Managing the Hidden Risks of Budget Uncertainty and Budget Cuts

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Thomas H. Stanton
Johns Hopkins University
Center for Advanced Governmental Studies
(202) 965-2200
tstan77346@gmail.com
Executive Summary

The nation’s policymakers have decided to impose substantial federal budget reductions. This makes effective risk management even more important than before. If agencies reduce staff or disinvest in systems without regard to risk, they can lose capacity to manage their programs and processes effectively.

Two components increase risk: budget uncertainty, and actual budget cuts. Budget uncertainty directs its force against the quality of agency decision making. Defending against repeated threats to their budgets can consume the energies of agency managers. Too often budget issues reduce the time horizons of federal managers so that immediate needs displace more important longer-term investments and processes.

Budget cuts, if not done well, can precipitate drastic program failures. This has been the federal experience with past rounds of budget cuts. A 1995 study by the National Academy of Public Administration found that budget reductions cause a loss of morale; loss of productivity (“frightened people are not productive”); less collaboration (take care of one’s own first); unexpected costs (overtime, retraining, use of consultants to get the work done); loss of skilled employees; and skills imbalances. Budget restrictions played a role in the two NASA space shuttle disasters and in the loss of our Benghazi consulate in 2012.

Thoughtful risk management is essential to keep agencies and programs out of trouble. The basic question of Enterprise Risk Management (ERM), “What are the major risks that could prevent our agency from accomplishing its mission and objectives?” becomes especially important at a time of budget turbulence.

There are promising practices of risk-informed downsizing that provide a good model for agencies today. This white paper presents examples from the U.S. Department of Labor, a federal business operation that provides enterprise network services across a large agency, and the U.S. Census Bureau, that highlight ways for agencies to streamline and downsize wisely.

The new OMB Circular A-129, which applies to federal loan and loan guarantee programs, provides a model for integrating agency consideration of management and budget matters in regular risk management reviews. Monitoring of agency risk reviews by OMB budget examiners promises to add independent oversight of the quality of agency consideration of major risks that can affect their performance. At a time of budget turbulence, a centralized effort to monitor and identify major risks and supplement agency risk management activities would seem to be an extremely cost-effective federal investment.
Following the dramatic increase in federal debt outstanding since the mid-2000s, policymakers have decided to impose substantial federal budget reductions. Ideally, budget cuts should provide an opportunity for federal agencies to shed low priority programs and focus on mission-critical activities. In practice, federal agencies face constraints – in budget rules, authorization and appropriation laws, stakeholder interests, and also sometimes in mindset – that can preclude “doing more with less,” as the optimistic saying goes.

Past experience with budget reductions suggests that an environment of uncertain but significant budget cuts is one in which effective risk management becomes even more important than before. Otherwise, if agencies reduce staff or disinvest in systems without regard to risk, they can lose capacity to manage their programs and processes effectively.

This white paper focuses on the connection between budget cuts and increased risks for government agencies and programs. The following sections make these points:

i. Past experience with federal budget cutting, dating back to the 1980s, helps to shed light on the dynamics of downsizing and ways to avoid some of the major mistakes that occurred back then.

ii. Today’s budget environment has two components that increase risk: budget uncertainty, and actual budget cuts. Both can take a toll on the quality of agency decisions and performance.

iii. Thoughtful risk management is essential to keep agencies and programs out of trouble. The basic question of Enterprise Risk Management (ERM), “What are the major risks that could prevent our agency from accomplishing its mission and objectives?” becomes especially important at a time of budget turbulence.

iv. There are promising practices of risk-informed downsizing that provide a good model for agencies today. This section presents examples from the U.S. Department of Labor, a federal business operation that provides enterprise network services across a large agency, and the U.S. Census Bureau, that highlight ways for agencies to streamline and downsize wisely.

v. Recently revised OMB Circular A-129, which applies to federal loan and loan guarantee programs, provides a model for integrating agency consideration of management and budget matters in regular risk management reviews. Monitoring of agency risk reviews by OMB budget examiners promises to add independent oversight of the quality of agency consideration of major risks that can affect their performance.
Consider each of these in turn.

i. Lessons from Past Budget Reductions

The threshold lesson is that, if not done wisely, budget cuts can precipitate drastic program failures. Emblematic were the two NASA space shuttle disasters, Challenger in 1986 and Columbia in 2003. In both cases, budget cuts made NASA’s aggressive shuttle launch schedule unsustainable. NASA’s management didn’t reveal this for fear that Congress and constituencies might lose enthusiasm for the shuttle program. Noteworthy is that NASA tried to build a shuttle safety program after the Challenger disaster but scrapped much of it to save money. The Columbia disaster followed. Too often budget reductions reduce the time horizons of federal managers so that immediate needs displace more important longer-term investments and processes.

More recent examples include the loss of the US consulate in Benghazi and the death of the US Ambassador to Libya and other Americans; the State Department post-mortem suggests that budget cuts had led to reduced spending for security of embassies and consulates in high-threat areas. The Congress is now devoting increased attention and resources to the security of our overseas diplomatic outposts. Headlines this summer about wildfire disasters raise the question whether budget cuts (combined with other factors) contribute to a decrease in fire prevention programs and that wildfires are becoming more dangerous as a result.

Less obvious, but also serious are longer-term budget cuts. Dan Gordon, Administrator of the Office of Federal Procurement Policy testified that in the early 2000s “spending on contracting doubled while the size of the acquisition workforce remained essentially flat.” At one department for example, an analyst found that hiring freezes had created two tiers of staffing, senior people hired before the freezes began and junior people hired afterwards. The middle range was largely absent. Moreover, senior people were likely to retire soon. The analyst found that the department had had to move away from best-value contracting and select vendors based on lowest price. While this was not most advantageous for the

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Managing the Hidden Risks of Budget Uncertainty and Budget Cuts | By Thomas H. Stanton

department, it reflected the limited capabilities of junior people who managed many of the department’s procurements.

Cuts in support functions also can harm an agency’s mission. The Office of Inspector General of the Department of Health and Human Services reports, for example, that cuts in its travel budget, and the high cost of paying medical experts to review medical files mean that it will delay investigations into poor quality care in hospitals. The Office has had a hiring freeze in effect since February 2012 and also has offered buyouts and early retirements that are projected to cause significant staff reductions. The problem with reducing investigations is that, as bad actors in the relevant community learn of the reduction in scrutiny, adverse behavior may increase.

ii. Effects of Budget Uncertainty vs. Budget Reductions

Another lesson is that budget uncertainty and budget cuts raise distinct and different management challenges. Budget uncertainty directs its force against the quality of agency decision making. Defending against repeated threats to their budgets can consume the energies of agency managers. In her classic study of budget reductions in the 1980s, Irene Rubin found that,

“As funding went up and down and the rumors of impending reduction in force came and went, morale went up and down. When morale was low, not only was there no planning but there was no motivation to make hard decisions. Only the most routine of activities were undertaken.”

As agencies cope with the unexpected effects of mandatory sequestration for FY 2013 – something that policymakers seemed to believe never would take place – they face growing uncertainty about budget levels they should plan for in subsequent years. At this writing, in late summer 2013, no appropriations bills have passed Congress and, without a resolution, tighter spending caps will apply, possibly leading to sequestration for FY 2014. In addition, the federal debt ceiling will probably be reached in late fall, and, unless there is agreement, there could be a government shutdown. It is difficult for federal managers to plan in this environment; the range of possible contingencies is just too great.

Actual budget cuts have different effects from uncertainty about budget cuts. A 1995 study by the National Academy of Public Administration found that budget reductions cause a loss of morale; loss of productivity (“frightened people are not productive”); less collaboration (take care of

Managing the Hidden Risks of Budget Uncertainty and Budget Cuts
By Thomas H. Stanton

one’s own first); unexpected costs (overtime, retraining, use of consultants to get the work done); loss of skilled employees; and skills imbalances.7

A subsequent Academy study found agencies taking an approach of “cutting employees now and figuring out how to get the work done later”; survivors’ syndrome; an increase in workplace tension that brought a need to increase security; and loss of key employees that required agencies to hire contractors to carry out essential tasks.8 Irene Rubin similarly found that progressive budget cuts led to uncertainty, disruption, lost morale, lost productivity; polarization, increased fraud, waste and abuse; increased political influence; and an aging workforce as hiring freezes went into effect.

Scott Fosler, President of the National Academy of Public Administration, testified in 1995 that agencies may go through a four-step process as they adjust to a new downsizing environment:

1. Denial: “when confronted with pressures for change, most organizations simply deny them or presume they will go away”;
2. Patching: “when the pressures persist they engage in incremental adjustments, or ‘patching” problems”;
3. Cost-cutting: “organizations take deep, cost driven cuts into their existing structure and resources [with] mixed results at best”; and finally, for agencies that have good leadership,
4. Rethinking, of the agency’s “basic mission and goals and the means for achieving them.”9

This pattern is likely to show itself as sequestration, or whatever comes next, exerts increasing pressure on agency budgets. Many agencies have met the first round of sequestration by tapping hidden resources their budget officers had wisely saved for a rainy day. Other agencies have begun to shorten their time horizons: they are cutting funds for travel, training, and conferences, and some are implementing furloughs.

iii. Increased Importance of Effective Risk Management

As downsizing progresses, risks can increase that threaten an agency’s accomplishment of its mission. The basic question of Enterprise Risk Management (ERM), “What are the major risks that could prevent our

Managing the Hidden Risks of Budget Uncertainty and Budget Cuts
By Thomas H. Stanton

agency from accomplishing its mission and objectives?” thus demands increased attention.

The federal government is coming closer to the third and fourth steps that Mr. Fosler described. Budget offices have found hidden pots of money to mitigate the strain on agencies in implementing sequestration for FY 2013 and the Congress has acted to alleviate particular pressure points, such as when cuts to the budgets of the Federal Aviation Administration and Transportation Security Administration threatened to create longer lines at airports. However, the FY 2014 reductions of the Budget Control Act promise to force agencies to make increasingly difficult choices, such as between maintaining the agency mission and cutting or furloughing staff.

For agencies that take the “deep cost-driven cuts” that Mr. Fosler described as the third step, risk management is essential to help protect against cutting essential people, systems, or processes, in ways that could cause unexpected surprises such as NASA, FEMA, and the State Department experienced in the examples above.

For agencies that work with stakeholders, the Congress, and OMB to reach the fourth of Mr. Fosler’s steps, effective risk management can offer positive benefits. Agencies can rethink their missions and match their goals and strategies to available resources, within the constraints that may accompany such decisions.

Based on the 1997 Academy study, there are eight questions about budget reductions that federal managers might consider10:

1. How can we prepare for the inevitable additional budget reductions?
2. How do we preserve the vital human resources necessary to carry out our mission while we absorb budget reductions?
3. How do we maintain and build the critical skills and infrastructure needed for the present and future challenges facing the agency?
4. What resources and knowledge already exist in the agency to identify targets of opportunity to generate significant savings?
5. How can the agency create more incentives for managers to innovate, especially in the area of cost reduction?
6. What can be done to tap into employee knowledge to identify issues and solutions for costly problems?
7. What processes and steps in our programs have little or no value and could be easily eliminated?

Managing the Hidden Risks of Budget Uncertainty and Budget Cuts
By Thomas H. Stanton

8. To what extent do we need to obtain support for reprogramming or legislative changes to remove key obstacles?

These questions reflect the kind of thinking that managers can and should pursue. Implicit in each question is the need to identify major risks that could impede agency performance at such a critical time.

During the Clinton Administration, at a time when the Small Business Administration’s (SBA) workload was increasing, SBA faced pressure to streamline its operations and reduce demands on staff time by delegating origination of SBA-guaranteed business loans to private lenders. SBA Administrator Aida Alvarez welcomed this transformation:

"While we fully support the continued expansion of the role of our private lending partners in loan administration, we must not lose sight of our fiscal responsibility to the taxpayer. Our FY 1998 budget proposes to have all new loans serviced and liquidated by our lending partners. However, in order to provide the oversight and monitoring of this activity that is absolutely necessary to maintain this fiscal responsibility...we must strategically change the manner in which we, the SBA, administer the loan program."\(^{11}\)

However, the Administrator warned, the transition meant that SBA would need to manage risk in new ways:

"Changes already put in place by the Congress and proposals made by the Administration in the 1998 Budget presage a shift at the SBA from an organization that has processed loans in the past to one that will be managing risk on a portfolio-wide basis and one that will be more dedicated to lender oversight."\(^{12}\)

The Administrator sought and obtained congressional approval to create a new Office of Lender Oversight to monitor risks of the SBA program. In setting up the office SBA worked closely with stakeholders and interviewed federal regulators and other federal credit agencies to learn lessons about how to manage portfolio risk effectively. The result was a win-win: SBA could free scarce staff time and, thanks to identification and management of risks, was able to implement a streamlined program that kept loan losses under control.

This example illustrates a sometimes difficult point: As the Government Accountability Office points out, it can cost money up front to undertake the kinds of streamlining and consolidation that can truly allow agencies to “do more with less”:

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\(^{11}\) Statement of Aida Alvarez, Administrator, U.S. Small Business Administration, before the Committee on Small Business, United States Senate, Hearing on SBA Credit Programs, May 15, 1997, p. 14 (prepared text).

\(^{12}\) Ibid. p. 1.
“[C]onsolidation initiatives often have up-front costs, and agencies must pay them before they can realize any intended gains or savings. For example, agencies may need to pay for equipment and furniture moves or fund employee transfers and buyouts, and agencies often find it challenging to obtain the funds necessary to pay for these up-front costs. A lack of up-front funding can prevent a potentially beneficial initiative from getting off the ground or derail an initiative already underway.”  

One hopes that, as the downsizing process matures, agencies, congressional committees, and the Office of Management and Budget will be able to work together to allow agencies sufficient flexibility to make prudent investments in downsizing. The GAO recommends that policymakers consider developing funding mechanisms to assist agencies with up-front costs. One can imagine a revolving fund arrangement that could lend up-front funds to an agency for downsizing and be repaid in subsequent fiscal years as the agency realizes savings.


The essence of ERM, as John Fraser of Ontario’s Hydro One, a leader in ERM, ¹⁴ likes to put it, is “conversations” and “prioritization.” An organization needs to encourage communication across the organization and up and down the hierarchy. These conversations help to identify potentially troublesome scenarios and risks. Then the organization must prioritize the risks, according to their probability and potential impact so that it can allocate resources to addressing those of highest priority.

The following case studies, from smaller as well as larger federal organizations, reflect processes of identifying and addressing risks. The focus is slightly different from ERM in that the operative question essentially has become, “As our agency refocuses its mission to accommodate to operating with a significantly reduced budget, what are the major risks that could prevent our agency from accomplishing its mission and objectives?”

Managing the Hidden Risks of Budget Uncertainty and Budget Cuts

By Thomas H. Stanton

A. Budget Reductions in the Office of Chief Financial Officer, U.S. Department of Labor

When a new Chief Financial Officer (CFO) came to his position at the U.S. Department of Labor in January 2008, the department informed him that his office should be prepared to take a 10 percent budget cut in the near future. His experience reflects the flexibility of an ERM approach and a manager’s ability to implement ERM with a greater or lesser degree of informality and speed to deal with unexpected budget circumstances.

Traditionally an office would implement a 10 percent budget cut by spreading the burden and requiring each of the major units of the CFO Office to take a proportionate share of the cut. However, the CFO recognized that different cuts would have differing effects on the ability of the office to carry out its mission. For example, cutting payroll processing did not make sense, given that the short time needed to make cuts did not permit process improvements that might have taken up the slack.

For the conversations part of the ERM exercise, The CFO utilized an approach where senior managers would justify the budget line items of their units, for contracts, personnel, etc., and identify risks to their missions if the items were eliminated. For the prioritization part of the exercise, the CFO convened a small group, which he chaired, including the Deputy CFO and the two Associate Deputy CFOs. Other staff also were present. The group deliberated line-by-line, looking at overlaps where functions of one unit affected the mission capability of others, and aiming for the 10 percent targeted reduction. The group’s focus was clear: “Can we fulfill legislated mandates and support of departmental goals, objectives, and desired activities?” While the latter could be curtailed, the group sought to protect the office’s mission of supporting legislated mandates and departmental goals and objectives.

When the conversations part of the exercise was complete, it was time to prioritize. The CFO convened a meeting with the Deputy and two Associate Deputy CFOs in a closed session where he made the final decisions.

The CFO reported that the exercise proved successful in that the CFO Office eliminated some “nice-to-have” activities and relied on attrition to reduce staff, but did not need to furlough or fire employees. The cuts maximized the return on investment for the office, compared to the effects of a cascading 10 percent cut that would have spread the cuts without considering effects on the agency’s overall mission and objectives.

B. Anticipating Budget Cuts at a Government IT Organization

A federal business operation that provides enterprise network services across a large agency faced a similar situation. Already in 2011, the office Director heard rumors that there could be a budget cut of perhaps 10 percent for the following fiscal year. Deciding to be proactive, the office created a risk assessment team and began working on downsizing
Managing the Hidden Risks of Budget Uncertainty and Budget Cuts

By Thomas H. Stanton

scenarios. In January 2012 cuts for the following fiscal year were announced and, thanks to the advance activity, the office gained half a year to adjust to the next year’s reduced budget in a minimally disruptive way.

Complicating the 2011 process was that the Government IT Organization was a new organization established to consolidate two previously separate groups. The initial management task was to bring the new combined organization up to a uniform standard of financial management, budget execution, and resource allocation and investment decisions. It soon became clear that governance needed to be a focus to help with budget coordination and resource decisions across previously disparate activities. Only then could the organization properly consider the impact of budget cuts.

The process began with identification of over a dozen key managers of the consolidated organization to solicit their input. Through facilitated discussions, these managers began to anticipate and jointly consider the impact of possible budget reductions. The organization had operated in silos and these meetings represented the first time that all of these managers had met together to collaborate with one another.

The risk assessment team developed a process that again builds along the lines of John Fraser’s “conversations” and “prioritization.” The risk assessment team built a model, which unit heads adopted, to help focus the discussion about priorities. To impose structure, the model called for ranking criteria on a 1-to-5 scale according to the likely impact of the risk on achievement of the office’s strategic objectives. Other prioritization factors included the complexity of making a cost reduction; for example, would the reduction involve simple deferral of an investment or cancellation of a contract or would it involve protracted personnel matters?

A prioritization model can help to offset possible distortions that otherwise might occur in a budget allocation process, such as if members of a group consider moving together against a “weak link,” or if a dominant personality calls for special treatment, or if some people try to make back-room deals. The model also helps to surface crosscutting issues such as when one unit’s processes provide essential support for another unit’s mission.

The office conducted workshops with key managers to help generate information to run through the prioritization model. The collaborative atmosphere allowed unit heads to make win-win arrangements. For instance, the head of one unit might agree to take cuts in return for the chance to save resources by sharing services with other units.

The small contractor team took about 6-8 months to conduct assessments and a further several months to get everything into place before the contract ended. By the conclusion of the process, the management team had identified and ranked possible savings that exceeded what the new
Managing the Hidden Risks of Budget Uncertainty and Budget Cuts  
By Thomas H. Stanton

budget actually required. The office has found that once the governance structure and model are in place, these can provide the basis for the office Director to make risk-informed decisions for subsequent years.

This process represents the application of risk-informed decision-making that agencies can use to make new investments or, as in the SBA example above, to engage in new processes or activities. When applied to budget reductions the process has the added benefit of sparing the agency from harmful mistakes that otherwise can occur when organizations downsize without considering risks.

C. Consolidating Field Offices at the U.S. Bureau of the Census

Census Director Robert Groves told the Congress in early 2012 that changes in technology and the general context of Census Bureau operations had made it necessary for the Census Bureau to streamline its operations. Groves gave five reasons for his assessment:

1. “The difficulties of measuring the busy, diverse, and independent American society and economy are increasing every year (that is, it costs more money to do the same things the Census Bureau has done for years).

2. The demands by American business, state, local, and community leaders for statistics on their populations are continually increasing.

3. New technologies are being invented almost daily that can be used to make it more convenient for the American public to participate in surveys.

4. New digital data resources are being created from Federal-state-local government programs, private sector transactions, and internet-related activities. Combining these data with our traditional measures is the key to the future.

5. Near-term Federal government budgets are likely to be flat or declining.”

To meet these changing circumstances and challenges, Groves testified, Census engaged in a multi-faceted set of changes including establishment of a risk management function. The bureau:

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15 Prepared Statement of Robert M. Groves, Director, U.S. Census Bureau Before the Subcommittee on Health Care, District of Columbia, Census and the National Archives, Committee on Oversight and Government Reform, United States House of Representatives, “The Pros and Cons of Making the Census Bureau’s American Community Survey Voluntary,” March 6, 2012.
16 Ibid.
1. “Cut in half the number of Census Bureau regional offices throughout the country.

2. Squeezed cost savings from the administrative side of the organization.

3. Streamlined the headquarters' management of demographic surveys conducted for other Federal agencies on a cost-reimbursable basis.

4. With the assent of Congress, reorganized the Census Bureau to create an office of risk management and program management, and established a directorate of research and methodology to spur our innovation efforts.

5. Launched a successful program of staff-generated ideas to save money; invested the savings in ways to produce new statistical information that businesses and others need to make critical decisions during a period of fiscal budget constraints.

6. Closed a data center and consolidated hardware and software contracts.

7. Established a new way to plan for the next decennial census, one that we are designing to be more efficiently conducted than that of 2010.”

The U.S. Government Accountability Office reviewed the process by which Census downsized its field office structure, the first change that Mr. Groves listed. GAO reported that in the previous 50 years Census had been organized with 12 field offices to conduct surveys. Over time, Census found that new technologies had made the current structure too costly and cumbersome to carry out its mission. For example, Census workers could have secure access to data from home, rather than reporting to a field office, and this would speed their ability to conduct surveys. Federal agencies that sponsored Census surveys were calling for improved speed and responsiveness to obtain survey results.

Census’s top managers met to consider options. They held their first meetings in secret so that they could debate all options without creating alarm in the agency. Officials weighed costs and benefits of alternative approaches. They determined that office consolidation should meet eight goals including an emphasis on reliability and a risk management goal that any change should “Minimize vulnerability to natural disasters and unplanned events.”

17 Ibid.
Managing the Hidden Risks of Budget Uncertainty and Budget Cuts
By Thomas H. Stanton

After considering 20 alternatives, ranging from keeping four field offices to keeping all twelve, the bureau leadership decided to reduce the number of field offices from twelve to six. Based on a set of criteria clearly communicated to employees and other stakeholders, offices in Boston, MA, Charlotte, NC, Detroit, MI, Kansas City, KS, Dallas, TX, and Seattle, WA, would be closed while those in New York, NY, Philadelphia, PA, Atlanta, GA, Chicago, IL, Denver, CO, and Los Angeles, CA, would stay open.

Backed by analysis of benefits and costs of consolidation, the bureau engaged in a systematic communications strategy, informing key members of Congress and their staffs, state and local elected officials, and affected field office staff, followed by all Census employees. The bureau used a data-driven approach to show stakeholders how the proposed changes would affect them. The bureau offered employees at the affected offices multiple options, including relocation incentives and opportunity to apply for vacancies before other internal or external candidates, to help persuade them to remain with the Bureau, as well as buyouts and early retirements for those who did not want to relocate.

Risk management was integral to the process. The bureau developed a risk management plan and institutionalized a risk management function to try to minimize the impact of unexpected events:

“Census created a Risk Review Board that meets monthly to assess and evaluate the effect of different categories of risks and to control changes to their master schedule. Some of the areas they are monitoring include the impact of the restructuring on affected employees, comprehension of new roles and responsibilities in the new operating environment, and security given the change in information technology architecture. Each identified risk is assigned a risk owner who must develop an analysis that includes a description of the risk, root cause, and possible impact on three major categories of the project: performance, cost, and schedule. The risk owner and review board will also determine the likelihood of occurrence on the basis of five categories ranging from extremely unlikely to extremely likely....In addition to these planning and management steps, Census also added a 5 percent contingency to its restructuring budget to help absorb unforeseen costs.”

To try to anticipate risks the bureau consulted with officials of Statistics Canada, the Canadian national statistics office, which had undergone similar consolidation, to learn lessons from their experiences. The bureau also consulted with technology firms and users to determine whether the bureau could maintain security on data that field staff might possess.

19 Ibid. p. 37.
Managing the Hidden Risks of Budget Uncertainty and Budget Cuts
By Thomas H. Stanton

Form for Census Employees to Identify and Report Risks

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SOURCE: US Government Accountability Office; US Census Bureau

At the end, the bureau concluded that consolidation was a success, generating demonstrable savings and improved operational effectiveness. As with the SBA experience noted earlier, the bureau did require access to up-front funds to help pay for costs of the reorganization even though, on balance, the consolidation resulted in efficiency improvements and significant cost savings.

v. OMB Circular A-129 provides a model for integrating management and budget elements in a single risk review.

In the recent revision to OMB Circular A-129, for the first time OMB expressly requires agencies to conduct regular risk reviews. A-129 articulates the bottom line for today’s difficult risk environment: “Senior management [should] establish appropriate performance and other

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indicators for each program, and establish risk thresholds to balance policy goals with risks and costs to the taxpayer.”

By its terms, OMB Circular A-129 applies to agencies that manage federal loan and loan guarantee programs. For these programs, the circular prescribes:

“Agencies should maintain effective and timely oversight of their credit programs [to] achieve the following objectives:

- Appropriate oversight and governance of policies, procedures, policy performance indicators, and risk tolerances for the administration of credit programs;
- Clear and formal identification throughout the organization of specific individuals accountable for program policy goals, operations, and risk management functions, including defining performance metrics and risk thresholds, approving credit decisions, and having oversight responsibility;
- Clearly-defined authorities, and accompanying limits on those authorities, for individuals and managers;
- Creation and/ or maintenance of a culture of risk management within the organization that includes a strong commitment from senior management;
- Functions that will allow for an independent viewpoint on important matters without reducing the accountability of senior officials and program managers;
- Evaluation of risk management structures, practices, and processes, both at the program level and on a more comprehensive basis;
- Monitoring of program efficiency and effectiveness, and progress towards achieving policy goals within acceptable risk thresholds; and
- Oversight of individual credit assistance or modification decisions that exceed pre-determined thresholds, as appropriate.”

The circular also prescribes the structure of the risk management function and its relationship to achievement of agency objectives. The circular requires each federal credit agency to perform a program review every two years, or as frequently as OMB may require, including a review of the risk management structure, and to include a written analysis as part of the agency’s budget submission. Of special relevance to agencies undergoing budget cuts, the circular states that,

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21 Ibid. p. 10.
“Agencies may be required to perform such reviews...more frequently for significant programs or programs experiencing a major change, such as a change in purpose or scope, a change in how the program is administered, or a change in external factors that are likely to affect program operations, impact, and/or cost.”

Especially impressive is the way that the circular reflects understanding of risk management as focusing on risks that could prevent an agency from achieving its mission. OMB staff who oversee federal credit agencies are beginning to familiarize themselves with ERM and its implementation. One must wonder whether this example will spread from federal credit agencies to other agencies of government and whether the management side of OMB at some point may find it beneficial to establish an office of Chief Risk Officer for the federal government to work with agencies in identifying and prioritizing major risks, and especially major risks that spill over organizational boundaries and require leadership to build the collaboration needed to address some of the largest and most complex risks. At a time of budget turbulence, a centralized effort to monitor and identify major risks and supplement agency risk management activities would seem to be an extremely cost-effective federal investment.

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23 Ibid. p. 3.
Thomas H. Stanton teaches at Johns Hopkins University and is a member of the board of directors of the Association of Federal Enterprise Risk Management (AFERM). He is a Fellow of the National Academy of Public Administration and wrote *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012), Mr. Stanton holds degrees from the University of California at Davis, Yale University, and the Harvard Law School. With Douglas Webster, President of AFERM, he has coedited a forthcoming book, *Managing Risk of Government Agencies and Programs* (John Wiley & Sons, 2014).

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