The Role of the Office of Inspector General in Identifying Risks at a Government Agency

By Inspector General Richard Moore and Ben Wagner

In this article, we examine the intersection of federal agency responsibility for accurately assessing and dealing with risks to the agency and the role of the Inspector General in this important area. When the inevitable, "Where was the IG?" comes after an agency crisis, we should have a good answer. Was the risk that resulted in a crisis on the IG's radar? If not, why not? The role of the IG, as we discuss here, is not to supplant the agency's responsibility to properly identify and control risks but to accurately assess the sufficiency of the agency's risk management program and to identify risks not recognized by the agency as appropriate. If the agency's enterprise risk management program is comprehensive, the IG can rely with some confidence on the program to allocate scarce OIG resources for focused audits, inspections and investigations.

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GETTING IT ON THE RADAR: DEVELOPING A ROBUST ENTERPRISE RISK MANAGEMENT PROGRAM

In today's world, how effective a business or government agency is at identifying its risks and taking action to reduce those risks can be the difference between success and failure. Managing risk is a challenging endeavor. In the past, many companies focused risk identification on past losses, failures and incidents. Today, companies and government agencies are well advised to actively seek out the unknown and identify what process deviations are occurring and what negative workforce behaviors are occurring throughout the organization now that could create a significant risk, or more importantly, what small deviations when added together could constitute a significant risk for the company. Deviations from both organization-approved standardized processes and established workforce behaviors must be caught in the risk management net early.

There are many reasons an ERM program might be ineffective, but two common causes are (1) the agency or company's organizational health or culture, and (2) the design of the ERM program. If either of these components is weak, the chance of missing serious risks increases exponentially.

THE ROLE OF CULTURE IN DEVELOPING AN ERM PROGRAM

Private sector companies routinely pay consultants millions of dollars to design a "state of the art" ERM program only to see them fail. The best-designed risk management program is destined to fail if the culture of the organization does not make it safe for employees at all levels to raise risks. If employees hear the words, "We want you to raise risks you see in your work area," but what they see does not support those words, then the double message results

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in a culture that does not support "raising your hand." Managers who see other managers fired or moved because they offered a position that conflicts with upper management will quickly recognize talk about "risk management" as simply that—talk. The key is creating a safe environment where differing opinions can be shared in a mutually respectful manner.

Communicating priorities so that employees know they have been heard, whether their ideas are followed or not, engenders trust in leadership and a willingness to "raise your hand" again. Recruiting employees at all levels of an organization is critical for an effective risk management system. Relying on only leadership (executives and managers) often robs the system of the observations of those closest to the risks. A culture in which employees believe they can safely have awkward conversations about policies and practices is fundamental to an effective risk management system. Identifying risks must become a normal part of every employee's work life. For the "new normal" to take hold, however, there must be a trust that identified risks will be fairly evaluated without retaliation. Few government or corporate leaders, however, have the expertise to create that environment without specialized assistance from professionals who can objectively test the culture of an organization and take steps to improve the culture as required. Therefore, those organizations that have poor organizational health are most vulnerable to unforeseen risks.

Creating a safe environment for employees to raise issues comes with a corresponding duty of employees to follow clear behaviors set by the organization. In other words, there must be a corresponding duty of employees to be accountable when management creates a safe environment to proffer differing opinions. This is more than simply requiring employees to follow policies and procedures or to avoid engaging in unethical or illegal behavior. The organization should have a list of desired behaviors that reflect the culture the organization aspires to have. These behaviors may include such things as give and expect mutual respect, communicate expectations clearly, seek and value the opinions of others and be comfortable bringing up issues and recommending solutions. Management should be able to depend on employees to take responsibility for identifying risks. As the "new normal" takes hold, risk identification and reduction will become part of everyone's job.

THE IMPORTANCE OF THE RIGHT DESIGN FOR AN ERM PROGRAM

In addition to culture, the appropriate design of the risk management program is critical. The Committee on Sponsoring Organizations[1] defines ERM as "…[a] process, effected [sic] by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives."

According to COSO's framework, a mature ERM program has risk management embedded in how the organization conducts business. Executives and line management comprehend and recognize the value of the program. Dedicated risk management resources are consulted by executive/operational lines for risk advisory support and recognized as a strategic business driver.

According to the COSO report, enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. The COSO report also states management can

1) In September 2004, Committee of Sponsoring Organizations of the Treadway Commission issued Enterprise Risk Management–Integrated Framework. The executive summary can be found at http://www.coso.org/documents/COSO_ERM_ExecutiveSummary.pdf.

maximize value by setting strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploying resources in pursuit of the entity's objectives. Enterprise risk management encompasses:

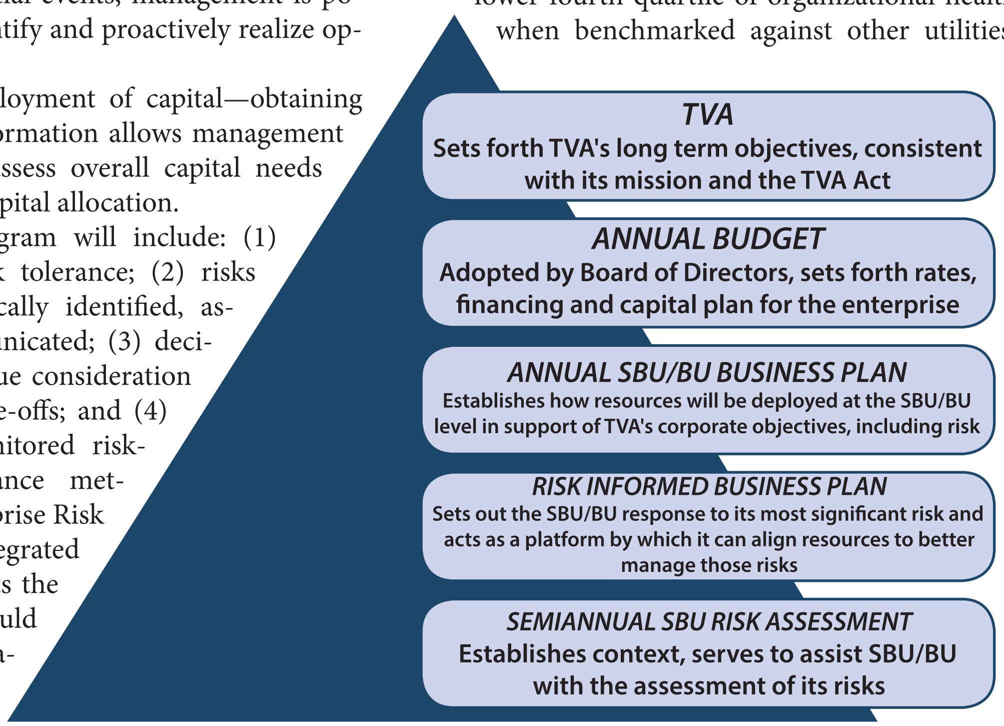
- Aligning risk appetite and strategy—management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks.
- Enhancing risk response decisions—enterprise risk management provides the rigor to identify and select among alternative risk responses—risk avoidance, reduction, sharing and acceptance.
- Reducing operational surprises and losses—entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- Identifying and managing multiple and cross-enterprise risks—every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts and integrated responses to multiple risks.
- Seizing opportunities—by considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- Improving deployment of capital—obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

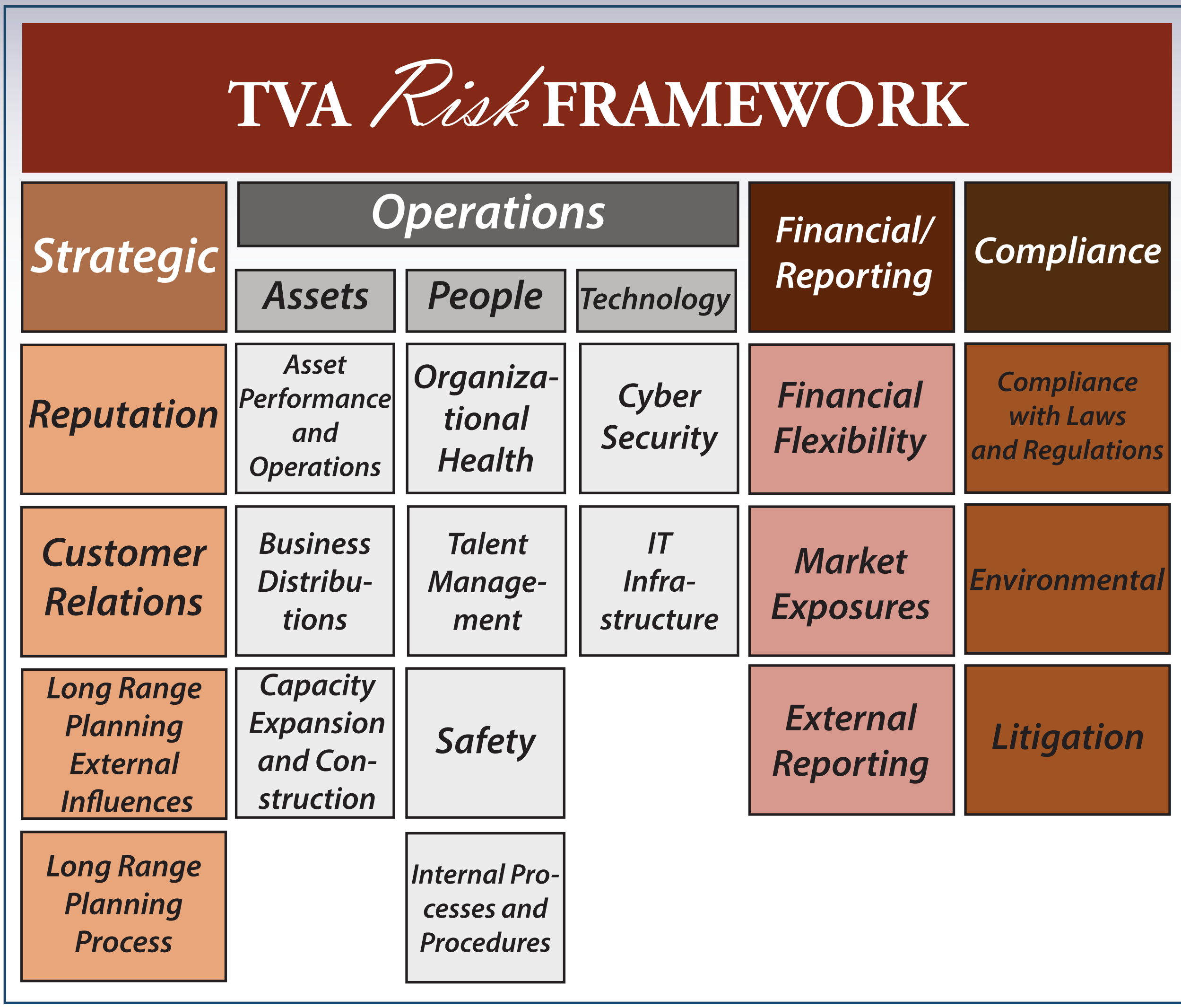
A mature program will include: (1) a well-defined risk tolerance; (2) risks that are systematically identified, assessed and communicated; (3) decisions made with due consideration to risk/return trade-offs; and (4) specified and monitored risk-adjusted performance metrics. COSO's Enterprise Risk Management Integrated Framework suggests the chief executive should assess the organization's enterprise risk management capabilities. In one approach, the chief executive brings together business unit heads and key functional staff to discuss an initial assessment of enterprise risk management capabilities and effectiveness. Whatever its form, an initial assessment should determine whether there is a need for, and how to proceed with, a broader, more in-depth evaluation.

THE TVA EXPERIENCE WITH RISK MANAGEMENT

Risk management at the Tennessee Valley Authority before the December 2008 Kingston coal ash spill was never the subject of much focus from TVA stakeholders. That environmental disaster resulted in the release of about 5.4 million cubic yards of coal ash spilling onto adjacent land and into the Emory River, more than a billion dollars in cleanup costs and litigation. After the spill, both TVA management and its stakeholders have taken a hard look at how well TVA manages risks.

TVA's evolution was probably similar to other government agencies and private sector companies through the years. That is, the design evolved; the culture did not. While the components of ERM improved significantly, the program was not supported by a healthy corporate culture. At the time of the Kingston coal ash spill, TVA ranked in the lower fourth quartile of organizational health when benchmarked against other utilities.





Among other things, this meant that confidence in TVA leadership was low, that it was safe to raise one's hand and that employees' concerns about risks would receive a fair assessment. Fortunately, the TVA board and TVA's leadership recognized the importance of improving TVA's culture after Kingston and started a process to address the culture issues.

What difference does it make to an organization's risk management program that its organizational health is improving? Employees who believe that management is demonstrating respect for their opinions and is making it safe to offer differing opinions will volunteer the discretionary effort it often takes to raise a potential risk. Employees begin to align with the vision and goals of the organization and view risks no longer as just problems for management but risks for their success as individuals. Risk identification appears now to be driven deeper into the agency and the best information about risk seems to be getting the right analysis. The ultimate success of TVA's on-going culture change, therefore, will likely have a pronounced effect on the ultimate success of its risk management program.

Currently, TVA has a chief risk officer with a staff dedicated to facilitating discussions about risk within TVA. The risks that are identified in these discussions are evaluated, and the risks are ranked with mitigation plans to reduce them as appropriate. The CEO meets periodically with the Risk Council, made up of senior executives, to review and discuss emerging risk issues. Additionally, the TVA Board of Director's Audit, Risk, and Regulation Committee routinely reviews the top ranked risks and the related mitigation efforts. The OIG serves in an advisory capacity by routinely meeting with the chief risk officer to stay abreast of emerging risk issues.

Through time, TVA's ERM program has evolved to the point that it is now embedded in how the company conducts business, and it has progressed significantly since the Kingston spill. Particularly noteworthy is that risk management discussions occur at the plant level, and employees with direct knowledge of operations and risk identify issues. As a result, the number of risks identified has grown substantially. These risks are rolled up into 19 risk areas that are judged significant enough to impact TVA as an enterprise. (See chart on page 5.)

DEVELOPING CLARITY AROUND THE ROLE OF THE OFFICE OF INSPECTOR GENERAL IN ASSESSING AN ENTERPRISE RISK MANAGEMENT PROGRAM

The scope of responsibility for an OIG in risk management does not appear to have been the subject of much public debate. Agency risks differ significantly based upon the varied missions of federal agencies and, correspondingly, the work of IG offices differ based on the specific responsibilities of their respective agencies. All IG offices, however, regularly engage in risk assessments for their respective agencies without necessarily evaluating the ERM program specifically. As we noted above, two critical components of a robust ERM program are organizational health and the right design for the program. An examination of both would seem to be a logical part of any OIG's work. The "best in class" private sector companies seem to appreciate that organizational health and risk assessment are both key to performance or "the bottom line." Federal agencies will perform better and more likely achieve their stated goals, if like their private sector counterparts, they understand what makes a healthy culture and what is needed to have a robust ERM program. ≈

Richard Moore

Richard W. Moore was sworn in as TVA's first presidentially-appointed inspector general May 9, 2003.

From 1985 until his confirmation as inspector general, Moore served as assistant U.S. attorney for the Southern District of Alabama. During that time, he prosecuted a variety of federal crimes including government program fraud cases, bank and insurance fraud cases, official public corruption and federal RICO cases. He also served at various times as the senior litigation counsel and as chief of the Criminal Division in the Southern District. From 1997 to 1998, Moore was an Atlantic Fellow in Public Policy at Oxford University, Oxford, England, where he conducted an independent study on the prosecution of complex international fraud cases. Prior to serving with the U.S. Attorney's Office, he was in private practice in Mobile, Ala., and Cleveland, Ohio.

Moore attended undergraduate school at Spring Hill College in Mobile, Ala., graduating summa cum laude with a Bachelor of Science degree. He graduated from the Cumberland School of Law in Birmingham, Ala., with a Juris Doctor degree.

Moore served as chair of the investigations committee of the Council of the Inspectors General on Integrity and Efficiency from May 2009 to April 2011.

Ben Wagner

Ben Wagner serves as the deputy inspector general for the Tennessee Valley Authority and is responsible for the management of the day-to-day operations of the TVA Office of Inspector General.

Prior to serving as the deputy inspector general, Wagner served as the assistant inspector general for audits and inspections and was responsible for the management of the OIG audit program. Additionally, Wagner has held other management positions in the administrative and audit operations of the OIG. Before working in the OIG, Wagner held various management and staff positions primarily in the TVA nuclear power program.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