AFERM
Association for Federal Enterprise Risk Management

AFERM Newsletter

Issue 33
June 2020

Thought Leadership for the Federal Enterprise Risk Management Community

Contents

Highlights

This 33rd issue of the quarterly AFERM Newsletter includes thought leadership articles from ERM practitioners with Grant Thornton, Guidehouse, and RSA, and a short article from WAEPA. Also, AFERM's Virtual 2020 Summit Training is September 10th – a full day of connectivity, idea sharing, and continuing professional education!

AFERM Association for Federal Enterprise Risk Management

The President's Corner

AFERM President Ken Fletcher

Applying Enterprise Risk Management (ERM) for Post-COVID-19 Operations

By Ken Fletcher, AFERM President

With the business disruptions and associated layoffs, economic upheaval, extended stay-at-home orders, and nearly $2.4 trillion in federal stimulus spending to date resulting from the enduring COVID-19 pandemic, calendar year 2020 is dramatically different from any year we previously experienced. The stress on our work routines and on our families is causing all of us to demonstrate flexibility, adaptability, and resilience. Although we did not anticipate today's realities when we settled on the theme for this years' Summit, "Creating a Clear 20/20 Vision to Take on Tomorrow's Risks" could not be more relevant to AFERM, our members, and our sponsors.

The current situation in which agencies must navigate has increased the value of ERM in helping understand and respond to the new risk environment. While the future is fraught with increased levels of uncertainty, there are two things I believe are likely over the remainder of 2020 and beyond. First, a return to the "business-as-usual" in our professional and personal lives is highly unlikely anytime soon with some business analysts asserting that the pandemic will change business as usual forever. Few school age children in the region will be in a traditional in-class learning environment through the end of the year, and many federal and private sector employees will continue to work remotely. For government, the lessons learned, and success of this protracted tele-work experience may lead to continuing with expansive tele-work policies to reduce real estate footprints and associated costs or for other benefits to agencies or their employees.

Second, all levels of government are likely to experience considerable pressure on financial resources. How quickly the economy recovers may correlate with how soon these additional financial pressures dissipate. In the near term, federal stimulus spending is likely to increase concerns about the sustainability and long-term impacts of high government debt levels and many agencies may see appropriation cuts over the next several years. At the state and local level, the need to divert public funds to

pandemic response without a federal offset may cause public sector layoffs and a reduction in citizen services.

Scenario planning capabilities of ERM programs will be important for agencies to proactively take on tomorrow's risks. How quickly and to what extent society recovers to functioning as it did before the pandemic and to what extent an agency experiences appropriation cuts establishes the four quadrants of potential future states and their related risks to government enterprises (presented in the figure below). From this perspective, agencies may begin considering key risk response questions concerning: What must change and what can change; what activities need to stop and what activities could be halted; and what opportunities should be pursued and where to invest for the long-term? The answers to these questions will be different for each potential future and will differ from agency to agency.

These same questions are confronting the AFERM Board of Directors. We have started addressing some of them by shifting to a virtual Summit, conducting webinars and on-line training events instead of in-person lunches and seminars, and delaying the decision to financially commit to a venue for the 2022 Summit. The revised AFERM strategic plan and business operating model review being finalized by the Planning Committee will provide insights to the Board on how we may address these and other questions. Additional insights will come from the plenary speakers and breakout sessions during the upcoming virtual 2020 Summit. The Summit Planning Committee has a wonderful agenda for this year's Summit on September 10th, with keynote addresses by risk leaders from the Port Authority of New York and New Jersey and from Microsoft. I hope each of you can participate in what should be another exceptional AFERM Summit, and please stay safe and healthy.Content

All the best,

Ken

Ken Fletcher, AFERM President, may be contacted at President@AFERM.org.

Sharing Your Success Stories

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

- **Ken Fletcher**, AFERM President, and President and founder of Kestrel Hawk Consulting
- **John Brown**, Managing Consultant, Guidehouse
- **Wendy Morton-Huddleston**, Principle, and **Bobbi-Jo Pankaj**, Managing Director, Grant Thornton
- **Marshall Toburen**, Risk Management Strategist, and **Dan Carayiannis**, Public Sector Director, RSA
- **Amanda Huelskamp**, Senior Outreach Specialist, WAEPA

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

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 (Click Name for Link to Event Information and Registration)	Organization	Date	Location
Integrating Cybersecurity and Enterprise Risk Management *Note: Free Webinar*	AFERM	August 31	Virtual
2020 AFERM Virtual ERM Summit *Note: AFERM members receive discounted pricing*	AFERM	September 10	Virtual
Government Performance Summit 2020 (GPS20) *Note: AFERM members save $200*	Performance Institute	September 29	Virtual
2020 Emerging Technology Conference *Note: $25 early bird savings until August 30*	George Mason University	October 16	Virtual
AI World Government Virtual *Note: Complimentary Registration for Government Employees through August 21*	Cambridge Innovation Institute	October 28	Virtual

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

Varun Malhotra of Guidehouse coordinates the AFERM programs. He may be contacted at Programs@AFERM.org.

Thought Leadership

Leveraging ERM in the four phases of emergency management

By Wendy Morton-Huddleston, Principal, and Bobbi-Jo Pankaj, Managing Director, Grant Thornton

Integrating ERM, strategy, communications, and culture are vitally important when addressing emergency management situations. It is imperative public sector professionals manage risks with a portfolio view.

This article discusses ERM practices related to the four phases of emergency management including mitigation, preparedness, response, and recovery and the nexus to ERM.

Sound ERM practices must be forward-looking and designed to help leaders make better decisions, identify threats, and to raise awareness to previously unknown opportunities to improve the efficiency and effectiveness of government operations. This is especially true with the recent rise of natural disasters and the COVID-19 global pandemic.

The United States tallied a bill of $45 billion in 2019 for weather and climate disasters, which included 14 disasters with damage exceeding a billion dollars each – the fifth straight year with 10 or more billion-dollar disasters. This dollar amount is lower compared to recent years[1]: The past three years' disasters have caused a total of $460 billion in damage, with 2017 holding the record high of $321 billion in damage.

The 14 individual billion-dollar disasters included eight severe storms, two tropical cyclones, three flooding events, and one wildfire event, all of which resulted in the deaths of 44 people and had significant economic impacts on the areas they affected.

Now, for the 2020 hurricane season, emergency managers face the unfortunate compounding factor of COVID-19. Compared to the physical force of a natural disaster, this new silent assailant has caused economic, physical and social disruption, that has resulted in devastating mortality rates, widespread supply chain shortages and cancellations of sporting, religious and cultural events. When considering the omnipresent force of a pandemic in conjunction with a disaster like a hurricane, the importance of sound ERM practices is more paramount than ever.

During any disaster, ERM practices are conducive for preparedness, mitigation, response and recovery across agencies and communities. For example, forward-looking management decisions and balancing risks and the immediate need for resources and financial assistance enhances value to the taxpayer.

A discipline like ERM needs to be integrated into each phase and in every conversation around emergency management. Through adequate risk management, agencies can concentrate efforts toward reducing the impact and exercising prevention strategies such as mandatory evacuations to reduce harm to citizens and to mobilize humanitarian efforts. Also, a holistic approach across the extended enterprise – such as collaboration across federal, state, local and private sector organizations – ensures access to a wide range of resources.

ERM does not eliminate risk, but helps you prepare for uncertainty, including the uncertainty of when and where the next emergency will occur. Emergency management can consist of assessing the risk for a natural disaster like a hurricane, wildfire or flooding or an information technology disaster like a cyber-attack that requires ransom for data access. In today's climate, these risk assessments must also take into account the additional impact COVID-19 and resulting implications will have on any emergency response. For example, the guidelines of the Centers for Disease Control (CDC) on physical distancing, avoiding travel, wearing face coverings and stockpile shortages are part of the new paradigm and factors for assessing the risk environment in the era of COVID-19. Organizational leaders need to be prepared for many aspects of emergency management, and with agility and astute foresight they can mitigate unnecessary human costs due to COVID-19 during a future emergency.

How can enterprise risk management help?

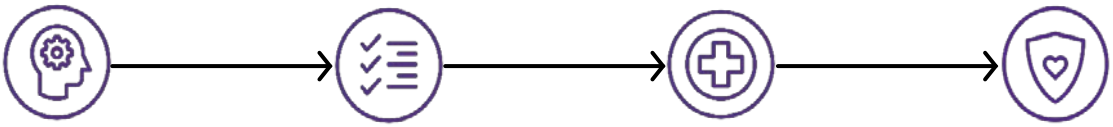
ERM helps to address the need for horizontal and vertical communication channels to facilitate transparency and informed decision making. ERM puts a structure in place to look at the risks posed by likely events, helps to develop a risk-based approach to focusing on reducing the impact of the events, prepares for the risks that cannot be eliminated, and puts a plan in place to reach out and recover appropriately when the emergency events do occur. Given the unpredictable nature of the pandemic, sound ERM practices additionally provide the benefit of a more agile, flexible structure with sufficient alternative plans in place.

An alignment of the four phases of emergency management – Mitigation, Preparedness, Response, and Recovery – aligned to the seven ERM elements is presented in the figure below.

Seven ERM elements

1. Establish the Context
2. Initial Risk Identification
3. Analyze and Evaluate Risk
4. Develop Alternatives
5. Respond to Risk
6. Monitoring and Review
7. Continuous Risk Identification

The seven ERM elements aligned to the four phases of emergency management



Mitigation

3. Analyze and evaluate risk

5. Respond to risk

Preparedness

1. Establish the context

2. Initial risk identification

4. Develop alternatives

Response

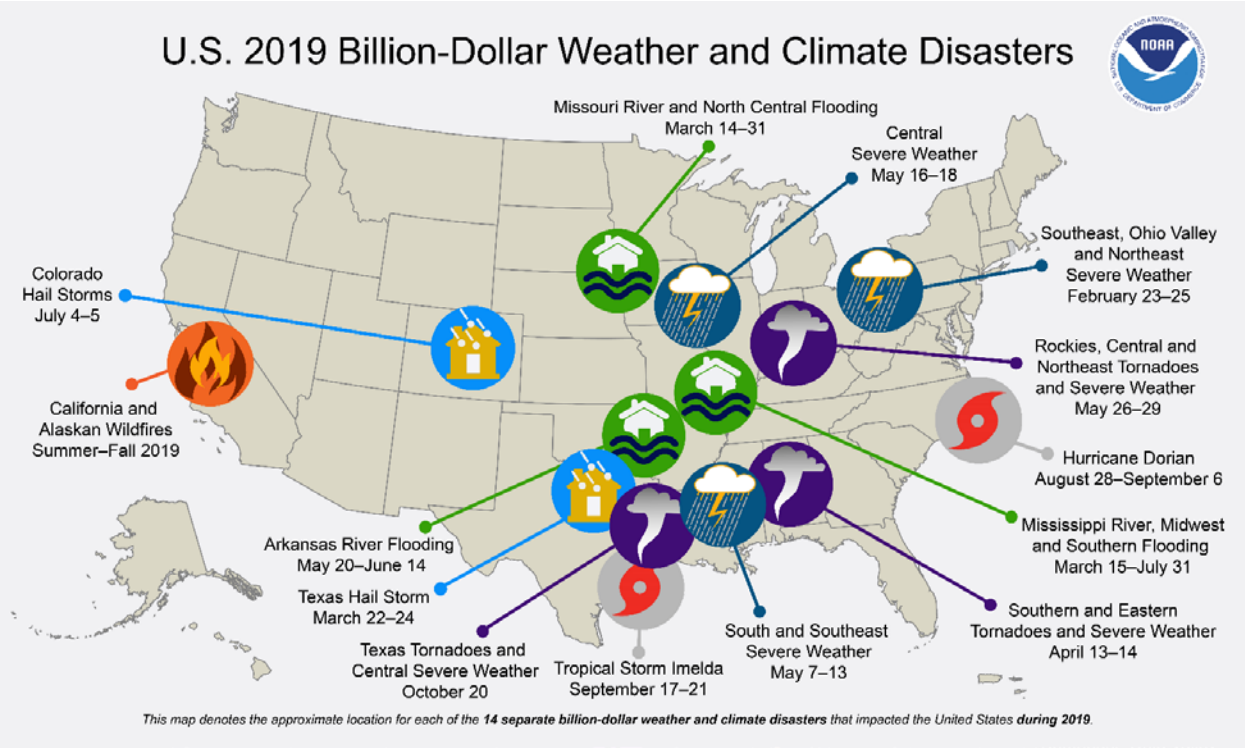
5. Respond to risk

Recovery

6. Monitoring and reviewing

7. Continuous risk identification

2019 Billion dollar natural disasters



Location	Type	Timeframe
Colorado	Hail Storms	July 4th – 5th
California & Alaska	Wildfires	Summer – Fall 2019
Oklahoma, Arkansas, Kansas, Missouri	Flooding (Arkansas River)	May 20th – June 14th
Texas	Hail Storm	March 22nd – 24th
Texas & Central	Tornadoes & Severe Weather	October 20th
Texas, Louisiana, Oklahoma, Arkansas	Tropical Storm (Imelda)	September 17th – 21st
South & Southeast	Severe Weather	May 7th – 13th
Southern & Eastern	Tornadoes & Severe Weather	April 13th – 14th
Midwest & Southern	Flooding (Mississippi River)	March 15th – July 31st
Puerto Rico & Eastern	Hurricane (Dorian)	August 28th – September 6th
Central & Northeast	Tornadoes & Severe Weather	May 26th – 29th
Southeast, Ohio Valley, & Northeast	Severe Weather	February 23rd – 25th
Central	Severe Weather	May 16th – 18th
North Central	Flooding (Missouri River)	March 14th – 31st

Phase 1 – Mitigation

Mitigation involves preventing future emergencies or minimizing their effects. Mitigation activities can include any measures that reduce the chance of an emergency happening or reduce the damaging effects of unavoidable emergencies. Agencies must spend time and energy on reducing the likelihood or impact of the risk or with transferring the risk by leveraging insurance. One of the primary functions of mitigation planning is to enable the organization to identify risks prior to a disaster to directly limit the impact of a disaster should one occur.[2] In the Federal Emergency Management Agency's (FEMA) Strategic Plan, it states insurance is an effective tool to transfer risks away from disaster survivors and enable rapid recovery. Experience has shown repeatedly that individuals, communities, and businesses that manage risk through insurance recover faster and more fully after a disaster.

According to an independent study in 2018 by the National Institute of Building Sciences[3] every dollar the Federal government invests in mitigation saves taxpayers an average of $6 in future spending. Effective mitigation is truly paramount in a pandemic environment, due to the many unprecedented compounding factors emergency mangers now face. To name a few, the pandemic has upended existing supply chains, significantly reduced state and local governments' budgets, requires personal protection equipment (PPE) for all persons, not just medical professionals, and demands social distancing in all stages of response to an emergency.[9] In order to effectively respond to these elements, and prevent unnecessary loss of life, the onus is on emergency management response teams to develop and implement sufficient plans to accommodate all of the ramifications of responding to a traditional emergency in a viral environment.

ERM elements

In the mitigation phase of emergency management, organizations should focus on ERM elements #3 and #5.

- **Analyze and Evaluate Risk** – consider the causes, sources, probability of the risk occurring, the potential positive or negative outcomes, and then prioritize the results of the analysis. For instance, excessive physical deployments of personnel increase the probability of key responders becoming infected with COVID-19. You must identify, analyze, and evaluate your risk in order to move toward mitigating them to an appropriate level.
- **Respond to Risk** – make decisions about the best option(s) among a number of alternatives, and then prepare and execute the selected response strategy. Having well thought out alternative plans is especially important due to the unpredictable effects of the pandemic, since the number of infected individuals, ability for contracted suppliers to respond, and other factors cannot be reliably predicted.

Phase 2 – Preparedness

Preparedness takes place before an emergency occurs and can include plans or preparations made to save lives and to help response and rescue operations. Building a culture of preparedness in communities everywhere is essential. The average number of major disaster declarations has steadily increased, rising from an average of 24 per year in the 1980s to nearly 90 per year since 2010. Therefore, there needs to be an increased focus on preparedness from a risk based approach.

According to[4] CivicPlus, emergency preparedness saves lives. No matter how prepared your community becomes, you cannot prevent an unexpected local disaster, but you can prepare for one. Effective plans convey goals and objectives and are vitally important to prioritize planning efforts that address the respective threat or hazard.

In FEMA's 2018–2022 Strategic Plan, building a culture of preparedness is one of FEMA's three overarching Strategic Goals[5] to unify and further professionalize emergency management across the nation. FEMA's plan stresses that every segment of our society must be encouraged and empowered with the information it needs to prepare for the inevitable impacts of future disasters.

ERM elements

In the preparedness phase of emergency management, organizations should focus on ERM elements #1, #2 and #4.

- **Establish the Context** – understand and articulate the internal and external environments of the organization. Plans should be developed through the analysis of risks, operational assumptions, and resource demands.
- **Initial Risk Identification** – use a structured and systematic approach to recognize where the potential for undesired outcomes or opportunities can arise. This includes working with the emergency management community to encourage proactive risk assessments. Until the pandemic subsides, any emergency plan must take into account the increased risk of infection and the need for social distancing and additional protective equipment.
- **Develop Alternatives** – systemically identify and assess a range of risk response options guided by risk appetite. This includes having a dedicated effort by the whole community to educate the public regarding their risks and developing methods to mitigate the impact of those risks. Due to the current situation, any educational content or information must be distributed virtually.

Phase 3 – Response

Response involves putting preparedness plans into action and takes place during an emergency. It can include actions taken to save lives and prevent further property damage in an emergency situation. Response encompasses the activities that address the short-term, direct effects of an incident. Response also includes incident mitigation

activities designed to limit the loss of life, personal injury, property damage, and unfavorable[6] outcomes.

Response this hurricane season will have to be more flexible than ever, accommodating FEMA's adapted posture and procedures for implementing disaster assistance and program delivery.[9] In addition to remote coordination, emergency managers will have to have a response plan which accommodates the risks of the pandemic, such as sufficient non-congregate sheltering arrangements for evacuees, or health screening procedures and infection response protocol for all shelters. Effective response in this sense can mitigate loss of life or suffering from the novel coronavirus, while reassuring citizens of their safety.

Effective response yields decisive results, as during Hurricane Katrina, when Mississippi Power[7] was able to restore power to all customers that could accept it in 13 days, which was half the time that was originally projected. Their response showcased the importance of having an effective organizational response ready for such disasters.

ERM elements

In the response phase of emergency management, organizations should focus on ERM element #5.

- **Respond to Risks** – make decisions about the best option(s) among a number of alternatives, and then prepare and execute the selected response strategy. The need for effective preparation and execution is amplified by the pandemic. To name a few possibilities, managers must have an evacuation strategy for infected populations, plans to move critical medical equipment such as ventilators, and considerations for the additional time needed to evacuate while maintaining social distancing.

Phase 4 – Recovery

Recovery takes place after an emergency and seeks to return the community business, or other entity to conditions the same or better than existed before the emergency event. The recovery phase requires balancing the more immediate need to return the community to normalcy with the longer-term goal of reducing future vulnerability. Recovery includes the reactions and risk response to disasters which vary depending on the incident. Recovery efforts are primarily concerned with actions that involve rebuilding destroyed property, re-employment, and the repair of other essential[8] infrastructure. Recovery efforts must also be constructed to support businesses that have been impacted not only by a disaster, but also by COVID-19 restrictions. Further, it is essential that recovery efforts are delivered in an equitable and impartial manner, receiving input from and effecting all community members sufficiently.

Successful recoveries are dependent on what happens during the first three phases of emergency management. Even with this increased focus on mitigation, preparedness,

and response, disasters will still occur and recovery will still be required. Those organizations that have invested in the continuous risk identification and specifically in recovery planning are shown to not only minimize losses and costly interruptions, but also have been able to provide essential emergency services to their customers.

ERM elements

In the recovery phase of emergency management, organizations should focus on ERM element #6 and #7.

- **Monitoring and Reviewing** – evaluate and monitor performance to determine whether the implemented risk management options achieved the stated goals and objectives.
- **Continuous Risk Identification** – is an iterative process, occurring throughout the year to include surveillance of leading indicators of future risk from internal and external environments, including a viral threat.

What more can be done?

It is important to remember that effective planning and response for all types of emergencies is achieved by coordination and cooperation of many groups and individuals throughout the four phases of emergency management described above.

Those who specialize in emergency management have made strides with incorporating some ERM elements into their emergency management processes, but more can be and needs to be done due to the increased velocity and severity of disasters. We need to think about the broader application of ERM, specifically the seven elements of ERM described above, and how this discipline can be applied to better reach the goal of mitigating, preparing, responding and recovering from emergencies. We need to continue to discuss how ERM can help in the achievement of a true portfolio view of an agency's objectives (strategic, reporting, operations and compliance) to prepare for emergency management events.

Today's emergency manager faces the challenge of achieving these goals during disasters and the COVID-19 pandemic, severely limiting the tolerance for error. However, in following the seven elements of ERM, an emergency manager can proactively prepare, mitigate and manage concurrent events while mobilizing resources and evoking strategies that can ultimately reduce damages, saves lives and enable mission achievement during a time of historic events.

The authors

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Endnotes

1. NOAA. (https://www.ncdc.noaa.gov/billions/)
2. FEMA's 2018-2022 Strategic Plan (https://www.fema.gov/media-librarydata/ 1533052524696-b5137201a4614ade5 e0129ef01cbf661/strat_plan.pdf)
3. The National Institute of Building Sciences report today "Natural Hazard Mitigation Saves," on Jan 2018 (https://www.nibs.org/ page/mitigationsaves)
4. CivicPlus 8 Tips for Local Government Community Emergency Preparedness
5. FEMA's strategic plan (https://www.fema. gov/media-library-data/1533052524696-b5137201a4614ade5e0129ef01cbf661/ strat_plan.pdf)
6. St. Louis. County Missouri – Law and Public Safety-Four phases of emergency management. (https://www.stlouisco.com/LawandPublicSafety/ EmergencyManagement/ TheFivePhasesofEmergencyManagement)
7. Success Stories: Strong Partnerships for Stronger Community Resilience (http://www.resilientus.org/wp-content/ uploads/2013/09/Strong-Partnerships-for- Stronger-Community-Resilience.pdf)
8. St. Louis. County Missouri – Law and Public Safety-Four phases of emergency management. (https://www.stlouisco.com/LawandPublicSafety/ EmergencyManagement/ TheFivePhasesofEmergencyManagement)
9. FEMA's COVID-19 Pandemic Operational Guidance for the 2020 Hurricane Season (https://www.fema.gov/media-library-data/1589997234798-adb5ce5cb98a7a89e3e1800becf0eb65/2020_Hurricane_Pandemic_Plan.pdf)

AFERM's 2020 Virtual Summit

Register now to take advantage of early bird pricing

True to our risk management roots, AFERM's 2020 annual Summit is virtual this year. Scheduled for September 10th from 8:45 am to 4:45 pm, we offer five (5) continuing professional eduction (CPE) credits and a line-up of speakers to help bring ERM into focus with virtual plenary speakers, breakout sessions, and digital demonstrations.

This year's Summit Planning Committee is led by chair Meredith Stein of the National Institutes of Health (NIH) and co-chair Marianne Roth of the Consumer Fraud Prevention Bureau (CFPB).

Registration and Pricing

AFERM has again partnered with AGA on the Summit to handle registration through AGA's website. Check out AFERM's Summit website for instructions on registering. Registration pricing for early birds and AFERM members and non-members and speakers and moderators is summarized in the table below.

Registration Type	Registration Fee
AFERM Members	$189
Non-AFERM Members	$229
Speakers and Moderators	$100

You may contact the **Summit Planning Committee** at Summit@AFERM.org if you have suggestions and the **Volunteers Committee** at Volunteers@AFERM.org if your're interested in volunteering with AFERM.


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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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AFERM's ERM Podcasts

AFERM's podcasts continue the ERM dialogue

Since the spring we made two podcasts – conversations with risk management professionals in the federal sector. An additional 35 podcasts preceded them, and all the podcasts are available on AFERM's website at https://www.aferm.org/aferm-risk-chats/. If you are interested in participating on a podcast, please contact Paul Marshall, MILCorp, and Tal Seaman, Navigator Solutions.

The two most recent podcasts are as follows:

- *Episode 37: Operationalizing USAID's Risk Appetite Statement* – Marcus Howard, Director of Enterprise Risk Management and Internal Controls, U.S. Agency for International Development (USAID), on how the agency is operationializing its risk apetite statement. This includes a discussion on strategy, internal controls, data analytics, risk management tools, and adjusting risk appetites.
- *Episode 38: AFERM President Ken Fletcher*, Ken Fletcher, AFERM President, on AFERM's strategy over the next few years, a recent article regarding the "new normal" after COVID, the upcoming AFERM Virtual Summit 2020, and AFERM's annual ERM survey.

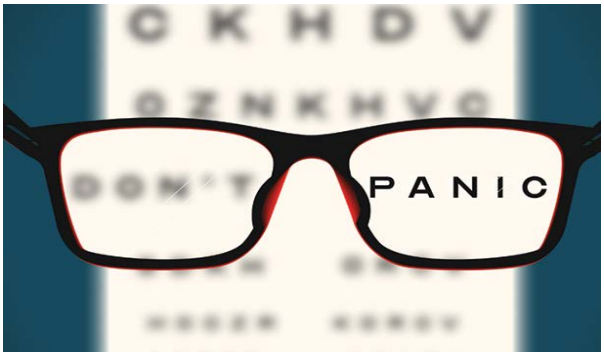
Paul Marshall may be contacted at pmarshall@milcorp.com, and **Tal Seaman** may be contacted at tseaman@navigatorsol.com.

Thought Leadership

Eye of the Beholder: Understanding the Psychology of Risk Perception to Improve Risk Management

By John Brown, Managing Consultant, Guidehouse

Individuals perceive risks in markedly different ways. One person may consider a risk to be critical, while another could consider it inconsequential. Often rooted in psychology, these differences in risk perception can create challenges for risk professionals, especially when designing and implementing an effective risk management program. After all, if the program is focused on the wrong risks from the outset, the consequences to the organization could be dire. It is therefore critical for risk professionals to understand the psychological aspects of risk perception and develop techniques to address the resulting challenges.



The Effect of Heuristics and Biases

Our reaction to risks can be traced to early humans, who were either the hunter or the hunted and responded to danger by fighting or fleeing. Our ancestors' survival depended on responding quickly and correctly. A part of the brain—the amygdala—helped humans' survival by bypassing cognitive processes and initiating immediate responses. Today, we generally have the time to obtain information, analyze risks and develop a reasoned response. Yet we still seem to let our innate reactive-mode override our cognitive thinking.

Many factors impair our ability to develop an accurate assessment of risks. Chief among these are heuristics and biases, which can overtake reasoned analyses and decisions. Heuristics are practical problem-solving methods that serve as shortcuts in our cognitive thinking, influenced by our life experiences. Heuristics are important to consider because they may cause us to arrive at erroneous conclusions. Instead of stepping from A to B to C to D, heuristics allow us to jump directly from A to D. If the current situation is aligned to the foundation of our heuristic, this is good because the heuristic saves us time. However, if information in steps B or C indicate a different path, jumping from A to D can result in a completely different and wrong conclusion.

Biases impact heuristic thought processes and have a major impact on how we identify, analyze and evaluate risks. Important biases in risk perception include:

- **Anchoring bias.** Our thinking is influenced by the first relevant data point we encounter when considering any situation. For example, if we are purchasing a used vehicle, the first person to offer a price establishes a range of reasonable prices in everyone's minds, anchored around the first stated value.
- **Availability bias.** People tend to make judgements and decisions based on new, recent or dramatic information. Our memories fade quickly and the significance of what happened two years ago pales in contrast with what we read in daily—or hourly—news feeds. In our always-on social media lives, the dual effect of availability and anchoring poses a dangerous combination. Early reports of events can be fraught with inaccuracies, which are generally corrected later. The anchoring effect of the early news, however, can overpower the later, accurate—and perhaps less dramatic—information.
- **Confirmation bias.** People also tend to believe information that supports our position or preconceptions and discount other data, regardless of how accurate or relevant it is. In his book *The Black Swan*, Nassim Nicholas Taleb noted, "We will tend to more easily remember those facts from our past that fit a narrative, while we tend to neglect others that do not appear to play a causal role."
- **Conservatism bias.** Unlike the availability bias, we may also tend to discount new data or evidence in favor of knowledge we have obtained over time. Consumer companies, for example, are often slow to recognize and adapt to changing consumer preferences.
- **Information bias.** Many individuals and organizations seek more and more information about a situation even though the additional information will not affect decisions on how to act or react.

Other Factors Influencing Risk Perception

In addition to biases, a number of other factors also affect the way we perceive and deal with risks. One of the most important is experience and familiarity. If we do not have first-hand knowledge of a risk, we tend to discount both the likelihood that it will materialize and its possible consequences. This factor is two-sided: On one hand, having direct experience with a risk makes it seem more likely; on the other hand, constant exposure to a risk makes it so familiar that we often discount the consequences, perhaps because we have adapted to living with it.

Another factor is time relevancy. We tend to magnify the importance of risks that have occurred recently, compared to risks that have not occurred for some time. For example, after the September 11 terrorist attacks, aviation safety and security was paramount, and significant measures were implemented to secure air travel that remain in place to this day. Terrorists are just as likely, if not more so, to attack other modes of transportation or public gathering locations such as shopping malls and sports venues, however.

Control also impacts risk perception. People tend to discount risks if they feel in control of the situations exposing them to those risks. As David Ropeik points out in his book *How Risky Is It, Really?*, we believe that it is safer to drive than fly to a distant location, yet statistics show it is

much more likely for a traveler to die in a traffic accident. A similar situation exists for the risk of being distracted using a mobile phone while driving: Hands-free technology is considered a viable risk reduction technique because the driver does not hold a physical handset while driving, yet research indicates that the real risk is the mental distraction of talking with someone and processing information not relevant to operating a vehicle.

Putting a face to a risk and its consequence also has an outsized effect on perception of a risk. Notice how the American Society for the Prevention of Cruelty to Animals (ASPCA) and humanitarian aid organizations use this to influence our contributions. Heart-wrenching images of neglected animals and malnourished children stir our emotions and drive us to donate.

Weighing downside risks versus benefits is another important consideration. When looking at the pros and cons of a decision and considering the risks, people often discount downside risk consequences in inverse proportion to the perceived upsides or benefits. The greater the upside, the more they discount the likelihood that the downside risk will occur. This phenomenon is evidenced in many failed acquisitions where the expected benefits never materialize.

Risks like automobile accidents and workplace safety incidents have rich historical data sets that lend themselves to mathematical modeling and projections of future occurrences. Advanced software can perform sophisticated calculations to estimate the "level of risk" based on likelihood and consequence curves. However, for many business-level risks, scant data exists to determine curves that realistically model likelihood and consequence. Yet many executives rely on calculated "value-at-risk" figures to make strategic and tactical business decisions. Running thousands of calculations using Monte Carlo techniques implies accuracy and validity, yet the inputs used for likelihood and consequence can be unrealistic.

Techniques to Compensate

Despite the seemingly insurmountable challenges to determine an accurate accounting of risks and risk levels, there are some relatively simple techniques that can be used to provide a counterbalance. Remember that risk management is a journey, and programs should improve over time. Incorporating one or more of the following techniques will help move toward more accurate risk identification, analysis and evaluation.

- **Use calibration exercises.** In his book *The Failure of Risk Management*, Douglas Hubbard discusses using calibration exercises prior to a risk identification session to guide individuals' estimates of risk likelihood and consequence. People are generally overconfident in their abilities, and calibration exercises provide a dose of reality. Subsequent risk identification and analyses are usually more realistic and accurate following calibration sessions.
- **Adjust likelihood and consequence scales.** Many risk management programs determine risk levels by combining estimates of likelihood of occurrence and

magnitude of consequence. Simple techniques like adding or multiplying the ratings together are often used, and then a scheme is derived to decide thresholds for risk significance. An observed shortcoming of this approach is that low-likelihood but high-consequence risks are overlooked. Yet it is precisely these risks that significantly harm organizations. A useful counterbalance is to place more weight on the consequence scale compared to the likelihood scale to maintain the visibility of lower-likelihood but higher-consequence risks.

- **Ask the same question multiple ways.** As discussed earlier, heuristics and biases impact the way we perceive risks and risk levels. Our thought processes are affected by the wording and presentation of a question or scenario. Employing a technique that solicits information about potential risks using differing language or contexts can help detect variances in risk perception and guide follow-up work to determine more accurate information. Well-constructed risk surveys often employ this technique to great advantage.
- **Ask the same question of multiple people.** Similar to asking the same question multiple ways, presenting questions to multiple people highlights disparities in risk perception. Risk surveys can be sent to people from different parts of an organization and the results analyzed to detect wide variances in risk perception. For example, higher up the leadership chain, views of risks tend to focus on longer-term strategic risks, while those in the lower- to mid-levels focus on more operational and tactical risks. Similarly, individuals in different functional areas will frequently view risks and risk levels differently based on their individual heuristics and biases. This does not mean one is right and the other wrong. Rather, it highlights the necessity and usefulness of considering multiple factors in identifying significant risks.
- **Ask the same question at different times.** Current events and work issues affect thought processes. If a risk survey or other risk identification process is conducted at roughly the same time every year, results will skew risks to those that are most front-of-mind at that time. For example, if risk assessments are conducted around strategic planning time, longer-term strategic risks will appear more important. If assessments are conducted during heavy manufacturing periods, such as an inventory build-up for holiday sales, manufacturing capacity and supply chain risks will seem more important. To counter these tendencies, conduct risk assessments at varying times during the year.
- **Ensure the risk management process is continuous.** Risks are dynamic and a risk management program should be as well. Building on the technique above, multiple risk identification processes and frequencies should be used and should be time-independent. Emerging risks do not wait for regularly scheduled risk assessment workshops. Use multiple risk sensing platforms to identify new risks and detect the onset of a known risk. Well-defined risk indicators accompanied by robust data acquisition and analytics are useful for this purpose. Every organization has a unique operating structure and rhythm, and risk management

processes benefit by aligning to these. Maintaining a real-time or near-time focus on risks and risk treatment helps limit the potential that a critical risk will be missed or not addressed.

- **Use technology to help.** Technological solutions are valuable in managing risk information, acquiring and analyzing risk data, and automating information flows and decisions. A key benefit is the ability to remove psychological and emotional influences in processing risk data. Advances in artificial intelligence and data analytics can provide cost effective and valuable insight into risk environments and emerging risks. And risk management software platforms can aggregate risks, automate risk assessments, and track risk treatment actions.

Developing, implementing and evolving a risk management program is challenging at best. Psychological influences on risk perception can negatively impact the validity and focus of risk mitigation measures included in a program. Understanding these influences and integrating methods to compensate for them can substantially improve the effectiveness and value of any risk management initiative.

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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:

- Challenge Grant Competition: Re-Thinking Government Management and Operations Given the Impact of COVID-19
- Litigation Risks of Videoconferencing Tools
- 4 Ways To Build Influence as a Risk Manager
- How to Prepare a Business Interruption Claim
- Crisis Plans Minimize Cyberattack Disruption
- Cybersecurity Risk Management – Resources for Agency Action
- How Chief Risk Officers Can Add Value in a Crisis
- The Link Between ERM and Organizational Financial Performance
- Air Force: Enhanced Enterprise Risk Management and Internal Control Assessments Could Improve Accountability Over Mission-Critical Assets
- Managing Financial Risk in Government
- Black Lives Matter: Taking Action on Diversity and Inclusion
- Managing Risk: Insights From GAO's High-Risk List
- How To Conduct a Post-Crisis Evaluation
- Natural Disaster Planning During COVID-19
- Safety Measures to Return to Work After COVID-19
- An Increased Remote Workforce Calls for Increased Cybersecurity Protection

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/.

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

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:

- How can the agency ERM process and risk appetite principles be used to assist in mitigating strategic (long-term) risks resulting from COVID-19?
- What are some of the top challenges facing agencies in integrating the OMB A-123 ERM framework with strategic objectives and decision-making processes?
- What methods can agencies use to identify risks that are not already realized problems?
- How does the application of ERM differ in making risk mitigation decisions vs. routine decision making?

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


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Thought Leadership

Five Underrated Skills That Make You Invaluable in Federal Service

Submitted by Amanda Huelskamp, Senior Outreach Specialist, WAEPA

Federal service has its own thrills, challenges, and culture. Civilian Federal employees are impacted by political decisions and evolving agency landscapes, all while working to create tangible, long-lasting impacts on the country. If you're a Federal employee, you likely take pride in your dedication to public service.

No matter where you are in your career, our list of Five Underrated Skills That Make You Invaluable in Federal Service can help you add polish to your professional reputation. Consider developing these skills: Adaptability, Situational Awareness, Attention to Detail, Curiosity, and Frugality.

Adaptability

Government service can be fast paced. As the environment shifts, you need to be able to keep up. Additionally, many Feds report that mentorship is an important part of their careers. Adaptability is key for career development and will help mold you into a better employee.

- Example: Keep your composure the next time you are faced with unclear project guidelines or a budget mishap.

Situational Awareness

Situational awareness is more than knowing how to read a room – you need to be in tune with what is happening in your community and across the global landscape. This will help you anticipate changes that may impact your agency and its projects.

- Example: Gain a pulse on the hot topics occurring in the Federal space by subscribing to Federal newsletters.

Attention to Detail

In the government especially, dotting i's and crossing t's is essential. Even if it requires you to slow down sometimes, taking the time to review your work before you submit it will help you build a more polished work product and and enhance your professional reputation.

- Example: Pay special attention to your next work product submission to check for errors and things that don't add up.

Curiosity

Use your natural curiosity to ask questions and learn about your agency, colleagues, and the specific impact your work has on the organization. Having a broader knowledge beyond the silo you may work in can help streamline possible career advancements.

- Example: The next time you're briefed on a project or initiative, wait for the appropriate time and ask your supervisor or colleagues about the "why" behind the "what" so you can garner context.

Frugality

As one of **Amazon's leadership principles**, frugality is a skill that encourages employees to "work smart" and with resourcefulness. Plus, working in the government means that every dollar saved is a public resource that can be used elsewhere.

- Example: Two easy tactics to implement frugality into your workday are: double sided printing and printing in black and white.

As you work on skills to improve your impact in the Federal government, why not improve your benefits packages as well? Take the time to do the math: Feds who switch from FEGLI to WAEPA saved $375 on average. Plus, with WAEPA Group Term Life Insurance, you get portable coverage, premium refunds, and member benefits, all tailored specifically to your needs as a Civilian Federal Employee. See how much you could save.

Additional Resources

- Necessary Skills: Being Marketable for Federal Positions (NCDA, 2013)
- 7 Habits to Help Advance Your Career in Government (Careers in Government, 2016)
- Skills for a High Performing Civil Service (OECD Public Governance Reviews)

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AFERM's Communities of Interest/Practice

Supporting federal ERM areas of specialty

AFERM maintains three communities of practice/interest for small federal agencies, data analytics, and cyber-ERM. For more information on any of the communities of practice/interest, please reach out to the contacts noted below.

Community	Description	Contact
Cyber-ERM Community of Interest (CYBERCOI)	A community of federal ERM and IT practitioners seeking to bridge communications cross agency ERM and cybersecurity risk management functions	Nahla Ivy, Chair, nahla.ivy@nist.gov
Data Analytics Community of Practice (DACOP)	A community of public sector ERM practitioners focused on advanced and applied data analytics supporting the evolution and maturity of agency ERM programs	Curtis McNeil, Chair, curtis.mcneil@aoc.gov
Small Agency Community of Practice (SACOP)	A venue for smaller agencies to share best practices and resources on ERM and 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

AFERM Membership

Membership provides access to valuable ERM resources

With around 600 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 Membership@AFERM.org.

Thought Leadership

Evaluating ERM Technology and Finding the Right Fit for Your Organization

By Marshall Toburen, Risk Management Strategist, and Dan Carayiannis, Public Sector Director, RSA

ERM technology saves management and ERM teams time and money, while improving the organization's ERM capabilities. Without it, ERM professionals are faced with operating their programs with spreadsheets and emails, manually creating reports with static data that reflects the last data call. There are several factors risk managers should consider when evaluating ERM technology options. These include the following:

- User interface (UI)—To maximize its usefulness, ERM technology must be accessible to and usable by each of the three (3) lines of defense: Line management, risk and compliance management, and independent audit. The UI should be modern, familiar, and intuitive. Poor UIs are off-putting for users and result reluctant adoption and low usage. The UI of ERM technology should, to the extent possible, encourage participation and engagement.

- Stakeholder engagement—Beyond the UI, ERM technology engages users in several ways.
    - Configurable workflow can be used to automatically route problems, risk decisions, incidents, risk assessments, and day-to-day risk management activities to accountable stakeholders.
    - Workflow typically engages stakeholders via instant messaging and email. It is desirable to make certain that ERM technology can engage stakeholders regardless of the organization's messaging and mail solutions and that it can do so whether stakeholders are fixed at their workstations or are mobile.
    - Modern ERM technology liberally utilizes due dates, ticklers and exception flags to escalate matters requiring management attention. For example, managers receive automatic notification when subordinates' commitments approach or exceed due dates; analysts receive notifications when documents are about to expire and need to be updated; and when continuous monitoring metrics fall outside acceptable boundaries or a risk level increases, stakeholders are notified to take remedial action.

These features are important for any kind of risk management but are particularly important during information security incidents or business interruptions. When incidents and interruptions occur, it's vital to have multiple individuals notified and working to minimize the event as quickly as possible. Modern ERM technology is designed to optimize the handling of crises such as these and for senior management to know the real-time status via online dashboards.

- Capability to integrate—Many kinds of risk assessment require data input, and virtually all continuous monitoring requires data input related to the performance of controls. Consequently, it is critical that ERM technology can easily integrate external data. Some integration may be achieved with simple Microsoft Excel or CSV file uploads. Other cases may warrant online real-time integrations that require no human involvement. ERM technology integration should be carefully evaluated in terms of flexible integration architectures, long-term project objectives and the kinds of data to be integrated.

- Configurable calculations—Risk assessments, control evaluations, and exception handling all require calculations. In some cases, these may be as simple as arithmetic operations and conditional if-then-else statements based on numerical variables. In other cases, they may call for sophisticated equations and stochastic modeling of large and volatile risks. ERM technology should be able to accommodate all kinds of calculations without using complicated, esoteric coding.

- Reporting—It is critically important that ERM technology be able to produce the wide array of reporting required by each stakeholder and that the reporting engine be sufficiently flexible to allow the creation of new reports without utilizing traditional programming. Before acquiring any ERM technology, risk managers should survey key stakeholders to validate their requirements for risk management reports. A compiled list of reporting requirements can then be used to methodically assess ERM technologies' reporting capability. If the organization is already settled on a third-party reporting package (such as Tableau), the ERM technology will need to adequately interface with those technologies, too.

Other Considerations

The ownership of ERM-related technology solutions tends to vary by organization based on the size and maturity of the risk management teams and their experience with risk management principles and operations. It is not uncommon for internal audit functions initially to take responsibility for ERM technology because they often have the most experience in the evaluation of process and technology risk and controls, and they are familiar with effectively structuring internal control frameworks. From this perspective, it makes sense for auditors to administer ERM technology, provided they can maintain independence. At a minimum, this means formally acknowledging that they do not “own” the internal control framework -- the rest of the organization does and management is responsible for operation of the controls. Maintaining independence when auditors are tasked with administering ERM technology may mean that all records documented in an ERM system are explicitly owned by named individuals outside of the audit function and that all changes to records in the ERM system are reviewed and approved by outside individuals.

As organizations mature and expand their risk management functions, ERM system administration can be distributed to a second line of defense function, and internal auditors can return exclusively to a third line of defense role, independently evaluating the design and effectiveness of management’s internal controls.

Regardless of where an organization decides to place ERM technology system administration, the benefits to internal audit will be indisputable. In the absence of ERM technology, internal auditors are required to interview various levels of management and staff just to understand and plan the scope of an audit, as well as the risks and controls to be evaluated within the planned audit. Imagine a management system where all the needed planning inputs already reside: Strategies, supporting processes, third-party dependencies, supporting physical and technology assets, risks, controls, policies, standards, prior and existing issues, losses, and incidents. With this amount of information in one repository, the creation of audit plans and workpapers can be populated automatically, if the ERM technology specifically incorporates integrated audit planning, workpaper creation, documentation, and testing.

The ease of implementing ERM technology should not be oversold. Depending on the maturity and resources of an organization, implementation can be challenging. Organizations that have not addressed foundational ERM policies and practices should devote time to that before considering technology. For the rest, ERM technology

implementation can be broken up into manageable pieces, focusing first on the most pressing concerns of the organization. Each piece that is implemented fits together with previously implemented pieces until a holistic ERM technology solution emerges.

Positive Outcomes of ERM Technology

Risk managers should expect to realize the following positive outcomes from deploying ERM technology that has been carefully selected to meet the organization's needs.

- Visibility and business context—Stakeholders will have more visibility into the organization's risk and internal controls and the risk and controls associated with outsourced services. Management will better understand what mission and objectives the risk and controls relate to. This visibility and context will make it easier for stakeholders to make consistent business decisions, including where scarce risk management resources should be allocated.
- Leadership acceptance—An ERM program that provides consistent and accurate results is likely to have more immediate leadership acceptance because the process is sound and historical results have demonstrated consistency.
- Organization-wide impact—Enterprise adoption across all the organizational elements drives a consistent dialog in which everyone is speaking the same language and using a common taxonomy.
- Accountability—ERM technology establishes accountability by making it clear which named individual and business unit are responsible for an objective, business process, risk, control, policy, or outstanding issue. Accountability leads to more timely and effective risk management.
- Consistency—Consistency in risk assessments and decision workflow means risks will be handled in a consistent manner. There will be fewer exceptions in risk management because risk evaluation has been made consistent through operationalized assessments and decision workflow.
- Losses and incidents—Effective ERM programs are characterized by fewer surprises, losses, and incidents. Losses are subject to methodical root cause analysis and remediation, and incidents are handled more quickly, so they are limited in duration and impact.
- Financial implications—A finely tuned ERM program can highlight possible cost issues on the horizon and drive action to avoid and even reduce anticipated costs based on recommended changes to processes.

ERM presents a formidable challenge for government organizations facing risk factors on multiple fronts including regulatory changes. Whether dealing with a cyber attack (as was the case at OPM), a national healthcare crisis, third-party breach, financial challenge, safety issue, environmental catastrophe, or other risk event, an agency's executive team and agency leadership must have confidence that they have a complete understanding of the organization's risk profile and status in order to make good business decisions and fulfill their fiduciary obligation. They need assurance that the organization's internal control framework is adequately designed and operating to ensure that risk is understood and effectively managed.

Developing, building, evolving, and leveraging an organization-wide ERM capability is a journey and takes real commitment. Many agencies are on the journey, and while some are further along than others, most are still putting in place key pieces and processes to build upon. Having a solid ERM foundation enabled by a modern ERM technology solution that can support an organization on its journey is key to a fully developed, optimized, and successful ERM program. With a sound, informed approach to evaluating technology for this purpose, risk managers can expect to realize a variety of positive outcomes from operationalizing ERM in their organizations.

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RIMS-CRMP-FED Certification

RIMS-CRMP-FED
RIMS-Certified Risk Management Professional For Federal Government

RIMS-Certified Risk Management Professional for Federal Government Credential

The RIMS-CRMP-FED is a credential that was developed in cooperation with the Association for Federal Enterprise Risk Management (AFERM). It distinguishes the achievement of validated risk management competencies for an effective risk professional in the federal government. Individuals who earn the RIMS-CRMP-FED have demonstrated their knowledge and proficiency in the area of risk management in the U.S. Federal Government, and are dedicated to upholding high standards of ethical and professional conduct.

Benefits

- Prove your knowledge of risk management competencies.
- Demonstrate your commitment to the profession by adhering to a strict Code of Ethics and meeting continuing education requirements.
- Enhance your professional reputation and gain a competitive advantage.

Eligibility

Degree and Experience Requirement

- Bachelor's degree or higher (or global equivalent) in risk management, and
- One year of full-time work experience (or full-time equivalence) in risk management*

OR

- Bachelor's degree or higher (or global equivalent) in non-risk management area of study, and
- Three years of full-time work experience (or full-time equivalence) in risk management*

Note: Degrees must be obtained from accredited or equivalent schools of higher education. Internships count toward risk management experience.

Non-Degree Experience Requirement

- Seven years of risk management experience*
- Possessing the Associate in Risk Management (ARM) counts towards two years of risk management experience.

Examination

The RIMS-CRMP-FED exam is two parts: the core RIMS-CRMP exam and the FED exam. The computer-based exam is three hours and comprises 170 questions. It addresses five risk management competencies and three federal domains:

- Analyzing the Business Model
- Designing Organizational Risk Strategies
- Implementing the Risk Process
- Developing Organizational Risk Competency
- Supporting Decision Making
- Understanding the Federal Government Risk Management Environment
- Risk Management Implementation in the Federal Government
- Risk Management Reporting in the Federal Government

How to Earn the RIMS-CRMP-FED

- Meet the eligibility requirements.
- Apply online at www.RIMS.org/Certification.
- Receive approval to take the exam.
- Schedule an exam date during your six-month authorization period.
- Take the exam at a Pearson VUE Testing Center. Visit www.PearsonVUE.com/RIMS to find a testing center.
- Pass the exam to become a RIMS-CRMP-FED.

** Risk Management Experience is occupational experience that leverages the opportunities and uncertainties associated with an organization's goals and objectives. This includes implementing, developing or leading the risk management practices that enable an organization to make risk-effective decisions that create and sustain value.*

Learn More and Apply Online | www.RIMS.org/Certification

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