

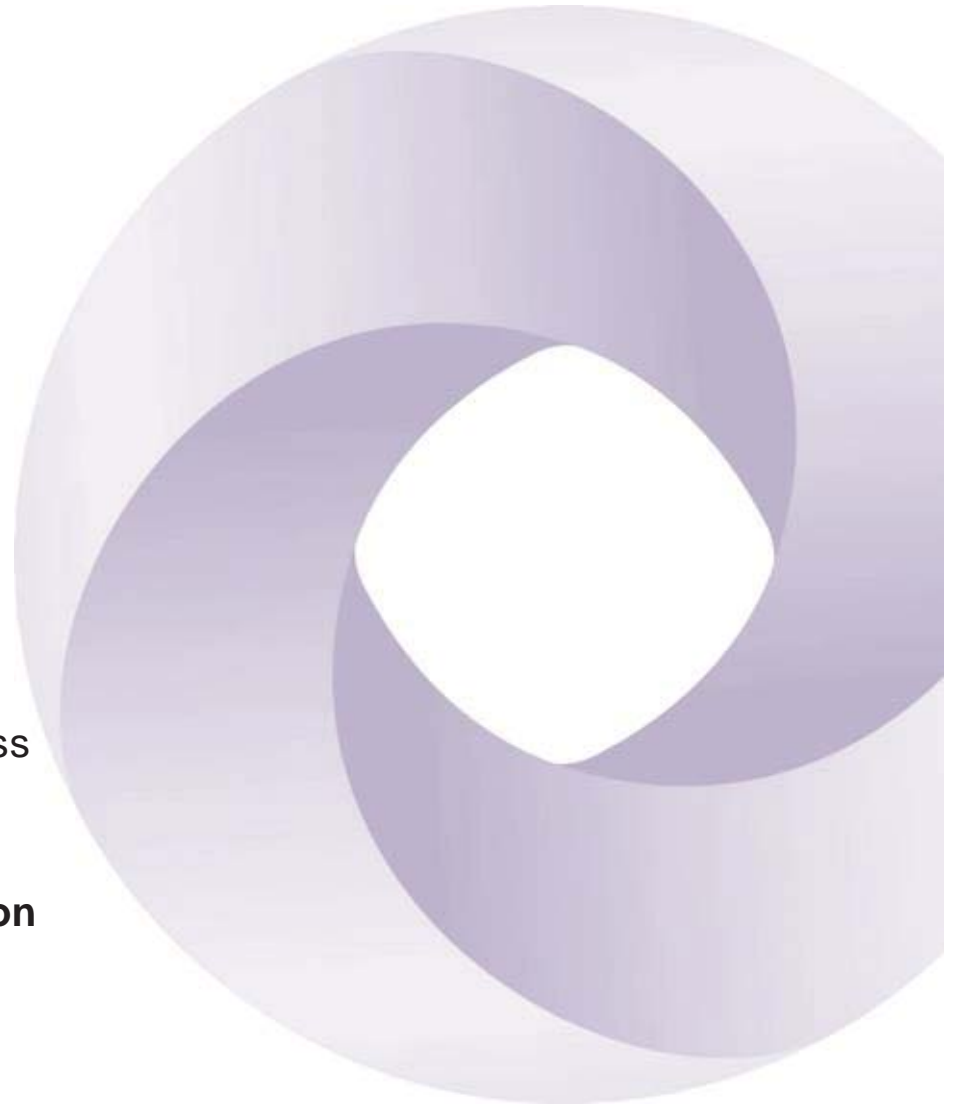


# Connecting Enterprise Risk Management with Budgeting to Inform Decision Making

# Agenda

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- **The Budget Management Process**
  - The Role of the Budget Office
  - Federal Budget Cycle
  - Role of the Budget Analyst
- **ERM and the Budget Process**
  - OMB A-11's Guidance on ERM
  - Value of ERM in Federal Government
  - Connecting ERM with the Budget Process
  - Framing the Conversation
- **Department of Education  
Federal Student Aid Budget Support Division**
- **Department of Commerce  
Acquisition Program Risk Management**
- **Questions & Answers**





# The Budget Management Process

# The Role of the Budget Office

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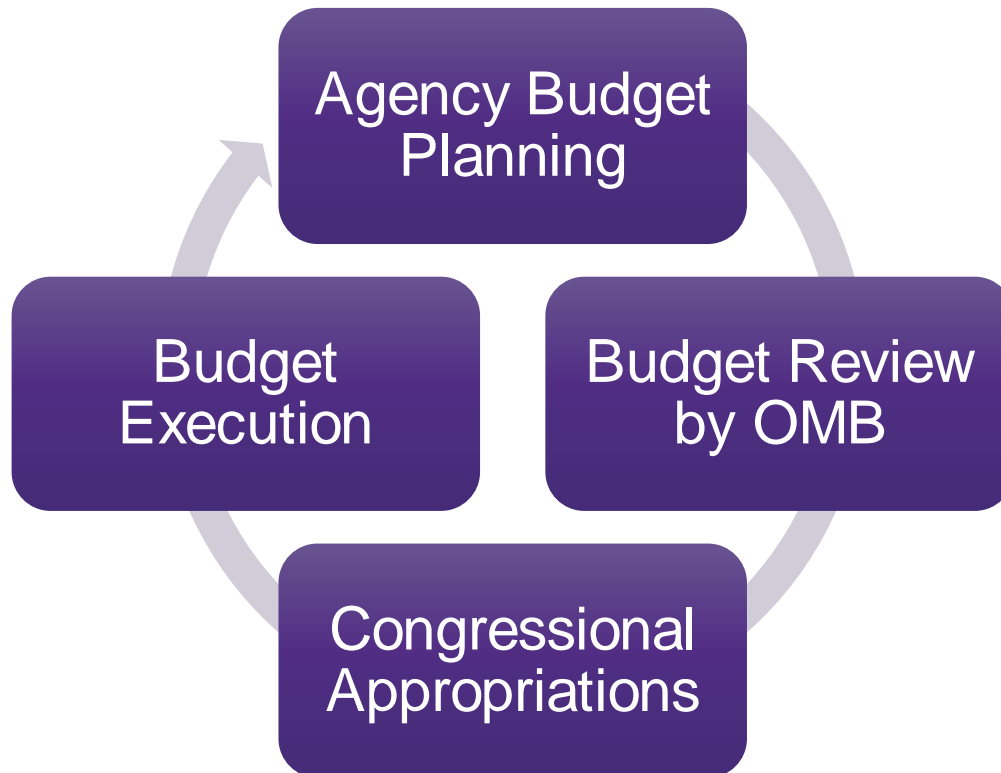
The budget office is the central agency office for funds oversight and accountability that serves as the Secretary's steward of public funds



# The Federal Budget Cycle

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It takes the Federal Government well over two years to formulate, appropriate, and execute a single fiscal year's budget, which means that budget offices are dealing with three budgets at any given time



# The Role of the Budget Analyst

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Due to their need to balance competing demands in a compressed time frame, budget analysts prefer **quantitative, easily understood supporting information** for funding justifications





# ERM and the Budget Process

# OMB A-11's Guidance on ERM

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- ERM is an effective agency-wide approach to addressing the full spectrum of the organization's significant risks by understanding the **combined impacts of risks as an interrelated portfolio**
- ERM provides an enterprise-wide, **strategically-aligned portfolio** view of organizational challenges that provides better insight about how to most effectively **prioritize and manage risks to mission delivery**





# Value of ERM in Federal Government

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- Focus on **high-risk areas** to prioritize resource allocation
- Identify **cross-cutting risks** that affect multiple areas to optimize mitigation
- Improve strategic planning and **enhance decision making**
- Provide a **consistent and integrated approach** to manage risks and controls
- **Effectively meet requirements** of laws and regulations



# Connecting ERM with the Budget Process

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- The budget touches every facet of an agency and, when partnered with ERM, **budget and risk can be managed holistically**
- ERM can serve as a means to provide **quantitative and easily understood information for budget justification**
- ERM can provide increased transparency for **risk-based determinations for budget allocations**
- ERM can demonstrate **inter-relationships between financial and programmatic risks** to inform budgeting decisions

# Framing the Conversation – Risk Profile

COSO defines a **Risk Profile** as:

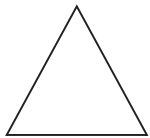
“The current level and distribution of risks across the entity and across various risk categories”

STRATEGIC OBJECTIVE – Improve Program Outcomes								
Risk	Inherent Assessment		Current Risk Response	Residual Assessment		Proposed Risk Response	Owner	Proposed Risk Response Category
	Impact	Likelihood		Impact	Likelihood			
Agency X may fail to achieve program targets due to lack of capacity at program partners.	High	High	REDUCTION: Agency X has developed a program to provide program partners technical assistance	High	Medium	Agency X will monitor capacity of program partners through quarterly reporting from partners	Primary – Program Office	Primary – Strategic Review
OPERATIONS OBJECTIVE – Manage This Risk of Fraud in Federal Operations								
Contract and Grant fraud.	High	Medium	REDUCTION: Agency X has developed procedures to ensure contract performance is monitored and that proper checks and balances are in place.	High	Medium	Agency X will provide training on fraud awareness, identification, prevention, and reporting.	Primary – Contracting or Grants Officer	Primary – Internal Control Assessment

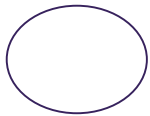
# Framing the Conversation – Prioritizing Risks

## Risk Map Legend

### Risk Shapes



Inherent Risk



Residual Risk

### Risk Types

Strategic	
Operational	
Reporting	
Compliance	

Risk Heat Map		Probability				
		Frequent	Likely	Occasional	Seldom	Unlikely
Severity		A	B	C	D	E
Catastrophic	I	▲ 2	▲ 3		● 3	
Critical	II		● 2		● 5 ▲ 5	
Moderate	III				▲ 7	
Negligible	IV				● 7	

### Levels of Risk

E-Extremely High	H-High	M-Moderate	L-Low
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# Department of Education Federal Student Aid Budget Support Division

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**Federal Student Aid**, an office of the U.S. Department of Education, provides grants, loans, and work-study funds to help pay for college or career school.

- Federal Student Aid put in place the first formalized ERM framework in the Federal Government, starting its efforts in 2004
- First Chief Risk Officer (CRO) in Federal Government was hired
- CRO established Risk Management Committee

**FSA**  
FEDERAL  
STUDENT AID





# Department of Commerce Acquisition Program Risk Management

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The **Department of Commerce** promotes job creation, economic growth, sustainable development, and improved living standards for all Americans by working in partnership with businesses, universities, communities, and workers





# Questions & Answers