new presidential term and describes both general and long-term goals. Your strategic plan offers a great starting point to begin identifying the work needed to accomplish strategic goals and objectives. Performance reports and capability models are good documents to use, as well.
2. **Develop a simple risk appetite statement.** After identifying strategic goals and objectives that your agency needs to achieve to meet its mission, the next step is to articulate the types and amount of risk the organization is willing to take to achieve those objectives. The cornerstone for any effective risk appetite framework involves the development of a risk appetite statement. By communicating the agency's risk appetite in a clear and concise manner, all stakeholders, both internal and external, should be able to make more intelligent, risk-based decisions within the agency's risk appetite. This can only happen if risk appetite statements are expressed using a common language that is used throughout the enterprise. Agencies should ensure that a common, consistent risk taxonomy is used in strategic plans, operational manuals, performance reports, and capability models throughout the organization.
3. **Measure your organization's risk appetite.** Some objectives may require an agency to be more risk-seeking (high risk appetite) when devising solutions with limited resources, particularly those related to the adoption of new technologies; while others may require the agency to be more risk-averse (low risk appetite), such as requirements to comply with laws and regulations. Risk managers should develop ways to measure risk appetite. Measurement may include using balanced scorecards or specific strategy-focused key risk indicators (KRI).
4. **Embed knowledge of risk appetite into agency culture.** Once an agency's efforts to achieve its strategic goals and objectives have been clearly outlined and methods have been developed to consistently measure how much risk an organization is willing to take, agency leadership needs to provide input and set the tone at the top. Senior executives should encourage one another to provide clear expectations of how much risk they feel the organization is willing to take in pursuit of agency objectives. By collecting, aggregating, and integrating feedback, leadership can articulate the agency's risk appetite in a way that is easily understood across the enterprise. In every discussion and decision,

management's actions should reflect the organization's appetite for risk, whether high, medium, or low. To embed risk further into an agency's organizational culture, leadership should communicate the agency's risk appetite regularly, both horizontally and vertically across all levels of the organization, because as most of us know, managing risk is everyone's job.

5. **Monitor and manage changes to risk appetite.** Finally, as risks change, risk appetite may change, too. It is imperative that risk appetite is reviewed and tested at scheduled intervals (at least annually) and when important changes happen, to ensure that the risk appetite remains on strategy. Certain circumstances are likely to give rise to changes in an agency's risk appetite, including:
    - Changes in key leadership;
    - Changes in the regulatory environment;
    - Multiple or new initiatives arising requiring reprioritization; and
    - Additional budget constraints.

Consider mechanisms to brief new stakeholders and keep leadership engaged on risk management and risk appetite. These can include disseminating surveys, facilitating roundtables, and discussing risk and risk appetite in performance review meetings. This will ensure that decision making adheres to the principles established around risk appetite. As your agency reviews and tests risk appetites against objectives, its willingness to accept risk may increase as leadership becomes more confident that the risk monitoring process works well and that emerging or changing risks are being identified and escalated appropriately.

For federal managers, a risk appetite framework is a fundamental tool in sustaining ERM capabilities to effectively manage risks to strategic goals and objectives. However, a risk appetite framework is only as good as its implementation. To effectively apply a risk appetite across the enterprise, it needs to be aligned to strategic goals and objectives, as well as integrated into the agency's existing ERM infrastructure and key support functions.

By managing risks with the greatest impact to the organizational mission, agency leadership can make more risk-informed decisions that better balance limited resources and focus the necessary time and attention on innovation and enterprise performance.

Joie Hayes may be reached at joie.hayes@morganfranklin.com.

AFERM's Community of Practice/Interest

Supporting federal ERM areas of specialty

AFERM maintains three communities of practice/interest for small federal agencies, data analytics, and cyber-ERM.

Community	Description	Contact
Cyber-ERM Community of Interest (CYBERCOI)	A community of federal ERM and information technology practitioners seeking to bridge communications cross agency-level ERM and cybersecurity risk management functions	Nahla Ivy, Chair, nahla.ivy@nist.gov
Data Analytics Community of Practice (DACOP)	A collaborative community of public sector ERM practitioners focused on advanced and applied data analytics supporting the evolution and maturity of their respective agency ERM programs	Curtis McNeil, Chair, curtis.mcneil@aoc.gov
Small Agency Community of Practice (SACoP)	Provides a venue for smaller agencies to share best practices and resources on ERM implementation and serves as a forum to discuss common challenges, provide learning opportunities, and foster networking and collaboration	Valerie Lubrano, Chair, vlubrano@gmail.com or aferm.sacop@gmail.com

For more information on any of the communities of practice/interest, please reach out to the contacts noted above.

AFERM Membership

Membership Provides Access to Valuable Resources

With over 550 members, 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 government ERM, 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.

Sharing Your Success Stories and Thought Leadership

Communicating the value of ERM

Essential to the AFERM's Newsletter are success stories and thought leadership from ERM professionals. The concepts, innovations, and lessons learned shared by ERM professionals help advance the dialog and contribute to the maturation of the profession. We thank our contributors for their support of AFERM and their passion for ERM!

We hope you found the contributions to this Newsletter as informative and thought provoking as we do! AFERM thanks the following contributors to our latest Newsletter:

- Donovan Chase, Manager, Risk Consulting, Federal Advisory, KPMG LLP
- Marcus Melton, Director, Risk Consulting, Federal Advisory, KPMG LLP
- Joie Hayes, Public Sector Manager, MorganFranklin
- David Riddell, Managing Director, North American Federal Practice, Galvanize

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Please send your success stories or request for information on publishing a thought leadership piece to the AFERM Communications Committee at AFERM.Communications@gmail.com. The Committee is responsible for the AFERM Newsletter and is led by **Shelly Turner** with **Nadya Korobko**, both of Guidehouse, who may be reached directly at sturner@guidehouse.com and nkorobko@guidehouse.com, respectively.

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