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*Restoring Trust
in Government*

ENTERPRISE RISK MANAGEMENT

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RESTRUCTURING AND REFORM

ORGANIZATIONAL CULTURE

MITIGATION

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Lessons Learned the Hard Way

Enterprise Risk Management, Public Trust and the IRS

By Thomas Brandt

Five years ago this past May, crisis engulfed the Internal Revenue Service (IRS). Comments made by an IRS official at a conference in Washington, D.C., regarding the handling of applications for tax-exempt status submitted by organizations involved in political activities triggered a firestorm that would overcome and nearly cripple the agency. The weeks and months following that revelation were tumultuous, marked by hearings and the abrupt departure and replacement of top IRS leadership.

The IRS, in its structure and operations, is designed to be an apolitical organization, focused not on tax policy, but on tax administration. It has a strong record of successfully managing the U.S. tax system and implementing tax laws. While tax collectors have never been at the top of anyone's list of the most admired, the IRS has generally been regarded as a highly professional, efficiently managed organization that provides the U.S. government with a significant return on investment, and it has

a reputation for getting things done. Although, in taking a deeper look into the history of the IRS, one can find other periods of crisis that afflicted the agency.

Restructuring and reform

In the late 1990's, the IRS came under scrutiny for alleged mistreatment of taxpayers and heavy-handed actions, driven in part by metrics and targets that over-emphasized enforcement. In response, Congress passed the Restructuring and Reform Act of 1998¹ (RRA98), which ushered in a complete transformation of the agency's operations — new leadership; mission delivery through a new customer-facing organizational structure; and implementation of a balanced performance management and measurement system. That system completely changed the way IRS tracked and evaluated organizational and employee performance by giving consideration of customer satisfaction, employee satisfaction, and quality equal footing with business results.

By May 2013, with the reforms of RRA98 largely ingrained into IRS culture and operations, Congress and the Obama Administration had tasked the agency with major new responsibilities. Among new measures were the Foreign Account Tax Compliance Act, aimed at tackling improper tax evasion and tax avoidance schemes, and, more significantly, the Affordable Care Act. To ensure successful implementation of both pieces of legislation, the IRS marshaled resources and attention, developed detailed project plans and timelines, and established processes for ongoing executive oversight and review. With the agency focused on these top priorities, however, problems that had been percolating for several years in one of the smallest IRS divisions, Tax-Exempt and Government Entities, were about to manifest and nearly consume the agency.²

The IRS already was dealing with fallout from another crisis that began in 2012 with revelations of extravagant spending and improper activities by



the General Services Administration (GSA) at a conference in Las Vegas. That matter led to intense scrutiny and oversight of GSA; plus, it resulted in the departure and dismissal of top level leaders, including the GSA administrator. The IRS was swept up in this scandal when the Treasury Inspector General for Tax Administration (TIGTA) issued an audit report detailing questionable practices and procedures by the IRS related to several conferences it had held.³

Budget cuts and scandals

At this point in time, which followed the “Great Recession,” government at all levels was dealing with consequences of budget cuts, public anger, and political finger-pointing. Mandatory furloughs and staff reductions were imposed in many areas. It seemed public-sector employees were taking the blame and the wrath for crises caused by risky economic practices and poor policy choices.

Unfortunately, the public sector did not help itself during this period; its self-inflicted wounds merely added to a growing cascade of unflattering news. And, as we would find out later, the bad news in government was only going to get worse. More scandals came to light in 2014 and 2015. One, at the Department of Veterans Affairs, stemmed from falsification of appointment records and serious delays in providing care to veterans. Others at the U.S. Secret Service involved security lapses at the White House and improper behavior by agents on overseas missions.

Repercussions from these events, which were also driven by growing political discord, included a sharp reduction in public trust, which dropped to lows not seen since the depths of Watergate. Less than one-fifth of Americans⁴ felt they could trust the federal government to do what is right “just about always” or “most of the time.” With such dim views of government sweeping the populace, additional scandals or crises in federal agencies, especially those most visible, whose services directly impact the lives of millions, could only lead to further erosion of public trust.

Lack of foresight

A common factor underlies these crises and scandals — a lack of foresight. It’s important to consider what these agencies, and the leaders of these agencies, could have done to prevent these events from occurring or, at a minimum, to equip themselves to identify and address emerging problems before they escalated out of control. That missing capability was Enterprise Risk Management (ERM).

While hindsight is always 20/20, ERM would have provided the IRS and other agencies that experienced similarly crippling events with a greater likelihood of surfacing and mitigating problems while they still had time to do something about them. Unfortunately, the IRS may have forgone an opportunity in 2011 to get a head start on ERM when it responded too narrowly to ERM-related recommendations by TIGTA.⁵

In the immediate aftermath of the May 2013 IRS crisis, one of the

first actions taken by interim agency leadership was to review what had gone wrong. Findings were summarized in a June 2013 report, *Charting a Path Forward: Initial Assessment and Plan of Action*,⁶ which noted, “One of the most critical failures identified... is the timeline associated with how long issues were allowed to persist without management engagement to resolve them.”

Leaders concluded the IRS needed a means to alert them to organizational challenges so that solutions could be put into place long before they turned into problems. To help the IRS recover from this crisis and prevent future ones, the leadership team sought a program that would:

- Provide clear lines of sight into key risks and related controls;
- Determine which risk areas could negatively impact IRS ability to carry out its mission;
- Identify resources, processes, policies, and procedures needed to proactively manage risk;
- Create awareness and leverage any existing risk management infrastructure in the operating units;
- Provide a coordinated and common framework for capturing and reporting risk information; and
- Share risk mitigation practices across the IRS.

Enterprise Risk Management

ERM was identified as an effective framework to provide these capabilities. A familiar model in the private sector, especially in banking, financial, and insurance sectors, ERM had gained particular traction after the Enron scandal and passage of Sarbanes-Oxley. But as a practice, ERM was still in the nascent stages in government.

The IRS chose to adopt the COSO⁷ model for ERM, a widely recognized risk management framework that provides overall structure and approach while acknowledging organizations’ need to tailor and

adapt it to the environments in which they operate. In late 2013, the IRS began implementation and appointed a Chief Risk Officer (CRO), positioned at the top of the organization to help IRS leadership identify and address the most critical challenges.

The IRS set up a small program office to coordinate the agency's efforts, developed and delivered training for all IRS executives, and required each unit in the IRS to designate an ERM liaison who would serve as the unit's risk champion. The liaison would support ERM implementation throughout the IRS and assist unit leadership in establishing risk identification and assessment processes.

At the time, I was serving as an executive in the agency's Large Business & International (LB&I) Division and was asked to take on the additional role of LB&I's ERM Liaison/Risk Officer. I welcomed the opportunity, as I was personally very concerned about the impact of the May 2013 crisis on the agency and

its employees and wanted to help prevent similar events going forward.

Working with peer ERM liaisons from across the agency, and in partnership with the CRO, an Executive Risk Committee, and the IRS Commissioner, we developed the first risk register for the IRS; reviewed existing mitigations; considered remaining exposures; and began implementing additional risk responses where possible. We also set out to develop and deploy risk management tools, practices and approaches throughout the IRS.

In May 2014, upon the departure of the initial CRO, I was asked by the IRS Commissioner to consider taking on the role. While I was comfortable with my existing position at the IRS, which kept me back, away from the line of fire so to speak, I recognized how important it was for the IRS to successfully implement ERM, recover from the crisis, and restore the trust of Congress and the public. I agreed to do what I could to help by stepping in as CRO.

I've since led the agency's efforts to operationalize ERM by developing an ERM maturity model and determining a set of standards to guide our efforts. All IRS units now maintain risk registers; the IRS conducts ongoing enterprise risk assessment; and an annual Risk Profile, which is shared with the Department of the Treasury, delineates top risks facing the agency.

Top risks are factored into investment and budget decisions. Reporting on risk mitigations and risk responses is done quarterly by the leadership of every unit through the agency's Business Performance Review process. Additionally, IRS senior leadership established a written risk appetite statement in 2017⁸ to articulate their views and approach toward risk. The statement acknowledges that all organizations must accept certain risks in the course of conducting business, but clearly points out those areas where the IRS is especially sensitive to risk, such as protecting taxpayer rights and safeguarding taxpayer data.

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Next step: culture change

Implementing ERM by putting in place processes and structures is not enough, as evidenced by additional problems experienced by the IRS, such as improper access to taxpayer information by criminals, issues with records retention, and personnel-related matters with hiring and awards. Organizational culture must change as well to one where everyone has a heightened awareness of the different types of risks that can occur; where all employees at all levels of the organization feel comfortable pointing out risks; and where the leadership team fully embraces the need to openly address risk.

Former IRS Commissioner John Koskinen made it a point to emphasize that we can only fix those problems we know about. He recognized a need for all employees to see themselves as risk managers, if we were to be successful in our efforts to get ahead of problems before they turned into crises. He also acknowledged and thanked employees for raising issues and sharing concerns, as a way of modeling desired leadership behaviors.

So how have we done when compared to original expectations behind IRS adoption of ERM? In a recent survey of IRS executives, nearly two-thirds felt the IRS had fully or mostly met objectives to create greater risk awareness and understanding at all levels of the organization. An equal number felt ERM bolstered organizational awareness and sensitivity to risks that, if not mitigated, could undermine our ability to attain strategic goals and mission. More than 70 percent felt the IRS had fully or mostly met the objective for integrating consideration of risk into the agency's decision-making processes.

While these results are promising, there is still work to be done. For example, only half thought the IRS had fully or mostly met objectives for creating a safe environment that encourages transparent risk identification by staff and for enhancing communication among all levels of

management to ensure emerging risks are being noted.

Moving into FY18, and finally beginning to emerge from the doldrums of 2013, the IRS found itself in front of the speeding train of tax reform. We face very high expectations to deliver substantial program and process changes in very short timeframes, all the while managing day-to-day operations. In other words, it's a perfect storm for risk. But also, it's a perfect opportunity to help restore trust and confidence in the IRS as a "can-do" agency.

The IRS has put its risk management capabilities and tools to work to increase the likelihood of success. For example, the agency leveraged identification and consideration of risks with stakeholders to help justify an additional budget allocation for tax reform. Risk discussions occur on an ongoing basis at all levels, including with the Acting IRS Commissioner and the Treasury Secretary. Greater transparency offers a line of sight into options for risk responses the IRS is considering. Although it will take time to see results, ERM has, for now, equipped the IRS with a framework to better manage and mitigate potential negative impacts of risks and to realize positive opportunities and outcomes.

Don't wait for a crisis

My advice to other organizations: if you don't have an ERM program in place, get started now. Don't wait for a crisis to implement it. Based on past experience as a government leader, I know that if crisis occurs, chances are you won't have the opportunity to implement ERM. Rather, that task will fall to whomever is chosen to replace you.

I often hear "there just isn't time" to do ERM. If you take the risk of not implementing ERM and the inevitable crisis occurs, the amount of time and resources that will be consumed in responding to the crisis will far outweigh what would have been spent in risk prevention. Moreover, the resulting loss of public confidence and trust will take a long time to be regained.

Don't take that risk; adopt ERM today. Your job may depend on it. ■

Endnotes

1. Internal Revenue Service Restructuring and Reform Act of 1998, Public Law 105-206.
2. Treasury Inspector General for Audit, "Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review," Reference Number: 2013-10-053, May 14, 2013.
3. Treasury Inspector General for Audit, "Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California," Reference Number: 2013-10-037, May 31, 2013.
4. Pew Research Center, "% who trust government in Washington always or most of the time", www.people-press.org
5. Treasury Inspector General for Audit, "Risk Management Efforts Could Be Improved with Clearly Defined Procedures and Expanded Information Sharing," Reference Number: 2011-10-096, Sept. 2, 2011.
6. Daniel Werfel, *Charting a Path Forward at the IRS: Initial Assessment and Plan of Action*, June 24, 2013.
7. Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org
8. IRS 2018–2022 Strategic Plan, www.irs.gov/about-irs/irs-strategic-plan, pg. 25.



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program, enabling the identification, prioritization, evaluation and mitigation of key risks to achieving the IRS mission. Previously, Tom was the Director of Planning, Analysis and Research in the IRS's Large Business and International Division. He has held various other positions at the IRS in the areas of planning, performance management, and evaluation. Tom earned his master's degree in public administration from American University in Washington, D.C. and his bachelor's degree in political science from the State University of New York at Geneseo. Tom is also the President-Elect for AFERM, the Association for Federal Enterprise Risk Management.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of any agency of the U.S. government.