

Thought Leadership for the Federal Enterprise Risk Management Community

Viewing ERM in the Context of Program Integrity

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The AFERM community witnessed a major milestone on July 15, 2016, when the Office of Management and Budget (OMB) reissued its Circular A-123³ to establish enterprise risk management (ERM) as the centerpiece of implementing the Federal Managers'

Financial Integrity Act of 1982.⁴ Renamed *Management's Responsibility for Enterprise Risk Management and Internal Control*,⁵ the revisions to OMB Circular A-123 change the dialog around risk management by dramatically shifting the focus from what had largely become a reactive, compliance-driven financial management and reporting orientation to a proactive focus that takes an enterprise look at risk management.⁵

OMB recognized that this would take time given its transformational element. It expected agencies to move out smartly, while looking to the longer-term end game of embedding ERM in the DNA of day-to-day agency programs and operations. The past almost 30 months have seen initial implementation efforts in most agencies. Some agencies may have moved out immediately, while others are just beginning. No matter where an agency is on the continuum, it would benefit by considering ERM in the context of achieving program-specific objectives through establishing strong program integrity. In this way, program managers, who are at the heart of achieving the mission as well as being critical to gaining the full value of ERM, will more clearly see the direct correlation of ERM to mission achievement.

Program Integrity in a Nutshell

The words "program integrity" may conjure an image of protecting against fraud, waste, and abuse, and they are often used in this context; but like ERM, the context is much broader. Program integrity "holistically encompasses all elements and considerations

³ <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf>.

⁴ Public Law 97-255, September 8, 1982.

⁵ See "It's Time to Seize Opportunity," by Laura A. Price and Jeffrey C. Steinhoff, *AFERM Updates*, Issue 20, December 2016 (<http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2016/erm-seize-opportunity.pdf>); and "Navigating Uncertainty through ERM: A practical approach to implementing OMB Circular A-123," by Jeffrey C. Steinhoff, Laura A. Price, and Thomas A. Coccozza, KPMG Government Institute, November 2016 (<https://institutes.kpmg.us/content/dam/institutes/en/government/pdfs/2016/A123-erm.pdf>).

Thought Leadership for the Federal Enterprise Risk Management Community

necessary to effectively and efficiently achieve an entity's underlying mission in the public interest, while protecting taxpayer dollars."⁶

Similarly, OMB Circular A-123 speaks to risk management "as a series of coordinated activities to direct and control challenges or threats to achieving an organization's goals and objectives." Program integrity and ERM, likewise, dovetail with the Government Performance and Results Modernization Act of 2010 (GPRAMA)⁷ and its focus on strategic planning and strategic review to improve performance results of programs in supporting an organization's goals and objectives.

In a 2018 survey of federal healthcare program managers, 71 percent viewed "achieving program goals" as the main objective of program integrity. This is followed by "maximizing program efficiency" at 54 percent and "reducing fraud, waste, and abuse" at 53 percent. Survey respondents recognized that achieving program goals is paramount, while also acknowledging the importance of combating fraud, waste, and abuse in achieving program goals. For example, at the Department of Veterans Affairs the primary focus of program integrity would be to "serve America's veterans and their families with dignity and compassion and to be their principal advocate in ensuring they receive the care, support, and recognition earned in service to this Nation."⁸ At the Department of Health and Human Services, the primary focus would likewise be on its mission "to enhance and protect the well-being of all Americans."⁹

Leading organizations view program integrity as strategic and preventive. They focus on key drivers of mission excellence. In keeping with ERM, they consider what could go wrong and prioritize what they want to achieve as well as what to avoid. This orientation can help take program integrity and ERM beyond compliance by more directly resonating with program managers in the trenches, who care deeply about program results and meeting public expectations.

Public expectations include:

- Mission excellence, whether it be protecting the nation or delivering a program that makes an important difference in the lives of Americans, such as healthcare or national defense.
- Customer service, including electronic interface with the government, which

⁶ "Switching gears: Expanding program integrity beyond fraud, waste, and abuse to enhance mission performance," KPMG Government Institute, June 2018

(<https://institutes.kpmg.us/content/dam/institutes/en/government/pdfs/2018/program-integrity-framework.PDF>); and "Program Integrity = Public Trust," by Thomas M. Dowd, Timothy J. Comello, Megan E. Beckwith, and Jeffrey C. Steinhoff, Association of Government Accountants *Journal of Government Financial Management*, Fall 2018.

⁷ Public Law 111-352, January 4, 2011.

⁸ <http://govinfo.library.unt.edu/npr/library/status/mission/mva.htm>.

⁹ <https://www.hhs.gov/about/index.html>.

Thought Leadership for the Federal Enterprise Risk Management Community

enables online business transactions and an ability to more readily address individual citizens' questions and concerns. With the capabilities of modern technology at their fingertips, the public expects a high-performing digital government with ease in communicating and rapid response. An inability to do so represents an enterprise risk that adversely impacts program integrity and the public's view of government.

- Responsiveness to current public needs.
- Anticipation of and preparation for an effective, efficient, and timely response to emerging needs and risks.
- Efficiency and effectiveness of programs and operations.
- Accountability and transparency for results.
- Prudent spending, with full accountability and transparency for tax dollars.
- Protection of public assets and resources, including from fraud, waste, and abuse.

Program Integrity and ERM are Intertwined, with Program Managers Representing the Hub

Agency-level leadership for implementing the Federal Managers' Financial Integrity Act (FMFIA) essentially fell to the financial management community. Program managers were tasked with evaluating controls and reporting in accordance with internal agency guidelines that implemented the requirements in OMB Circular A-123. Over time, implementation was largely viewed as a compliance exercise that was not highly valued by program managers. The July 2016 revisions to OMB Circular A-123 focused on providing greater value by providing a clearer link to mission achievement through ERM.

In addition, since the enactment of the FMFIA, mission program policies and procedures continued to evolve and often expand to address a particular problem without management adequately gauging their costs and benefits. OMB Circular A-123 is explicit that "Federal managers must carefully consider the appropriate balance between risk, controls, costs, and benefits in their mission support operations. Too many controls can result in inefficiencies, while too few controls may increase risk to an unacceptable level." Program managers must calibrate controls and find the right balance in the context of the mission and public expectations.

Establishing and maintaining program integrity, which entails highly effective and efficient ERM programs, should be an essential responsibility of program managers in focusing on underlying mission objectives and the risks to meeting those objectives. The bar of public expectations will only continue to rise. This is an ideal time to refocus the levers of program management to refocus on what program integrity means and the critical role that ERM plays in the equation.

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