Thriving in a Risky Environment
For federal, state and local government employees, many of the following questions may sound familiar:

1. “Our agency risk profile sounds impressive, but how are current spending decisions going to impact those risks? Are mitigation strategies just lip-service?”

2. “It seems like this new, unfunded investment idea would have a much bigger impact on our strategic goals than the initiative running for years now. Why didn’t we give the new investment higher priority?”

3. “Elements of my individual performance plan don’t seem to have anything to do with the organization’s goals and metrics. The work I do is important, so the strategic plan must be flawed, right?”

4. “Hurrah, we just finished implementing our project! But it seems like we pay more for the service, get less functionality, and face greater risks as a result. Was that really a success? It’s kind of hard to tell, despite what senior management is saying.”
In an effort to check all of the public sector organizational management compliance boxes, government organizations often implement separate management requirements in silos, overlapping processes and missing opportunities for collaboration. While this disjointed approach to government management ensures compliance with individual requirements, it leaves a significant amount of potential value on the table, such as cost savings, process efficiencies, mitigated risk, optimized program outcomes, and higher employee engagement.

The best way to ensure each of these separate, uncoordinated management functions has a real impact on program outcomes is to tie them to the process through which the organization formulates and allocates its resources. This is why, at the federal level, the Office of Management and Budget (OMB) addresses many of these functions in OMB Circular A-11: Preparation, Submission and Execution of the Budget (OMB Circular A-11). However, even though this OMB circular covers requirements for many management functions, it does not provide guidance on how to integrate them. That detail is left to agencies, giving them flexibility to implement the integration they deem most beneficial to them. Unfortunately, the result is an unsystematic implementation that ultimately causes problems.

Figure 1. Integrated Investment Management

An approach to investment management, illustrated in Figure 1, integrates staff and contract dollars throughout the organization and allows for quicker, more specific articulation of benefits related to past and potential investments. This approach affords a more holistic view of scope, schedule and costs associated with all organizational activities. Information, including the status of promised benefits and outcomes, risks to program success, the impact of levels and timing of funding, and staffing requirements for specific levels of service and promised outcomes, becomes available for senior leadership to proactively plan and manage the organization rather than react to the “issue-du-jour.”
Core Investment Management Process

A core investment management process provides integration points to all other major government management functions, and it works in phases. A basic investment management process (see Figure 2) provides a framework to examine integration.

Phase One: Define

The organization must first define its investments using common criteria, then identify five to 10 business drivers for prioritizing their investments. Generally, these drivers are the organization’s important outcomes, found in its strategic plan, as well as its categories of enterprise risk, found in its risk profile. To develop an initial investment portfolio, management performs some statistical analysis, such as pair-wise analysis, in which drivers are compared to one another to determine relative weights of importance. (This exercise should be repeated every three to five years.)

Next, all activities that require staff or contract funding are allocated to an investment. For each investment, a business case is developed. These cases may differ in complexity (scope), duration (schedule) and size of investment (cost), depending on the nature of the activities assigned to the investments. The impact of each investment on the business drivers is then estimated according to a common scale (e.g., 0-5) and substantiated with clearly described potential benefits, including the precise mechanisms for measuring these benefits. For example, business drivers used to allocate funding for federal student aid include impact on aid delivery and loan servicing; customer experience; enterprise risks (e.g., security, performance and compliance risks); business management capabilities; employee experience; and partner experience.

The investment owner estimates the investment’s level of impact on each driver (i.e., 0-5 rating), based on criteria defined by the Investment Review Board. If an impact is rated, then a benefit is described in the business case as an attainable goal. Examples of clearly articulated benefits include specific labor pools of full-time equivalents (FTE) that are re-directed in response to higher efficiency; specific accounts of the likelihood and/or impact of mitigated risks; and the number of customers who experience specific service improvement.

An impartial central management office must rigorously validate the business cases with particular attention to benefits. This office needs authority from the head of the organization to guard against undue influence over the process and to reject any business case without all necessary information, regardless of its perceived importance. At Federal Student Aid, for example, a core investment review team serves in this capacity.

Phase Two: Select & Prioritize

For each fiscal year, the central management office selects an initial investment portfolio, using the established business driver weights, the business driver rankings in each investment, the costs associated with each investment during the fiscal year, and the estimated overall funding level. Management reviews the initial portfolio, examines potential issues with its prioritization, and re-aligns the portfolio accordingly. At any given time, the organization should have prioritized up to three fiscal years — the current year; the next year, already in appropriations; and the year after next, already in budget development.

Each portfolio can establish and evaluate outcomes and risks at different funding levels for each fiscal year. For future years, investment portfolios are used in budget formulation to establish a clear and objective relationship between funding and outcome/performance levels. They also serve as the basis for annual performance, acquisition, asset management, and staffing plans. By keeping these plans integrated, funding changes will cascade to all organizational plans.

Future activities and risks can...
be monitored because the investment portfolio was optimized according to funding levels.

Phase Three: Plan & Manage

As funding levels are secured and the organization moves into budget execution, individual investments must capture program and project management status to report progress toward specific benefits promised when they were approved. Meanwhile, the organization manages the three main aspects of any project — scope, schedule, and cost. The individual staff performance plans must be aligned with business unit plans and, ultimately, to the organization’s performance plan.

In addition, project or operational risks created by the investment are managed through a project lifecycle methodology or through standard operational internal controls. When the investment is in IT, special reporting requirements must be captured in the process. Throughout the budget execution phase, the portfolio may be modified numerous times as money flows back into the funding pool or as unexpected costs emerge. Again, with an integrated investment management approach, an organization will be able to react quickly to change.

Phase Four: Evaluate

The final phase of integrated investment management allows for much more robust reporting. In annual financial and performance reports and budget justification materials, the organization can be more specific about outcomes achieved and risks mitigated at each level of funding. Management gains deeper insight into benefits promised at the start of an investment and whether they were achieved, and management and acquisition officials can better comprehend the return on assets procured in service of investments. Most importantly, the federal government achieves transparency and can be crystal clear with customers and taxpayers about what they got for their money.

Why Haven’t We Already Integrated?

The benefits of integrating an organization’s management functions with its investment management, including cost savings, process efficiencies, mitigated risk, optimized program outcomes, and higher employee engagement, seem pretty powerful. So, what are the stumbling blocks to getting it done?

First and foremost, the entire leadership team of an organization must buy into the idea of integrating with investment management, replacing their business unit hats with organizational leadership hats. Every team member will be able to see when the investment management process allocates resources to something that is a higher priority for the entire organization than it is for a particular business unit. Each individual member of the leadership team, therefore, must be willing to endorse the integrated process rather than advocate solely to benefit an individual business unit.

Second, integration is hard, detailed work. It requires a thorough analysis of every investment in contract funding or staff time to determine how it will impact the strategic goals of the organization. Likewise, it requires constant vigilance regarding the scope, schedule, costs, risks, and proposed benefits of an organization’s investments. For example, when a congressional priority is brought to the organization for consideration, even that investment must be analyzed in the context of the integrated investment management process.

Leaders will feel the urge to determine resource allocations as yes/no decisions, when in fact they are always decisions about prioritization (i.e., funding a new initiative most often requires defunding an existing initiative). An organization must be willing to adhere to the entire process for all investments regardless of their perceived importance. Otherwise, skipped steps will erode integration, leading the organization back to prior uncoordinated management functions.

Finally, no market incentive is forcing more efficient and effective organizational management. Government operations are most often a monopoly over a public sector service; therefore, no influence exists in the market to drive an inefficient or ineffective operation out of business. In theory, through the processes of budget formulation, appropriations or authorization, the administration and Congress review data that suggests inefficiency or ineffectiveness, acting as competitive forces would in the marketplace. But the government process of choosing which programs to fund often bends to personal relationships and subjective information. While the rigor of an integrated investment management process is required to keep a private company from failing, it is not necessarily required to keep government operations from failing. Instead, rigor must be provided by individual program managers and agency leadership.

Take Action

So, how about it? Are you the agency leader who is going to ensure ERM strategies have real impact? Will you be the one who makes certain your entire organization’s investments are compared to one another instead of simply handing out pots of money? Will you do the work necessary to link each employee’s performance plan to the organization’s strategic
plan, making crystal clear to them how they support the strategic goals of the organization?

The power to make a momentous change is in your hands. Will you make it happen by creating new cost savings and process efficiencies, meaningful risk mitigations, truly optimized program outcomes, and higher employee engagement? Or are you satisfied with organizational compliance and the status quo? Action is yours to take.

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