Enterprise risk management (ERM) in the COVID-19 world
COVID-19 has changed the world as we know it. The associated speed and impact at which the world is changing is unprecedented and the impacts on governments, businesses and industries are continually evolving. Recent events have also provided a new perspective on how we view and manage risk and, specifically, enterprise risk.

Federal agencies are now faced with the prospect of quickly and effectively responding to the “new” business environment – there is a renewed focus on enterprise resiliency that relies on coordinated risk assessment, planning, monitoring and response across the enterprise. Regardless of whether a formally defined ERM program is in place, federal agencies need to trigger coordinated, interdisciplinary teams to leverage risk activities to identify potential events that may affect the entity, manage risk within its risk appetite and provide reasonable assurance regarding the achievement of core mission objectives in support of the public. To quickly address this new environment, agencies can prioritize vital actions by focusing on the steps that ERM and other risk functions can be taking: respond to crisis, stabilize and optimize the business and transform for sustainable growth.
Enacting previously developed preparedness plans

- **People engagement and safety** — support continued business continuity by assisting with cross-functional response teams to provide for longer-term remote working arrangements or infection protections if remote working is not available and consider regular and transparent communications to inform and reassure employees.

- **Citizen engagement** — keep citizens apprised of impacts, stay in contact with key stakeholders, review terms and conditions on commercial relationships and develop and test contingency scenarios for continuing operations in a restricted capacity.

- **Budget** — support building a portfolio of budget improvement actions, assist in budget forecasting, tighten controls around citizen exposure and collections, and revisit budget allocations where possible.

- **Stakeholder engagement** — understand critical stakeholder priorities, support scenario planning and analysis to reforecast, address emerging challenges with a cross-functional team to establish decision governance and assist in coordinating and enabling clear communication.

Conducting rapid impact assessments

Given the high fluidity of the external and internal environment, ERM professionals should initiate rapid risk assessments with leadership. While executing on preparedness plans, the priority of the risks to the organization will be changing quickly and leaders should be highlighting new risks that are surfacing. A weekly review of key risks to the organization, focused on the risks that need to be prioritized for response from limited resources, is key to managing the organization’s risk profile and risk appetite in the time of crisis.

Informing on risk mitigation gaps due to capital outflows

The efforts that Federal agencies put forth to manage their people, customers, stakeholders and their own financial stability require capital. Due to COVID-19, many federal agencies are facing revenue shortages or budget cuts. ERM’s role is to monitor risks where capital may be shifted away from existing risk mitigation and verifying that management is aware of new exposures that may surface as a result. For example, as many federal agencies shift their workforce to a remote working model that puts additional stress on the IT infrastructure, they may require additional capital to mitigate the increased IT-related exposure. Given the necessity to focus on immediate organizational needs, having gaps in some risk mitigations may be acceptable to leadership. ERM professionals should assist leaders in identifying where gaps exist and help leadership make risk-informed decisions about capital allocation across their portfolio of risks.
Federal leaders need to consider that the definition of “business as usual” for their organization has likely changed. When the organization undergoes a significant disruption, it needs to reassess its performance objectives, strategy and risks to sustaining that strategy. With these changes in mind, refreshing the organization’s enterprise risk profile is essential. In order to do this, ERM professionals need to consider the following:

1. **Determine if and how your organization’s performance objectives and strategies have changed**

Every federal organization measures performance, whether it’s qualitative or quantitative. The goals for performance may be quantitative – for example, decrease processing time for a government sponsored benefit by 10%, to more qualitative – such as to be one of the top employers in the local area.

Given the changes that the world has seen with COVID-19, ERM professionals should consider asking questions such as:

- Do our performance goals still make sense or do they need to be adjusted? For example, is it realistic to decrease benefit processing time when our organization was disrupted for an extended period of time?
- Are our existing strategies positioning us to achieve the performance objectives?
- Are we exposed to new outside risks that require us to re-evaluate our strategy?

Government executives may need to reassess and adjust their strategies in the post-COVID-19 world and reprioritize projects, as needed. If this does occur, ERM professionals should drive a refresh of the risk profile of the organization considering the updated performance objectives and/or strategies.

2. **Consider the context of the new external environment**

COVID-19 has shown us that the world is more connected than ever before. As stewards of risk within an organization, ERM professionals should affirm that economic and overall environment changes are considered as part of assessing the organization’s risks.

Looking back on lessons learned from COVID-19 and identifying where the organization is vulnerable or interdependent is important. For example, while third parties may be diligently monitored with formal procedures, standardized contracts and other mitigations, the financial viability or operational integrity of third parties likely changed as a result of COVID-19. ERM professionals are implored to re-evaluate the risks.

3. **Evaluate internal and operational changes**

It is also important to account for changes to each organization and how those changes may impact the risk profile. Questions the ERM function should ask to help understand these changes may include:

- What is our strategy and how are we currently managing the disbursement of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding and how will we manage future stimulus payments for my agency?
- Does our agency possess the in-house knowledge, capacity and enabling tools and technology to manage a large financial assistance program?
- How is our agency assessing the impact of financial assistance on citizens, businesses and other institutions?
- In disbursing CARES Act funds, how is our organization monitoring compliance; managing the risk of waste, fraud, abuse; and preventing de-obligations?
- Is there a significant increase or decrease in the demand for a particular product or service as a result of COVID-19? For example, increases in housing assistance program and unemployment insurance. Is it fair to assume that demand can come back to its previous levels?
- Did we furlough people and are now operating with fewer resources?
Evaluate internal and operational changes (cont.)

Related to these questions, the acceptable risk tolerance levels will need to be revisited. Similar to Step 3 “Respond to crisis” above, allocating budget singularly to the COVID-19 pandemic response may have pulled budget from other important risk mitigation efforts and the organization may now be operating outside of previously defined acceptable risk tolerances. For example, an organization with five key cyber risks may now have a reduced workforce and may not be able to address patching or mitigation on system configuration or cyber awareness around potential phishing attacks. Keeping this in mind, the individual risk tolerances and overall performance risk appetite will need to be revisited and potentially adjusted.

Don’t forget the upside of risk

While COVID-19 has resulted in negative impacts across multiple industries, it is important to consider potential upside opportunities. ERM professionals can help their agency identify where there may be a desire to take on more risk. In the federal space, ERM can help executives and other business leaders identify new opportunities for growth. For example, some agencies may be able to recognize significant costs savings related to employee travel that could be repurposed to shore up technology needs given the shift to a virtual workplace during the pandemic. Additionally, federal agencies can reconsider their commercial real estate leases and determine opportunities to lessen their real estate footprint and repurpose funds accordingly.

Being agile is important to capture new opportunities. Federal agencies need to consider how they can adapt their operations or services to align with the revised needs of citizens. The role of the ERM professional should be focused on determining that the risks and/or opportunities are assessed to align with the organization’s adjusted risk tolerance levels. In the same example as above, understanding the risks associated with repurposing employee travel budgets should be a key part of the analysis prior to making a final decision.

Reassessing risks or new opportunities does not need to be cumbersome and time-consuming. Keeping the assessment simple and utilizing technology and automation will speed the process. Reassessing the risk profile will provide vital information to help leaders make risk-informed budget allocation decisions to stabilize and optimize operations as recovery and rebuilding happens.
The final step is to look beyond COVID-19 and position ERM to add organizational value for 2020 and beyond. Federal leaders and agency executives will likely be asking what can be done to be better prepared for risks in the future and it will fall on ERM professionals to improve on the existing risk process. Potential areas of focus may include:

1. **Transforming from qualitative to quantitative (quantifying risk exposures)**
   Recent events have shown the value of quantifying risk when we were presented with the “flatten the curve” distribution of COVID-19 cases. Understanding the quantitative exposure of a risk and comparing it to the acceptable risk tolerance levels will play an instrumental role in informing leaders’ resource allocation decisions. The change in the overall economic and business environment implores revising the underlying scenarios that are the base of the quantification and providing an updated value of risk exposure to the agency. A practical way for an agency to increase their overall program maturity is to pilot risk quantification with one to three key risks. The pilot will provide leadership with objective risk insights and allow leadership to determine the value of expanding risk quantification to the rest of the risk portfolio.

2. **Leveraging data analytics and metrics to support ongoing risk monitoring**
   Once risk exposure and tolerances are better understood, risk monitoring should be part of the ongoing activities of the ERM function. Agencies must develop key risk indicators (KRIs) to support actionable risk monitoring to provide some early warnings of possible risk changes. Each risk must have unique KRIs and ERM professionals can assist business leaders in identifying and tracking the appropriate metrics.

In summary, ERM plays an instrumental role in helping federal agencies achieve their strategic goals and performance objectives. COVID-19 is an example of an external risk event that drastically impacted operations for many agencies. But with the right approach, ERM will play a critical role in responding, stabilizing and optimizing, as well as transforming agencies for sustainable growth.
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