Building a Culture Focused on Accountability Through Continuous Business Process Improvement”

Risk Management Framework
NATO - PDP Strategic Planning Workshop

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Unclassified

Purpose of Briefing

- Risk Management Framework
- When/How?
- Benefits

Be Better Tomorrow Than We Are Today!

What Do You See?

Depends upon your perspective.

Risk - Potential Issues to Prevent Armed Forces of Ukraine to Execute It's Mission

What is Risk?

Risk is potential issues that prevent the Armed Forces of Ukraine to fully complete it's goals and objectives.

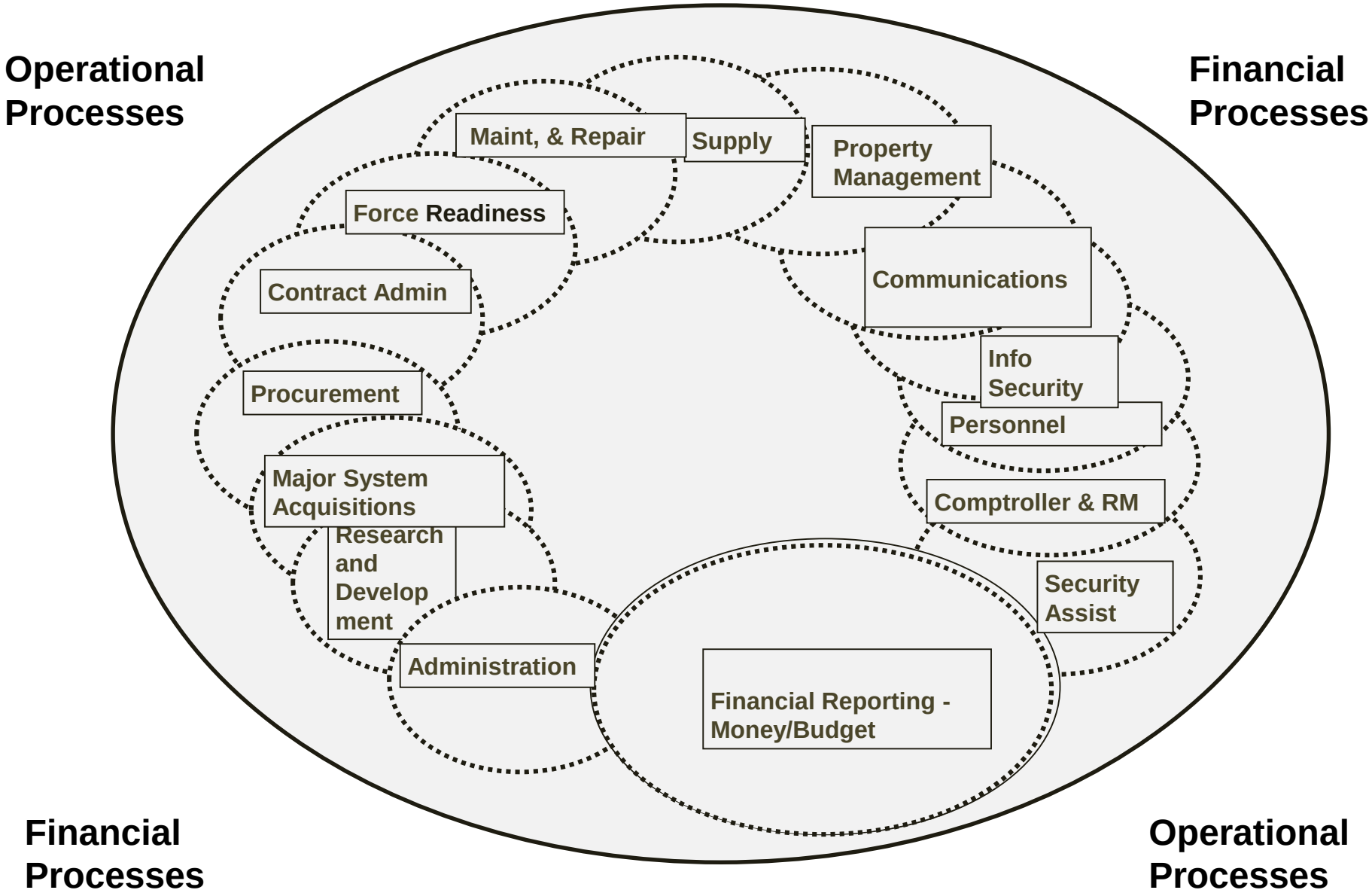
1. Risk is defined as the potential of loss of life and loss of dollars
2. Risk is operational and financial
3. How do we minimize the potential of risk?
4. Prioritize focus of resources to identify and mitigate potential risk.
5. Continuous process - that depends upon those persons that execute the processes and procedures.

"Playbook: Enterprise Risk Management for U.S. Federal Government"

cfo.gov/…/uploads/2016/07/final-erm-playbook.pdf

End State: *Continuous business process improvement that is dependent upon those involved daily in the processes and procedures to identify and report potential risk through chain of command for remediation. Its in integrated into the management of the organization and culture. (Robert Steven Silverstein —- (silversteinrs.state.gov Telephone Number +38 050 368 98 78)*

Risk Related to Each Function/Area Conducted for the Armed Forces of Ukraine



Risk Management Framework
How and Why?

PAST

*Identified Problem with Execution **After** It Occurred and the Mission Was Negatively Impacted*

Future

*Risk Management Framework identifies highest risk areas and to provide controls to prevent problem **before** it negatively impacts the mission.*

- ***If you rely upon an internal review/Inspector General to identify and report on control deficiencies – it is to late (e.g., embarrassment, high cost, and negative impact to mission).***

Why Evaluate Risk When Considering Internal Control?

- Manage risk involves determining what can go wrong.
- If something can go wrong then a control should be established to inhibit experiencing the risk.
- Also need to identify what is done if the risk comes to realization. What actions are necessary to compensate for the risk actually materializing?
- Risks need to be determined and then addressed proactively with actions described for risk mitigation if the risk is not successfully inhibited.

Risks faced determines what controls are needed

Plan of Action

Commander's Risk Management Program

Strategic Defense Bulletin:

- ***Establish a Risk Management Framework for Armed Forces of Ukraine.***
- ***Use Framework to Prioritize Use of Scarce Resources to Identify and Remediate Problems Before Versus After***

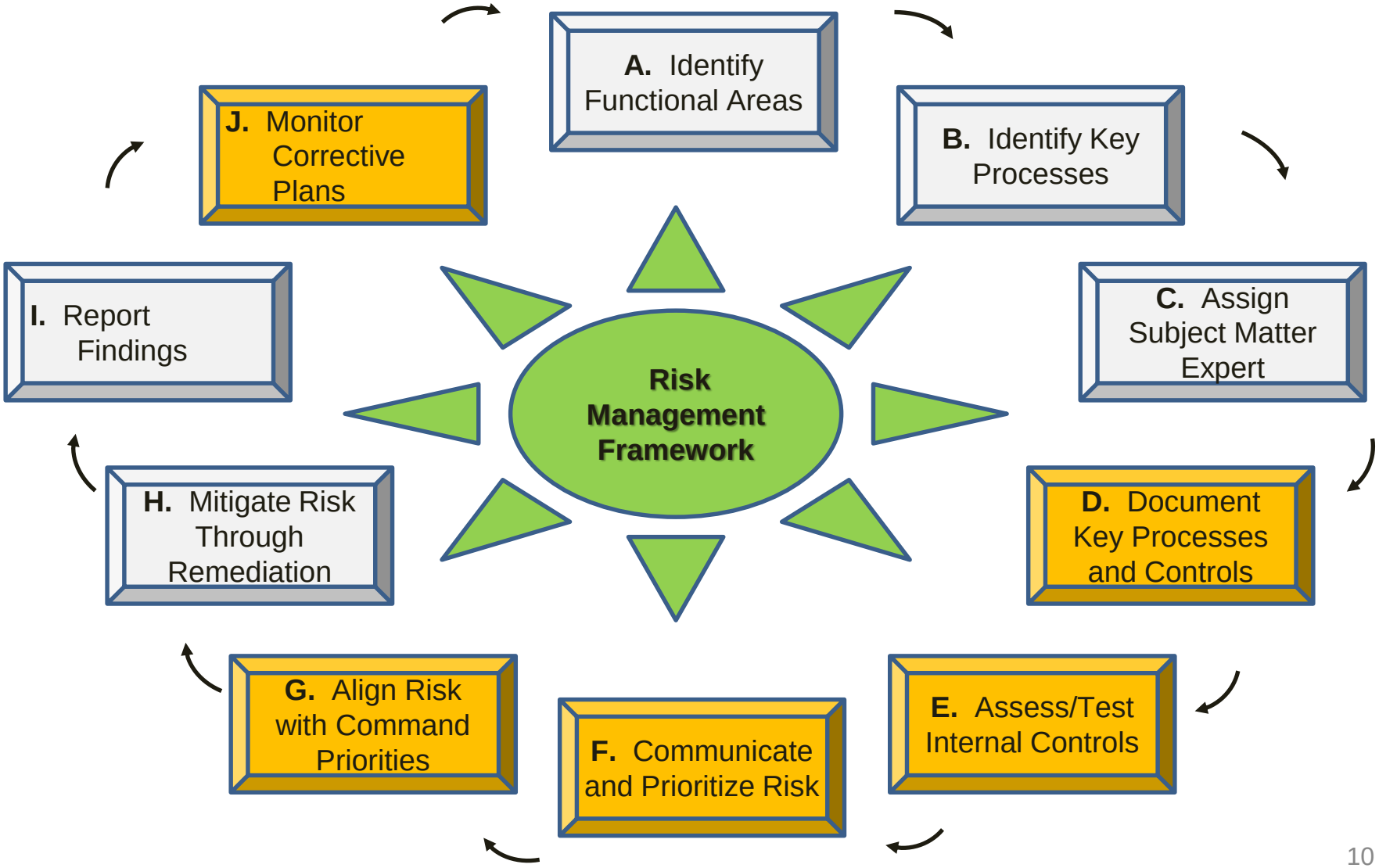
Directorate Leads

- ***Establish a Process to:***
  - Assess inherent risks in mission-essential processes
  - Document and design internal controls
  - Test the design and operating effectiveness of existing internal controls
  - Identify and classify control deficiencies and execute corrective actions plans
  - Monitor and report the status of corrective action plans
  - Designate in writing the MICP Coordinator
  - Conduct a formal assessment of the acquisition functions requirements outline
  - Submit the annual statement of assurance to the SecDef

Procedures

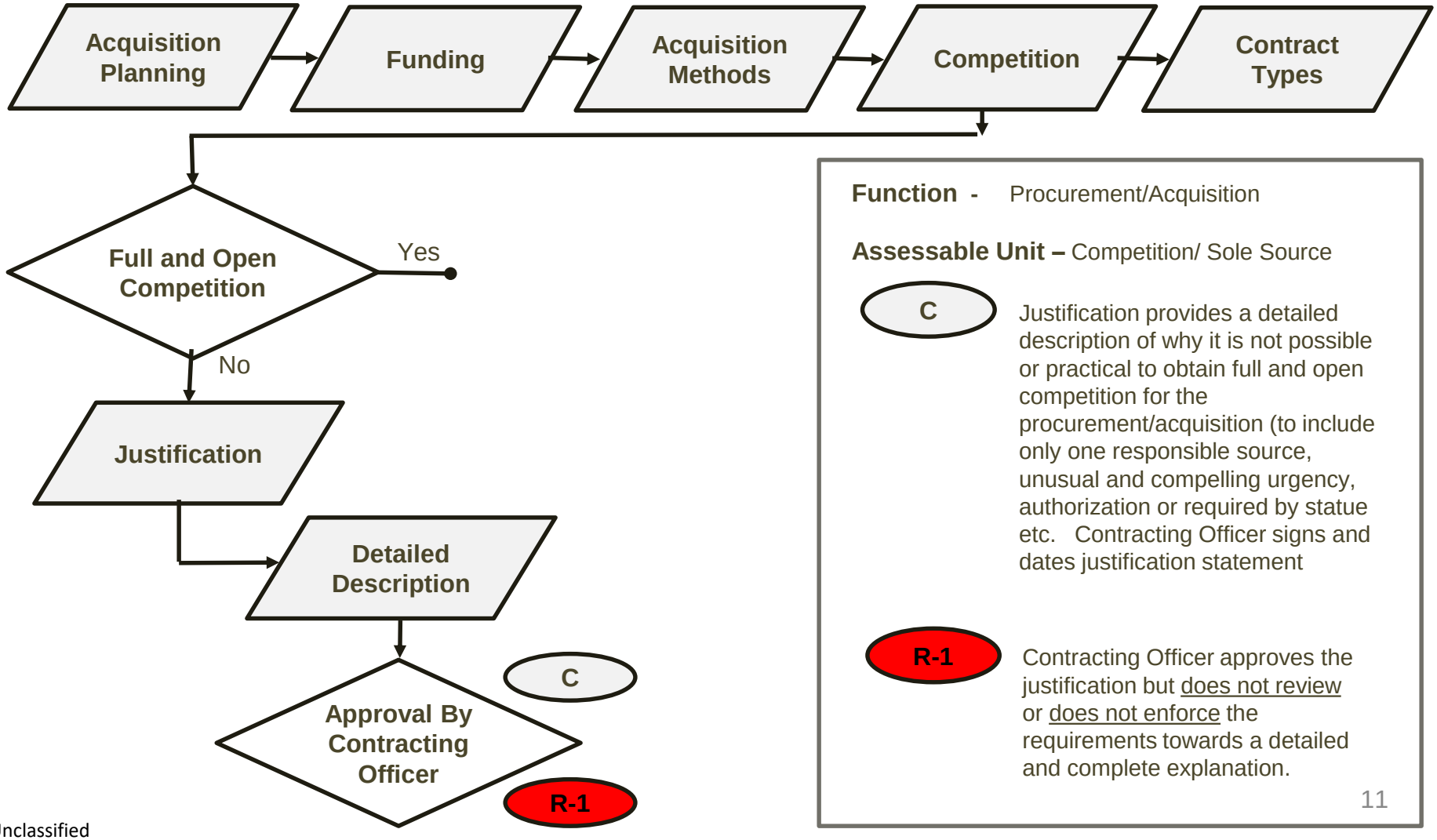
- Each Operational and Financial Component of Armed Forces of Ukraine establishes Risk Process:
- Establish a Senior Management Counsel to oversee operational (also financial and financial systems) reporting
- ***Appoint Individual for Each Operational and Financial Directorate to:***
  - Coordinates to ensure proper documenting of end-to-end processes
  - Identifies best practices and develops efficiencies to improve control documentation, enhance controls, eliminate inefficient controls, and implement new controls.
  - Ensures subject matter experts assess risk and may impact mission or operations.
  - Ensures identification of internal control objectives.
  - Assists in testing and classification of internal controls
  - Ensures corrective actions plans are developed
  - Ensures best practices and deficiencies are shared across assessable units.
  - Tracks progress of corrective actions
  - Active communications with the DoD Component Senior Management Council
  - Maintains Risk Management documentation

Risk Management Framework Life Cycle



Need to Take *Two* Steps Back – In order To Take *One* Step Forward

Need to Document Related Processes, Controls and Risk



Function - Procurement/Acquisition

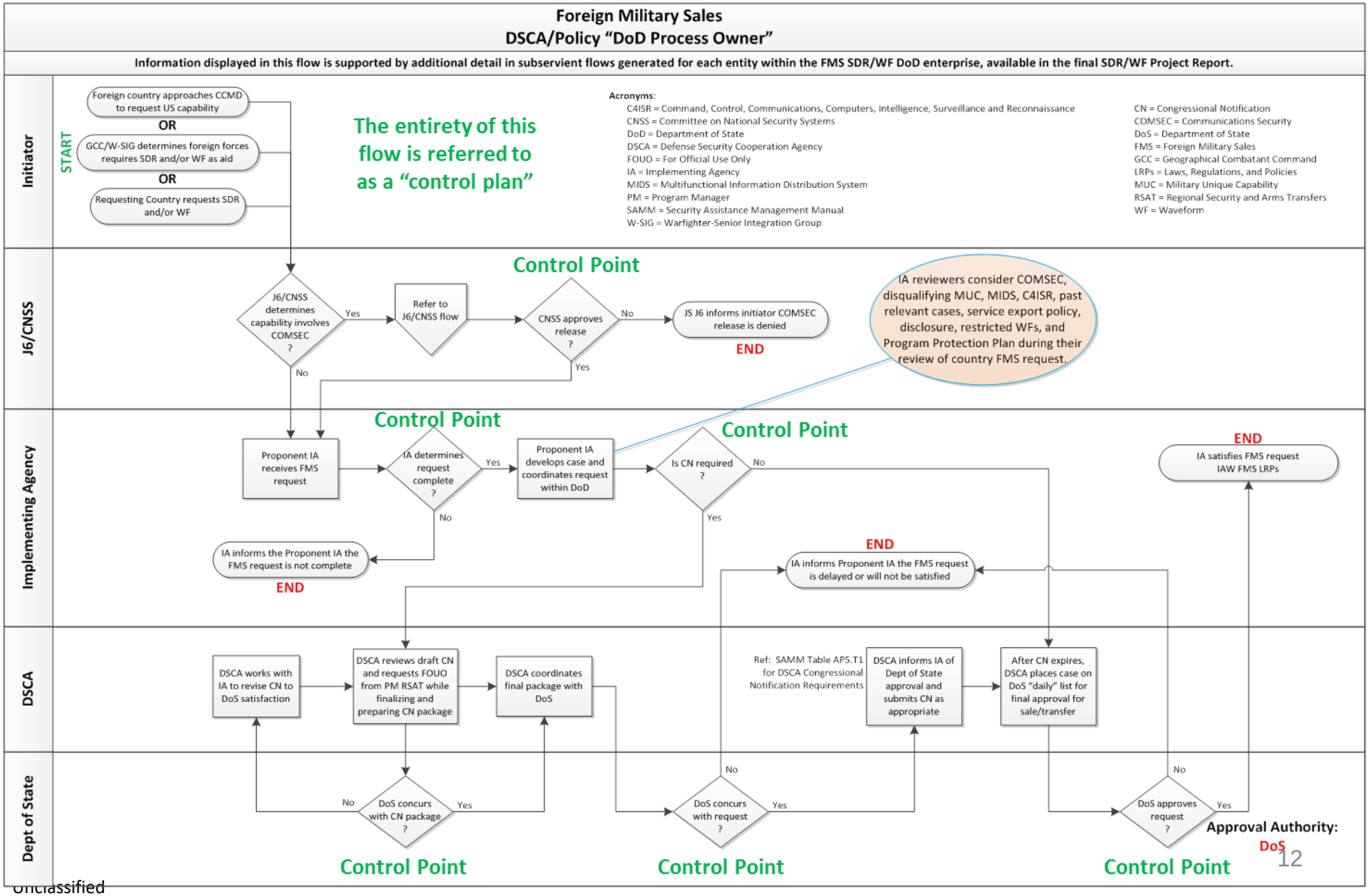
Assessable Unit – Competition/ Sole Source

C — Justification provides a detailed description of why it is not possible or practical to obtain full and open competition for the procurement/acquisition (to include only one responsible source, unusual and compelling urgency, authorization or required by statue etc. Contracting Officer signs and dates justification statement

R-1 — Contracting Officer approves the justification but <u>does not review</u> or <u>does not enforce</u> the requirements towards a detailed and complete explanation.

Process Flow

Enterprise Level



How to Determine High Risk

Risk Assessment Results - High RISK

○ Inherent Risk

□ Mitigated Risk

Control Environment:

- Is required to ensure all personnel maintain proper oversight and accountability of U.S. Government property in order to maintain good stewardship of resources and avoid issues of fraud, waste or abuse.

Inherent Risks:

- Loss or destruction of sensitive items
- Loss or destruction of nonexpendable or durable equipment

Existing Management Controls:

- Provide hand receipts at the user level
- Conduct monthly sensitive items inventory by alternating officers
- Provide leadership emphasis on properly securing and using equipment
- Spot checks on property accountability

Level	Likelihood of Occurrence	
e	Nearly Certain	(15 to 20)
d	Highly Likely	(11 to 14)
c	Likely	(8 to 10)
b	Unlikely	(5 to 7)
a	Remote	(4)

Level	Consequence of Occurrence
1	Minimal/No Impact (6)
2	Minor Impact (7 to 14)
3	Moderate Impact (15 to 19)
4	Severe Impact (20 to 24)
5	Unacceptable Impact (25 to 30)

Level	Overall Risk Rating
	Red – High
	Yellow - Medium
	Green – Low

Consequences

	1	2	3	4	5
e	Y	R	R	R	R
d	G	Y	R	R	R
c	G	Y	Y	R	R
b	G	G	Y	Y	R
a	G	G	G	Y	Y

Likelihood

Leverage MICP to Obtain and Sustain Highly Performing Work Processes

Basic Principles for the Department's Managers' Internal Control Program

- Focus Upon Mission Priorities – Driven By both Operational and Financial Risk
- Develop a Culture of Continuous Business Process Operational Improvements – How?
- Tone-at-the-Top – Proactive and Ongoing Support By Leadership
- Coverage of Key Operational Functions (and Information/Financial Systems) – Through Assignment of SMEs Embedded in Organization
- Formal Communication Framework That Ties Leadership Mission Requirements with Implementation of Continuous Business Process Improvement Activities
- Reliance Upon SME's Self-Reporting and Candor in Communications of the Identification, Prioritization, Reporting and Mitigation of Operational (and Financial) Risk
- Development and Implementation of operational (and financial) risk though "quantifiable" corrective actions.

End State

- Continuous business process improvement
- Identification, prioritization and mitigation of operational and financial risk ***before*** it negatively impacts the mission of the Department
  - Assessment of processes, procedures, and related information systems at the transaction level
  - Documentation of assessments and corrective actions
  - Ongoing coordination of Component's mission priorities with prioritization and assessment of operational and financial risk.

Importance of Organizational Participation By Subject Matter Experts

tive Risk Management Framework Is Dependent Upon Communication Through Chain-of-Comm

Top - Down Perspective and Bottom - Up

Formal Communication Framework Built Upon <u>Trust</u> and <u>Empowerment</u>

Senior Leader

- Clear, focused communications of the Component's mission, and Commander/Director's priorities and challenges.
- Formal Communication Framework between senior leadership and Subject Matter Expert

Senior Functional Managers

- Full participation with communications. Key participate in execution of Directorate's mission and Subject Matter Expert's input towards potential risks and controls to risk mitigate

Assigned Coordinator

- <u>Formal and informal access to Commander/Directors</u>, Senior Managers, and Subject Matter Expert
- Provides support towards compliance with laws, regulations and instructions and provides guidance to Component staff on implementation of Risk Management Framework

Subject Matter Expert

- Ongoing communications Commander in confirmation of priorities for mission, controls and related risks. Receiver of feedback from management regarding prior reporting of material risk and changes to requirements towards process in the future.

Seven Principles of an Effective Risk Management Framework

1. Requires “Tone-At-The-Top”
2. Use of a Communication Framework
3. Candor in Communications
4. Reliance Upon Self-Reporting of Risk, Irrespective of Rank or Grade
5. Alignment and Prioritization of Risk
6. Access to Chain-of-Command
7. Be proactive versus reactive.

If you rely upon an outside auditor to advise on risk it is too late!

Risk Management Framework Implementation Process

A. Identify Functional Areas

- Understand mission requirements.
- Document the function and sub-function's purpose

B. Identify Strategic Mission

- Identify significant programs, and program activities
- Review assessable units to understand processes at transaction level.

C. Subject Matter Expert

- Develop process documentation by sub-functional expert

D. Document Key Processes and Controls

- Document key operational, program and administrative processes and risk
- Document through process map(s), narrative(s) or both.

E. Assess/Test Internal Controls

- Assess and test controls for each assessable unit.
- Accomplish mission in the most efficient and effective manner possible

F. Communicate and Prioritize Risk

- Identify and rank the risk associated with assessable unit.
- Quantify the impact of risk through risk matrix
- Communicate results

G. Align Risk with Command Priorities

- Prioritized for potential mitigation.

H. Mitigate Risk Through Remediation

- Report control deficiency to the next level of management.

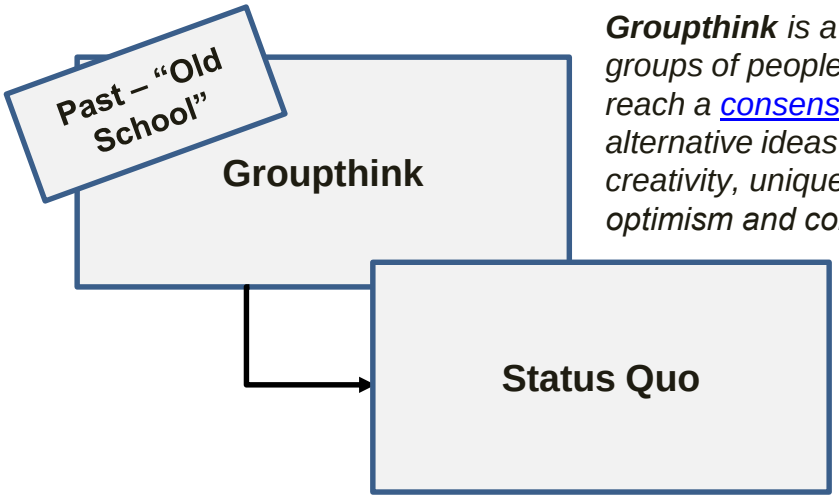
I. Report Problems/Recommendations

- Commander decides that a deficiency is significant enough to be reported outside the Component.

J. Monitor Corrective Plans

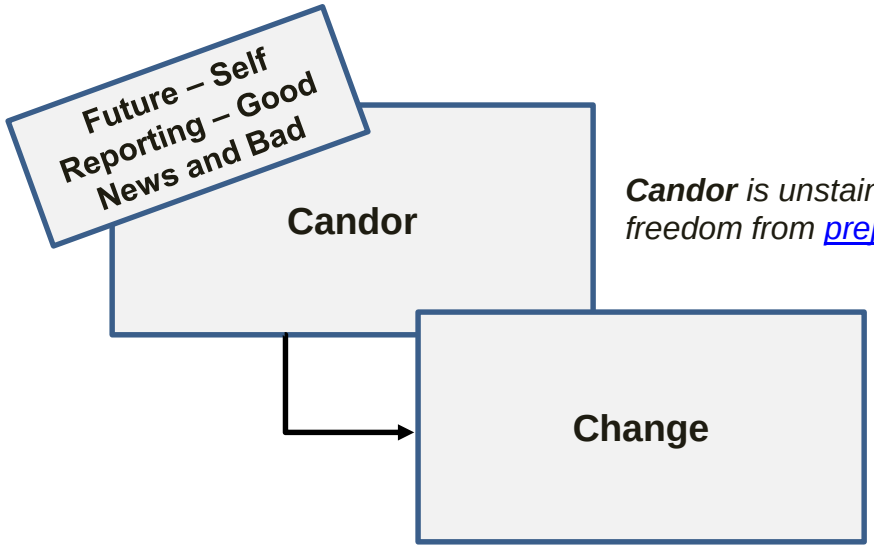
- Creates a corrective action plan to enhance the current control or create an additional control

Change of Culture
Candor versus Groupthink



Groupthink *is a psychological phenomenon that occurs within groups of people. Group members try to minimize conflict and reach a consensus decision without critical evaluation of alternative ideas or viewpoints. Causes loss of individual creativity, uniqueness, and independent thinking. Also, collective optimism and collective avoidance."*

Status quo*, a commonly used form of the original Latin "statu quo" – literally "the state in which" – is a Latin term meaning the current or existing state of affairs.[1] To maintain the status quo is to keep the things the way they presently are.*



Candor *is unstained purity*
freedom from prejudice or malice ***:*** *fairness*

Change *in an organization is shifting/transitioning individuals, teams, and organizations from a current state to a desired future state. It is an organizational process aimed at empowering employees to recommend, accept and embrace changes in their current business environment.*

When Reported By An Audit Agency – It Is Too Late!

- **It is the responsibility of Process Owners to know what problems may or do exist in their processes (what risks are present).**
- **Effective Team Members and Process Owners see problems and fix them before they cause trouble (proactively address risk).**
- **GAO and DoD IG are considered "external" audit agencies, they check on how effective the risk management and internal control were. They confirm appropriate risk management and consequent sufficient internal control**

Armed Forces Ukraine's Priorities

- **Helping the Warfighter Be Successful while Achieving Efficient and Cost Effective Operations – Maximize Bang-for-the-Buck!**

Overlaying the Risk Management Framework over the Budget Process - Capability Based Budgeting - to focus on priorities of operational and financial risk

Leveraging the Risk Management Framework to Save Lives and Save Dollars.

What Do You See - Are You Able to Change Your View/Perspective?

Change is required to Implement - Strategic Defense Bulletin Recommendations