Q&A 2022

The RIMS Strategic and Enterprise Risk Center presents:

Melissa Reynard

Director of ERM at the Internal Revenue Service

Creating a Culture of Risk Management in the IRS

By Russ Banham

RIMS

In November 2021, RIMS presented the Internal Revenue Service with the society's 2021 ERM Global Award of Distinction. The IRS was honored for its progress in anticipating emerging risks, the steps it took to create a more risk-aware culture, and ultimately developing an ERM structure to enhance risk sharing and strategic decision-making.

The honor was well deserved, as so much needed to be accomplished and implemented against the backdrop of an extended government shutdown, sweeping tax reforms and significant operational disruptions within the IRS itself caused by the COVID-19 pandemic. The government agency's ERM program assisted its resilience amidst mounting uncertainties and vulnerabilities.

To learn more about the ERM program, we met with Melissa Reynard, director of ERM at the IRS, who was on site to receive the award at the RIMS ERM Conference 2021. Reynard has served in the position since January 2020, and previously was a senior risk advisor in the IRS Office of the Chief Risk Officer, a role she assumed in 2014.

RIMS: First of all, congratulations on earning the ERM Global Award of Distinction, a well-deserved honor, given that very few if any organizations were prepared for the extraordinary economic duress caused by the global pandemic.

Reynard: Thank you. Like many ERM programs, ours is a work in progress. Interestingly, we established the program in 2013 in response to another crisis – a change in our leadership. The acting IRS commissioner made the decision to create the ERM program and brought in our first Chief Risk Officer. We have a relatively small core office, which is comprised of the CRO, an ERM director and four senior risk advisors. But we have a significant network of risk liaisons representing each of the two-dozen or so IRS business units, such as the wage and investment division, criminal investigation, and information technology office. At the outset (of the program), we worked with them to operationalize risk management across the IRS. Since then, the program has evolved.

RIMS: Tell us how the program has evolved, as it obviously led to the present-day ERM culture and processes.

Reynard: One of the key components of the initial construct of the program was the decision to develop half-dozen risk management standards, so each business unit had to put specific processes in place to identify, assess, respond, report, monitor/elevate and communicate risks. Once the standards were in place, each business unit over time was entrusted to develop their own processes to address the standards, enabling them to do what worked best for them and their culture.

RIMS: That sounds like several cultures as opposed to one. Is that advisable?

Reynard: Great question. Let me provide some historical context. I've been with the IRS for about 38 years (Reynard started her career as a Customer Service Representative in 1984). The culture then was, if you identified a problem or a risk, you focused on fixing it or solving it. You weren't necessarily going to bother your boss with it; you just got it done. Now, while each business unit still has its own unique culture, they follow the ERM standards we put in place and use their own established processes to actively identify and raise risks, as needed. We encourage them to build upon what already exists and self-assess against the standards to identify areas for improvement. What brings it all together is transparency. You still fix the problem in your unit, but the associated risks have a greater level of awareness, resulting in cross-cultural, cross-business unit discussions. Each business unit's risk liaison meets with their peers monthly in group sessions, talking about what they're doing in their respective units.

RIMS: So, the culture is one of sharing risks and risk management best practices.

Reynard: Yes, and that is a departure from the past. In the pre-ERM program days, you knew the risks in your business unit, but you generally kept them to yourself and worked to resolve them. Nevertheless, people still have difficulty with change. You can't simply direct them to raise risks and share information. The risk liaisons, and the leadership teams, need to feel comfortable talking about risks and what they are doing to address them.

RIMS: That's not easy, I would imagine, particularly in a highly bureaucratic government agency. People often are overly concerned with processes and procedures, at the expense of common sense. How have you overcome these impediments?

Reynard: One thing we did early in the program is introduce the Risk Acceptance Form and Tool, or RAFT, as we call it. When a business unit is deciding to accept a certain risk associated with a significant decision, the tool puts forth the necessary due diligence in a consistent framework for them to fill out before making the final decision. The RAFT will ask, for example, if you've considered other alternatives, what risks are associated with those alternatives and asks if the risk decision will have a potential impact on other business units. In effect, it compels the leadership to collaborate with other business units, if needed, and document the rationale for accepting the risk.

RIMS: You mentioned that the acceptance of a risk in one unit may have an impact on another unit. Can you elaborate on this potential impact?

Reynard: If you're in the communications division and tasked with contacting taxpayers via letters about newly-enacted legislation, the risk is that the letter will generate phone calls that come into the wage and organization. This group may need additional staffing, particularly if the letter goes out during the tax season, when everyone is filing their tax forms and the staff is overwhelmed. By having everyone apprised and discussing the situation, others can weigh in and add their insights, perhaps thinking up a new strategy. We've completed more than 300 RAFTS since the inception of the form. It's been a great tool and fits our culture here; employees and leadership are very comfortable with forms.

RIMS: You mentioned 'overwhelmed staff.' I read recently that the IRS has experienced huge staff cuts over the past decade or so. Has that affected the goals and effectiveness of the ERM program?

Reynard: You're right that we've had some budget cuts, (resulting in) a reduction in overall staff, with the preponderance of those job losses occurring in the customer service, audit, and collection parts of the IRS. We're constantly prioritizing and re-prioritizing the workloads In fact, the number one risk for 2022 in our Enterprise Risk Profile is the adverse impact of reduced enforcement on voluntary compliance (the dependence on taxpayers to voluntarily assess the correct amount of tax and file their returns in a timely manner). We're concerned about the tax gap—the difference between what people should be paying and are paying.

RIMS: Are you referring to average income taxpayers or wealthy taxpayers?

Reynard: Primarily complex high dollar audits. There's no single fix, but by using data and analytics technologies we can prioritize the workload and other resources to examine those cases we need to be more fully exploring.

RIMS: What is the state of technology at the IRS, at present? Given the budget cuts, has the service been able to invest in a digital transformation along the lines that many large corporations have pursued?

Reynard: We have a long way to go. With the budget cuts, we still have a number of antiquated technology systems; one of the technology tools we use to process tax returns dates from the 1960s. That's a big problem at a time when we receive a significant number of Freedom of Information requests and litigation discovery requests, via our work with the Department of Justice. It's a substantial challenge for us to respond to these requests, according to the legally implemented deadlines. There are software and other technology tools that can make that work more efficient.

Melissa Reynard and Tom Brandt (formerly of the IRS) receiving the ERM Global Award of Distinction at the RIMS ERM Conference 2021 in New York.

RIMS: Are you investing in these tools?

Reynard: The risk liaisons for these business units raised the need (for the investments) through the Risk Working Group, which subsequently brought it to the attention of the Executive Risk Committee. The committee was able to secure some funding for some of these technology needs. We're now bringing these tools to bear.

RIMS: That's a great example of how an ERM structure can affect important strategic decisions. By toppling the silos precluding the identification and sharing of risks and instilling a culture of openness and transparency, big changes can be achieved—even with reduced staffing and capital. What else is being done to better prepare for emerging risks?

Reynard: We instituted an Annual Risk Awareness Week, now in its fourth year. It involves training employees at all levels to learn about risk management activities and advance their knowledge of the subject. All new IRS managers now must take mandatory ERM training. We've also put together an ERM welcome video for new hires. All to increase risk awareness and make sure all employees know what role they play in identifying and raising risks.

RIMS: How do you ensure the culture of risk sharing you've worked hard to create remains resilient?

Reynard: We've developed a Risk Culture and Awareness Index to measure those concepts which had previously been difficult to gauge. It's our largest survey and is distributed to all the employees, with the findings informing continuous improvements, which we've been able to attain on an annual basis. In all cases, by developing an ERM structure that enables the business units to build a program their way, based on their culture, you foster a risk culture of openness and transparency – increasing opportunities to get ahead of risks that produce positive outcomes and minimize negative operational surprises. ■

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.