All Things Financial Management
Episode 5: A Discussion of Enterprise Risk Management with Thomas Brandt

INTRO: Welcome to "All Things Financial Management," an ASMC podcast sponsored by Guidehouse, where we discuss all things under the auspices of the Comptrollers' Office and address top-of-mind issues in the Financial Management community.

TOM RHOADS: Good Morning. My name is Tom Rhoads. I'm a Partner with Guidehouse, where I work with clients across the DoD and other government agencies to transform and optimize their financial management functions. I will be your host for today's Podcast. For those of you who may be new to this podcast series, let me take just a moment to provide some background on the American Society of Military Comptrollers. The American Society of Military Comptrollers, or ASMC, is the non-profit educational and professional organization for individuals – military, civilian, corporate, or retired -- involved or interested in the field of defense financial management. ASMC promotes the education and training of its members and supports the development and advancement of the profession of defense financial management. The Society provides membership; education and professional development; and certification programs to keep members and the overall financial management community abreast of current issues and encourages the exchange of information, techniques, and approaches.

With that background, I am happy to announce that with me today, I have Mr. Tom Brandt. Tom Brandt is Chief Risk Officer for the Internal Revenue Service, a position he has held since 2014. He leads the agency's enterprise risk and audit management programs, enabling the identification, prioritization, evaluation, and treatment of key risks to achieving the IRS mission as well as coordinating the agency's handling of oversight audits. Previously, Tom was the Director of Planning and Research in the IRS's Large Business and International Division, with responsibility for the Division's workload selection and risk identification processes. In 2016, Tom served as the Head of the Tax Administration Unit at the Organization for Economic Cooperation and Development (OECD) in Paris, France where he led the work of the Forum on Tax Administration (FTA), a unique body that brings together the leaders of tax administrations from more than 50 countries to enhance tax administration around the world. After returning to the IRS in 2017, he founded and continues to serve as Chair of the OECD's Enterprise Risk Management Community of Interest (COI). In 2020, Tom completed a three-year term on the Board of Directors for the Association for Federal Enterprise Risk Management and was President in 2019. Tom has also provided tax administration advisory and capacity building assistance to numerous tax administrations through projects of the International Monetary Fund and OECD. An article Tom authored in 2018 on Lessons Learned the Hard Way, Enterprise Risk Management, Public Trust and the IRS, published in the Association of Government Accountants' (AGA) flagship Journal of Government Financial Management, received the AGA Author Award for the article that makes the most significant contribution to the literature of the profession. In 2019, he co-authored the government whitepaper "Getting Ahead of Risks Before They Become Government Failures: An Imperative for Agency Leaders to Embrace Enterprise Risk Management," and was named to the Federal 100 by Federal Computer Week in 2020.

TOM RHOADS: Thanks for being with us here today Tom. We appreciate your time.

TOM BRANDT: Happy to be here. Thank you for the invitation.

TOM RHOADS: Tom, obviously we're living in trying times and federal organizations seem to be surrounded by a broad range of risks every day. Everything from cyber attacks to data security to resources and that could be human capital, it could be funding, and even management risks. To start off our conversation today, could you share a little with us of your history that led you to your current role? And maybe even a little background of the role of the Risk Officer at the IRS.

TOM BRANDT: Sure, happy to do so. So, I currently serve as the Chief Risk Officer at the IRS and I've been in that position since about 2014, but I have been with the federal government for about 25 years. And prior to serving as the Chief Risk Officer of IRS, I was the Director of Planning and Research in our Large Business and International Division at IRS where one of my responsibilities was to assess and address compliance risk in our tax population.

So I think having a background in a specific type of risk prepared me for taking on a broader role in our Enterprise Risk Management Program at IRS. And through Enterprise Risk Management, what we're trying to do is really elevate that more unit level operational view of risk to looking at those risks that have the potential to impact an entire organization. And that risks, if they were to occur or manifest could really harm or impede the ability of the agency and organization to deliver on its mission and to accomplish its goals. So it's trying to take that higher level, more strategic level view of risks that were they to occur, could have great impact on an organization and its ability really to accomplish and deliver on its mission.

TOM RHOADS: You know Tom, obviously the DOD is working very hard to achieve a clean financial statement audit opinion. And there's heavy emphasis in, and rightly so on internal controls. Now OMB issued new requirements for ICOR that are focused on integrating elements of ERM and internal control. Can you tell us a little bit about those new requirements and how IRS has been moving out on creating this kind of integration? And maybe how it's going or keys to success or what impediments that you've had to overcome?

TOM BRANDT: Right, so those new requirements around internal control over reporting or ICOR I think specifically that's looking at how to improve both the quality and the reliability of information that's used by agencies and also reported out from agencies to inform decision-making by other stakeholders and by oversight to inform policy decisions to inform management actions. So, of course, having reliable and quality information to act on is really critical and I think it's also essential to accomplishing many of the transparency objectives that we have in the federal government.

So, the risks to reporting are things that we asses to understand what is it that could impact or imped the ability to provide quality reliable accurate and timely reporting? And of course, the controls, those are mechanisms that we put in place to try to prevent or minimize certain potential risks from occurring.

So, as an example, we put in place quality review processes. We do sampling. We made test data. We might put in place standards for data collection that have to be followed across the organization. Those are all types of controls that we put in place to improve the overall quality of the information, but also to minimize risks to the overall quality and accuracy of reporting. So, I think when you think about it that way you can see how risk and controls have to be working hand in hand. The controls have to be established to address and minimize potential risks, but then if we identify or find that there are lapses or deficiencies in controls, well then that of course creates risk. So, in order for those two functions in any organization to be successful, they have to be working together. And we have to be using our respective outputs to inform each other's operations. And so at the IRS, the Internal Controls Office works very closely with my office for Enterprise Risk Management. We share the outputs of our respective processes to inform each other's work. The top risk to the IRS are used to inform the testing plan within internal controls. They're used to inform the area where internal reviews are conducted. And then certainly the outputs of that testing plan of those reviews if, if there are risks or gaps or lapses that are identified, that information gets shared back to us to consider as we're doing our enterprise risk assessment process. You know, I'd say in terms of challenges it's it took some time once we set our ERM program up to establish that relationship to work out how we can complement each other's efforts, but also I think continue to show the distinction too between what are internal controls and what are enterprise risks. The whole intent behind the OMB circular in the update was that those functions are working more closely together. You know, the circular talks about integrating ERM in internal controls but doesn't necessarily mean that they have to be part of the same office, but, the leaders on those activities should certainly be working together and, the outputs of both parts of those activities should certainly inform and complement, the work that's going on within an agency.

TOM RHOADS: Tom, you spoke quite a bit about the need for collaboration, the need for sharing, the need for integration. In my experience most organizations don't want to share information about their risks, even though some can disrupt the overall achievement of objectives. What ideas do you have for encouraging organizations to be more pro-active and forthcoming about these related risks?

TOM BRANDT: Yeah, that's a good question Tom. We have this mantra that I think that we've all been exposed to that don't raise problems, bring solutions. Or I think there's often too this mindset that if we raise a problem that that might somehow suggest that there's a weakness in our organization or that maybe we're not being effective in our job if we're raising risks and raising problems. So sometimes there's a view that doing that can be perceived as something negative. But, I think we've seen all too many times in both the public sector and the private sector where, there were risks, there were issues, problems occurring in one part of the organization that were not shared. And unfortunately, those issues escalated and became crises that impacted and harmed, not only organizations, but customers and stakeholders. So, it's really critical to create environment where people feel comfortable raising risks, pointing out problems. And that really is an essential responsibility of an organization's leadership; to set that tone and to set that expectation, and I think that's something we've been very fortunate at the IRS that our current commissioner and our former commissioner when this program was being set up, made it very clear that you know, they didn't want surprises. They wanted to be informed and told about you know, risks as they were being identified. I think some of the adages around the risks don't

get better with time and the problems don't go away if you (laughter), just by hiding them. They don't age well. So really again setting that expectation that, that not only if we see something should we say something, but then leadership and the entire team needs to work together to do something. And I think that might also be why sometimes there's a reluctance to share problems or raise risks, that if the organization isn't equipped to actually then help people when they raise those risks, that's gonna create some hesitancy as well. So, that's where ERM can help. By bringing together different parts of the organization, resources, attention, etc. to actually help functions and leaders in working through and addressing their risks. So, it's not just a matter of putting it out there and saying, "I have this problem." But, having that culture where other parts of the organization are willing to then step forward and help looking at the broader benefit to the overall organization from doing that.

TOM RHOADS: Tom, the tone at the top that you mentioned, that's a common theme right now across the Department of Defense as the department's aggressively pursuing a clean, a statement or audit opinion. Ideally ERM is driven from the tone at the top the Enterprise in getting us all aligned in that journey. But some parts of an organization may not be as open to that approach at the top, but a layer down, or maybe even two layers down they see the value and want to pursue it. Does this have to be a top down driven? Or can lower echelons in the organization pursue ERM on their own and if they can, how would that work?

TOM BRANDT: So, my mantra on this is it's always better to put in place risk management practice wherever you are in the organization regardless of whether it's being done at the enterprise level or not. I think there's benefit that we obtain as leaders. Any part of our organization if we haven't placed processes and mechanisms to let us know and give us an early alert of where something might be going off course. And so certainly it's easier if you've got broad support and broad participation in an organization to adopt and implement ERM. But it certainly is advisable if that's not yet in place, not to sit back and wait for that to happen, but to go ahead and do what you can within your own organization to begin creating the process and creating the culture within your own organization where people do feel comfortable sharing and working together to point out, and address risks. So I think that you can make progress. I think again you're looking at risks that are specific to your unit and you might identify risks that could have enterprise impact but I'd say don't sit back and wait for that enterprise and organization-wide effort. If that's taking some time or not deploying at the pace one might like, that it's always advisable and I think beneficial for us as leaders no matter what part of the organization we're in, to put in place the mechanisms by which we can get informed about what's going on in our organization, what risks there are and what it is that we can do to help minimize their occurrence.

TOM RHOADS: Tom, one of the mechanisms that you've put in place at the IRS is a tool called the RAFT, which helps managers at the IRS decide how much risk is appropriate to take in a particular situation. Can you tell us more about RAFT and how it's used and also how you got people to use it given that you're writing down on paper some pretty sensitive information?

TOM BRANDT: Yeah, that's a good question and again it's an area of risk you document something and then, there it is. But part of it is just an acknowledgement and acceptance that we have to accept risk

every day in the decisions we're making, in the programs we're operating. It's not possible to eliminate all risk. We hopefully can take actions to minimize the likelihood of specific risk and make sure we've got plans in place so that we can quickly react to and recover should a risk manifest, but, it's just not possible to zero-out all risk.

And of course, in government we also realize that we don't have enough resources to fully address all of the risks that we face and that, we have to make trade-offs. And, that taking actions in one area to reduce a risk could actually create a risk somewhere else. So, for us the RAFT, or the Risk Acceptance Form and Tool, was actually developed help guide decision-making around risks. And to provide a tool to help think through the different options that we have to consider. What are the associated risks? What are the associated exposures? To include and involve other stakeholders who might be impacted by the risk either upstream or downstream, and to do that in a way that was transparent so that the leadership was informed about it and understood the decision-making process. But then at the end of that whole process itself, we're documenting the decision we made around the risk that we, we're accepting not only for ourselves but also for our successors. And with attrition rates in government and turn-over and organizational change that often times your decisions that are made by our predecessors. There's issues that come up or a need to understand kind of how some of those decisions were arrived at later on. It's helpful to have documentation for that purpose. But then, also for oversight. We're subject of course to congressional oversight. GAO or IG may wanna come in and understand how did we arrive at a decision. And the RAFT itself can help articulate that and also help demonstrate that thoughtful process was applied. I – oversight, the IG, they can always disagree with perhaps the decision that was made. They might have a different view but, having the RAFT and having that process and having the documentation, they can at least acknowledge that we used a deliberative process and approach to reach that decision. So, the intent really is again to help guide decision-making. It's not intended to be used on every single decision we make but, for those that are most critical. Those that we know perhaps might be controversial. We know they're gonna be subject to oversight. It's something that we've had challenges within the past. Those might be examples where applying and using the RAFT could be especially helpful. And I think we've found that to be a very useful tool at the IRS. And it's not something that I even have to remind our leadership team to use. It's something now that just naturally comes up as part of discussions when some of those decisions or issues arise that fall into one of those categories. It's become a natural response now to say, "This is something where a RAFT would be helpful."

TOM RHOADS: Tom, at the Department of Defense right now, for lack of a better word, I'll just say that we've got, audit remediation leads or audit remediation committees that, that take ownership and help drive the audit remediation process. And, at the IRS I understand that you've created a network of risk liaisons throughout the organization. Can you tell us more about this role and how it works? And what are the benefits and maybe challenges of this element of the ERM Program?

TOM BRANDT: So when we were setting up the ERM Program at the IRS, I think we recognized early on that we needed to be careful not to just create this headquarters function, because that would limit buy-in and I think it would create this view that while ERM is something somebody else does. "Headquarters does that, they'll take care of it. If they need something, they'll let us know, we'll give it

to them and then we'll get back to our regular work." And recognizing that we said "If we want this to really, you know, flow through the entire organization and to create and build buy-in, we've got to have responsibilities set out and responsible parties within each of our business units." So as we set up ERM at the IRS we required every leader and every unit at the IRS to designate a Risk Liaison for their organization who would work with us in developing and implementing ERM. So that they'd also then have a stake in the game. And the expectation was that they would act and serve on behalf of their unit's leadership as risk champions so to speak, and guiding the operationalization of ERM within their respective units. And what's most critical is that you need to have the right people in those roles. So when you think about a challenge, you want to make sure sometimes that when these liaisons roles are set up, that it's not just to assign somebody who has the time to do it. You need to make sure that it's assigned to the right person who's willing to take ownership of that responsibility, who has access to their leadership, and who buys into the value and the benefit that that program or that that capability can provide to the organization. So those areas where we've seen it most successful within the IRS are in those areas where, the ERM Liaisons have those characteristics and met that criteria, and where they took ownership of it and really did and have become champions of ERM not only for IRS overall but for their respective organizational units. And looking back now, seven or eight years in to ERM at the IRS, if I had to point out one of the most critical success factors for us around our program, I'd say it was the designation and the selection of those ERM Liaisons. They've enabled this to become more than just a headquarters program, more than just a compliance activity. It's really been integrated at all levels of the organization and they've been a vital tool in making that happen for our organization.

TOM RHOADS: It's interesting. At the Department of Defense we're doing the same thing, integrating audit remediation throughout the entire organization and it sounds like it's a very common approach to an effective ERM program. And Tom you've given us so much to think about and for our last question for our listeners today, would you be willing to share some advice for new careerists that are just starting out based on what you know now?

TOM BRANDT: Well, probably not surprising coming from a risk professional but, I would say that you need to have a willingness to take risks. And reflecting kind of on my career and careers of my colleagues and mentors having that willingness to seek out challenging assignments, to venture out to different parts of your organization or maybe to other organizations, to keep learning, to building networks both inside and outside your organization, and most importantly finding work that you enjoy that's fulfilling to you and making sure of course throughout all of that that you are maintaining work-life balance. But then I think lastly, the point that I've mentioned is that you also have to have patience. We all know that government has it's challenges as a place to work but the impact that one can make in the service that we can provide, we really do have the ability to make a difference for the country. So, I think we need to keep that top of mind you know, in our roles in the work that we're doing, in the government and in the positions that we take. But, being successful in that regard does mean we have to take risks. But, there's tools and there's ways that you can do that, that help increase the likelihood of success. I think organizationally and even individually some of the principals of ERM can certainly help in that regard.

TOM RHOADS: Great advice, Tom. Thank you so much for your time today. We really appreciate it.

TOM BRANDT: My pleasure. Thank you.

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