2021 ERM WORKSHOP

Executive Report Summary

April 14, 2021

AGA®

AFERM
Association for Federal
Enterprise Risk Management

ACKNOWLEDGEMENTS

AGA is *the* member organization for financial professionals supporting government. We lead and encourage change that benefits our field and all citizens. Our networking events, professional certification, publications and ongoing education help members build their skills and advance their careers.

AFERM is the only professional association solely dedicated to the advancement of enterprise risk management (ERM) in the federal government through thought leadership, education and collaboration. AFERM provides programs and education about benefits, tools and leading practices of federal ERM and collaborates with other organizations and stakeholders to encourage the establishment of ERM in federal departments and agencies.

Executive Summary

On April 14, 2021, the Association of Government Accountants (AGA) and Association for Federal Enterprise Risk Management (AFERM) held their fifth annual Enterprise Risk Management (ERM) Workshop with government professionals. Due to the ongoing COVID-19 pandemic, the workshop was presented as a live virtual event for the second straight year. The 2021 workshop provided an opportunity for more than 150 professionals to participate in sessions where senior government leaders shared their thoughts and expertise with their government colleagues about the effects of COVID-19 on their agencies and how ERM drives organizational value and adaptive performance.

The workshop focused on three key areas:

1. The Effect of COVID-19 on Entity Mission and Priorities
2. The Effect of COVID-19 on the Workforce
3. The Role of ERM in Budget Uncertainty

Tom Brandt, Chief Risk Officer (CRO) of the Internal Revenue Service (IRS), opened the workshop by asking attendees for their perspectives on the ERM maturity level of the federal government. This became an eye-opening starting point for the workshop, as two-thirds of participants said they believe the federal government is at an "emerging" ERM maturity level. Mr. Brandt noted that the federal government is "developing" its ERM programs and emphasized the need to establish a standardized federal ERM maturity model.

Mr. Brandt discussed OMB strategies and prioritized efforts to mature ERM programs through standardization and implementation. In addition, he talked about OMB's focus on best practices, integration of risk management practices, and ERM coordination. He also noted that risk appetite and tolerance adjustments were made in many agencies in the past year due to COVID-19, which pushed the ERM envelope and provided an important opportunity to demonstrate the value to agencies of broader ERM implementation. Mr. Brandt also reviewed the ERM Playbook Version 2.0, which discusses ways to incorporate ERM into management practices, risk appetite and tolerance, and cybersecurity, presents a new ERM maturity model, and differentiates FISMA Audits from agency ERM.

The day-long workshop included three presentations:

1. In the first session, Erich Gabris, CRO of the Defense Logistics Agency (DLA), and Kyle Bettis, Principal Business Continuity Lead, ERM, at Chick-fil-A, discussed the effect of COVID-19 on their companies' missions and priorities. They provided unique perspectives and insights from the public and commercial sectors.

2. In the second session Steve Kunze, CFO of the U.S. Department of Commerce; Eric Popiel, strategic foresight analyst at the U.S. Office of Personnel Management; and Kirstin Riesbeck, Director, Human Capital & Resource Management, Office of the Under Secretary of Defense (Comptroller), discussed the effect of COVID-19 on the workforce and how their agencies are making changes to accommodate their employees and the workplace evolution.

3. In the third session, Emily Kornegay, Budget Director/Assistant CFO for Budget, Strategic Planning & Performance at the U.S. Department of Housing & Urban Development; and Lee Lofthus Assistant Attorney General for Administration at the U.S. Department of Justice (DOJ), shared their personal perspectives and agency experience on the roles and importance of ERM in a time of budget uncertainty.

Following each presentation, participants were invited to join facilitated small group discussions, in which they shared reactions, knowledge, experience, ideas and best practices on the topic. This report captures many of the ideas and practices expressed during these discussions so that AGA and AFERM may share them with the wider federal ERM community.

Session 1: The Effect of COVID-19 on Entity Mission and Priorities

The pandemic reinforced the need for agencies to assess their risk management processes to understand how risks related to COVID-19 affected their mission and business operations and led to the identification of weaknesses as well as opportunities. This session blended perspectives of government and private sectors through experiences shared by Mr. Gabris of DLA and Mr. Bettis of Chick-fil-A about their organizations during the pandemic.

Both discussed how the abrupt decrease of face-to-face interactions forced their organizations and others to move quickly to find new ways to remain productive yet prioritize employee safety and consider enterprise risks that result from adapting to change. DLA and Chick-fil-A discovered their ability to identify, manage, monitor and adapt to predictable and unpredictable risks were crucial throughout the pandemic. Key themes identified in their respective responses as well as those of session attendees included:

- Increased fraud risk.
- New and creative thinking.
- IT challenges and opportunities.

Increased Fraud Risk

The increased funding available through the federal government's response to the pandemic, combined with difficulties in conducting face-to-face business during this time, contributed to increased risk of fraud, particularly to government agencies. An agency with primary functions that include public financial assistance through face-to-face means at various locations across the country was likely to face difficulty in transitioning to a virtual environment for many reasons. For instance, the agency fraud risk could increase from unexpected change and difficulty in confirming the identity of beneficiaries. Many fraudsters planned and prepared to carry out various schemes and claim benefits illegally using technology to impersonate someone else. COVID-19 response opened a door to increased volumes of similar fraudulent cases in many agencies, which caused increases in improper payments and efforts to identify fraudulent claims and recover funds.

New and Creative Thinking

Agencies are reacting to the COVID-19 pandemic differently, resulting in new and creative thinking on the performance of day-to-day operations as well as

Figure 1: A Model of Event-Horizon Planning

PHASE 1	PHASE 2	PHASE 3	PRESENT
Understand and Begin Response	Crisis Response	Crisis Recovery	Business Recovery

addressing emerging challenges and thinking long-term about high-impact, low-likelihood risks for the future. DLA and Chick-fil-A both noted that their operations were able to change rapidly within the last year despite the many challenges brought on by COVID-19. DLA had to identify their high priority items when vendors faced operation restrictions; the agency also had to improve communication with their vendors to better understand their risks and how these risks would, in turn, impact DLA operations and enterprise risks. Additionally, when seeking new contracts, DLA found it necessary to alter their pre-award assessment process; as a result, the switch benefitted the agency, because only the most reliable vendors were selected.

Both organizations noted their need to become more agile and to accept a certain inability to plan on the same scale as usual, due to continuously changing guidance. Chick-fil-A became a prime example as they adapted to local ordinance changes (e.g., restaurant reopening, indoor seating capacity limits, etc.). The company adapted by offering as much flexibility as possible to local operators, identifying key decision-makers, and building in daily feedback to their crisis response team. Chick-fil-A also shifted to a shorter planning horizon, shown in **Figure 1**, to make more accurate predictions.

For Chick-fil-A, the closure of restaurant dine-in service allowed the expansion of order processing operations into the dining space. The shift decreased wait time and improved overall customer experience. Like DLA, Chick-fil-A relies heavily on vendors, so the pandemic led them to consider risks that impact their vendors and how vendor challenges might affect Chick-fil-A's business continuity, operations and enterprise risks. Externally, organizations increasingly include themselves in conversations conducted by their vendors for a better grasp of supply chain risks that would indirectly impact them.

IT Challenges and Opportunities

As organizations settled into the day-to-day operations in socially distanced environments, several unexpected issues emerged. The increased use of technology to access agency data remotely, hold virtual meetings, and collaborate with colleagues tested the limits of IT infrastructure, a downstream risk some agencies were

tracking. When forced into maximum telework, agencies evaluated critical technology capabilities. Specifically, DLA responded by investing in new technology capabilities, including Microsoft Teams, upgrading network capacity, and boosting conference line capacity to improve communications.

With the roll-out of these improved technology offerings, the agency noted a gap in employee skills and understanding. DLA provided training opportunities for employees to gain proficiency with the new collaboration tools. Many workshop participants expressed appreciation for the flexibility afforded by working from home. Agencies noted they could sustain if not increase productivity while employees worked from home, which raised workforce morale in a difficult time.

While agencies invested in greater capabilities to continue operations, it became apparent that these virtual relations lacked some of the social aspects that fostered collaborative interactions in a pre-pandemic setting. As agencies changed their risk management processes, they realized that social interaction and in-person meetings were key to establishing rapport with one another. The virtual environment tended to reinforce the siloed nature of less-mature ERM programs and, at times, demanded attention to overcome.

Overall, while COVID-19 presented numerous challenges, it also offered an opportunity to examine the impact to an agency of an enterprise risk that was not on its radar and served as a prime example of the need to consider second- and third-order impacts. This new viewpoint began a shift in the tone at the top and sparked a renewed focus on ERM maturation. In addition, organizational response to pandemic-related challenges is driving improvements and efficiencies that will benefit organizations well beyond the crisis.

Session 2: The Effect of COVID-19 on the Workforce

As many governmental agencies changed their operations from primarily in-person or on-site to a remote workforce, risks changed for many employees and became an increasing concern for agency management. This session described the impact of COVID-19 on the workforce, the risks that emerged, the changes expected in the future workforce, and how an effective ERM program can help entities manage workforce issues. Mr. Popiel began the second session with a discussion on the Foresight Framework developed at the University of Houston College of Technology. The method promotes systematic development of a "start-to-finish" future view of a topic of interest. In this case, the topic was the changing workforce due to COVID-19 and its implications. The discussion focused on the six steps detailed in **Figure 2**, as well as the forces affecting today's work environment.

The second speaker, Mr. Kunze, focused his discussion on the changing work environment brought about by the pandemic. Main topics included the evolution of the workplace and workforce adaptations to those changes. To close the speaker portion of the session, Ms. Riesbeck, talked about her specific experiences in the pandemic and changes it caused in the way organizations interact with and lead their workforce.
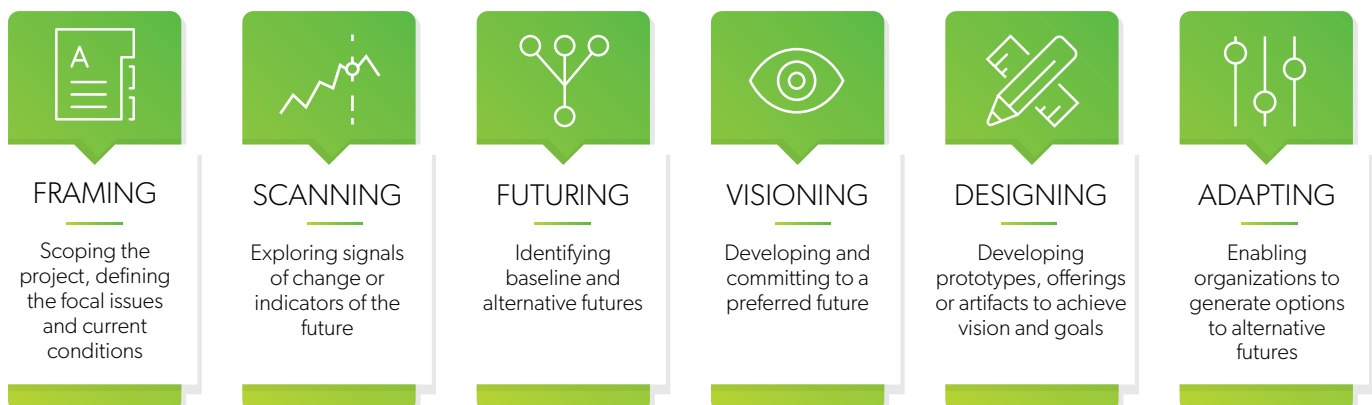
Each speaker touched on the considerable pandemic effects on the individual employee, organization operations, and necessary adaptations to accommodate the new remote environment. A few themes emerged in breakout sessions that stimulated great discussion:

1. Although technology enabled a remote workforce, challenges arose in securely and successfully implementing a remote work environment.
2. Remote work comes with both benefits and drawbacks that affect the work/life balance and morale of the workforce.
3. Remote work has become more common and is now an expectation of employees and job seekers.

Leveraging Technology for Successful Transition to a Remote Work Environment

The workshop presentations and subsequent discussions made abundantly clear that the identification, implementation and use of technology are paramount to the success of a remote work environment. The pandemic increased the need for tools that allow collaboration –Microsoft Teams, for example -- to

Figure 2: The Foresight Framework

FRAMING	SCANNING	FUTURING	VISIONING	DESIGNING	ADAPTING
Scoping the project, defining the focal issues and current conditions	Exploring signals of change or indicators of the future	Identifying baseline and alternative futures	Developing and committing to a preferred future	Developing prototypes, offerings or artifacts to achieve vision and goals	Enabling organizations to generate options to alternative futures

complete tasks in a virtual setting. The new technologies allowed for increased flexibility in the way people operate as well as communicate with fellow employees and stakeholders.

Due to the pandemic and the adjustment of responsibilities, organizations have been able to identify which administrative tasks can be deemed "busy work" and freed up employees for greater productivity and better daily utilization of skills. Most agencies now aim to automate these administrative tasks in the future -- not to eliminate jobs, but to give employees more value-added tasks that optimize time and skill sets.

For the agencies that heavily rely on producing or analyzing data, the transition to a remote environment and the implementation of new technologies increased their security risk. Some data is foundational and will never go away. Organizations are now identifying the most efficient and secure ways to collect data, get it to the right people, and use and report the information derived from data in an effective manner. More strategy is needed today to track value-added data and use it in programmatic decision-making. Most agencies also now realize a need for greater involvement from employees whose day-to-day operations encompass the access and use of this data.

Benefits and Drawbacks of a Remote Work Force

The pandemic caused changes in the way leaders manage and communicate with their employees. During both the speaker and breakout portions of Session II, participants discussed the benefits and drawbacks witnessed over the past year as a remote workforce.

Benefits

Along with the overall theme of increased communication required for an organization's success, participants discussed the following benefits:

- Increased collaboration – Teams that would not normally work together are able to share their subject matter expertise.
- Greater inclusion – Virtual meetings allow for the involvement of more individuals.

- Removal of geographic constraints – People have been able to work where they want, and a new pool of candidates is available.
- Expanded training opportunities – Many organizations overcame budget constraints related to in-person training, especially training that required travel.
- Flexible working hours and working arrangements – Organizations became more accommodating to employees with children and allowed for variations in employee work hours and times to connect with employees.

Drawbacks

Although more flexibility and availability has been a plus for many aspects of organizations' operations, it was not without its drawback, such as lower morale from lack of social interaction. Some specific negatives identified and discussed by workshop participants include:

- Team-building – Building a team in a virtual environment is challenging and requires management to think differently.
- Work-life balance – Many are struggling with work-life balance and feel they can't disconnect from work.
- Virtual meetings – Zoom fatigue is real.
- Expected response times – Email and message response time has been reduced.
- Lack of comradery – New hires who have never met their coworkers feel disconnected, and no one is able to enjoy the office "water cooler" talk.
- No normalcy – On the job training is much more difficult, and the benefits of being able to enjoy normal daily interaction with staff have waned.

An additional risk that organizations must consider going forward is determining whether to continue paying for office spaces that are now empty and have mainly been empty for the past year. When organizations are ready to bring employees back into the office, they

will have to manage staff expectations of a "safe work environment," whether that means wearing masks in the office, alternating days in the office, or installing physical barriers around all desks.

Remote Environment's Effect on Workforce Expectations

As the speakers in this segment discussed, the pandemic has affected the social, technological, economic, environmental and health, political and regulatory, and competitive aspects of the workforce. Success in working from home for the past year will drastically change employees' view of the workplace going forward. One drawback attendees noted is the weakening bonds among staff and the larger than average percentage of the workforce now looking for new opportunities.

For many employees before the pandemic, normal work hours were nine to five each day in the office. Now, people have witnessed more flexibility in work hours and time spent in the office as focus shifted from specific timing of an assigned task relative to office hours to delivering on an assigned task. Additionally, it no longer makes sense for agencies to restrict employees' geographic location as it relates to the office, because many employees can work successfully without coming onsite. Attendees noted these shifts in employee expectations and the number of jobseekers because of them. Many people relocated to other states during the pandemic yet maintained their current positions, creating potential to hire employees from places beyond the office locale.

In discussing the future of job searches and how potential hires evaluate opportunities in different organizations, teleworking will be an aspect of worth and a requirement, rather than a benefit to offer. This new working environment also increased the desire for meaningful work, which governmental organizations can capitalize on by focusing on the mission and the benefits to the nation, state or locality that government employees contribute.

The pandemic forced a complete overhaul of the standard workplace and shifted much of what we do to a remote environment. Organizations have had to implement and utilize technology on a scale not previously seen, leading to the emergence of new risks and processes. The new remote environment introduced benefits and drawbacks in where and how people work, which also altered employees' desire for flexible work hours and opportunities without geographic restrictions. Going forward, organizations must change their recruitment models and figure out how to retain the talent necessary to accomplish their missions and objectives.

Session 3: The Role of ERM in Budget Uncertainty

Managing budget uncertainty is a crucial part of risk management. It has been especially evident in recent years, due to the 2019 shutdown of the federal government and the more recent COVID-19 pandemic. The third workshop session explored recent disruptions to an already volatile federal budget process, including ERM integration, the implementation of massive supplemental funding for COVID-19 response, and the effect of operational change on budgets due to a global pandemic. The speakers, Ms. Kornegay and Mr. Lofthus, offered their personal opinions and agency experience on these areas, particularly:

- Budget built around risk.
- Budget uncertainty due to COVID-19.
- ERM transition improvement.

Budget Built Around Risk

OMB Circular A-123 requires agencies to incorporate ERM principles into their strategy. Incorporating ERM into agency activities is a crucial aspect of managing uncertainties in the budget process. Mr. Lofthus explained how ERM principles took old practices and budget formulation and built a budget around risk areas for greater formality and rigor. The shift in focus to risk reduced uncertainties in budgeting and allowed departments to address their top risks and remain responsive to them.

Ms. Kornegay agreed and noted that HUD now considers risks before formulating a budget. She added that HUD created a position under the CRO and the Budget CFO to assist in ERM integration and aligned its risk profile with the budget refresh cycle. This change allows the budget and risk teams to work better together to achieve strategic objectives, while the alignment of ERM with strategic planning avoids pushback in risk discussions, since ERM works through the organizational chain of command. While pushback from budget staff may occur, it can be reduced with good communication of the value of ERM, which is another source of information used in the budgeting formulation process.

Budget Uncertainty due to COVID-19

The COVID-19 pandemic caused disruptions in budget and risk allocation, while mandates due to the pandemic caused organizations to change work operations. Travel was restricted; employees worked from home; and telework became the norm. The influx of federal government aid in several waves increased budget-related risks, such as fraud, theft and misappropriation of funds. Risk management plans changed as support risks and new risk assessments emerged with the pandemic.

The pandemic also increased budget uncertainty because of necessary expenses, government relief funding, and the uncertainty of the future, yet Mr. Lofthus and Ms. Kornegay explained that budget-related risks have been on the ERM radar for years. Ms. Kornegay specifically noted that COVID-19 did not create new risks related to funding for her agency, but rather amplified existing risks associated with budget. Risk increased especially with CARES Act funding grants, because they came with strict stipulations on their use. The OIG has been discussing necessary adjustments to audits of funds received through the legislation, as they require a separate audit and separate criteria from an agency's standard audit. HUD developed a risk register specifically to address the additional CARES Act funding.

The discussion groups brought to light that many agencies did not receive additional funding during the pandemic, leading to short-term budgeting due to COVID-19. The transition from pre-pandemic work operations to pandemic-restricted operations created budget-related risks as agencies tried to do more within their budget constraints. Some agencies could not switch to remote work during COVID-19; for example, the U.S. Postal Service continued to deliver mail. and the U.S. Coast Guard continued rescue missions within COVID-19 regulations. These agencies found the transition difficult with fewer staff able to work, greater time focused on safety, more equipment needed, and efficiency hampered by further restrictions. Meanwhile, changes from the pandemic forced smaller agencies with less capital to focus on spending their funds in different ways to attain a safe outcome during the pandemic.

ERM Transition Improvement

The incorporation of ERM functions into budget development presents clear benefits. Several advantages due to the COVID-19 pandemic have been highlighted. Specifically, organizations have been able to fund operating expenses and IT equipment to support the transition to a telework environment.

Mr. Lofthus mentioned the benefit of additional funding to allow DOJ to update important technology systems. Within four business days, DOJ had much of their organization working remotely on secure systems. Discussion group participants also mentioned a beneficial technology allowance to create their own home offices.

The pandemic response also increased communication between budget departments and risk teams to effectively utilize the increased funding. ERM highlights funding issues that management knows about but has no control over, so ERM fosters discussions on funds received and whether they are allocated efficiently. These conversations encourage agencies to have a plan in place when budget issues occur so that agencies set priorities and understand areas of adaptability. Budget uncertainty is an ongoing issue for organizations; therefore, continued collaboration and successful ERM will establish a culture of transparency on potential risks and clear information on the proper allocation of resources.

Conclusion

As ERM is championed and matured across the federal government, agencies demonstrate a myriad of ways to integrate and leverage ERM for enhanced decision-making. This annual ERM workshop from AGA and AFERM affords a valuable opportunity for the federal ERM community to come together to share best practices and ideas with senior government leaders and colleagues. This year's ERM workshop allowed participants to gain valuable insights on integrating risk disciplines throughout an entire organization, consider ERM value, gather best practices from oversight entities for ERM implementation, and learn how to operationalize risk appetite statements.

Thanks to Our Sponsors

BDO

Castro & Company
Auditors ✓ Advisors

Cherry Bekaert LLP
Your guide forward

Crowe

Deloitte.

Grant Thornton

Guidehouse

KEARNEY & COMPANY

KPMG

RMA Associates
Auditors. Consultants. Advisors.

tfc

TRILOGY FEDERAL

workiva