



Risk and Audit Committee

Agenda Item 4e

November 15, 2023

Item Name: Enterprise Risk Management Framework Review

Program: Enterprise Compliance and Risk Management Office

Item Type: Information Consent

Executive Summary

The purpose of this item is to update the Risk and Audit Committee on the current state of CalPERS' enterprise risks. The Enterprise Risk team in the Enterprise Compliance and Risk Management Office (ECOM) collectively worked with cross-functional workgroups comprised of subject matter experts (SMEs), senior leaders, and the executive team to review and update all Enterprise Risk Profiles (Attachment 2). The organization's perception of enterprise risks is reflected and prioritized in the updated Enterprise Risk Dashboard (Attachment 1) and Enterprise Risk Heat Map (Attachment 3). The risk team also facilitated conversations to review the Enterprise Risk Appetite Statements to ensure the organization was in agreement that risks are being managed appropriately in pursuit of accomplishing our strategic goals and objectives (Attachment 4).

Strategic Plan

This agenda item supports the 2022-27 CalPERS Strategic Plan Goal – Operational Excellence: Cultivate a risk-intelligent and innovative culture through our team and processes.

Background

The Enterprise Risk Assessment began in July 2023 with the Enterprise Risk team facilitating a series of workshops with cross-functional subject matter experts throughout the organization to review and update the Enterprise Risk Profiles. Current and new risk drivers, the presence of high-level internal controls, and future mitigations were evaluated that reflect the current assessment of enterprise risks.

Enterprise risks were rated in the areas of probability, impact, and velocity compared to the prior fiscal year. Probability is defined as the likelihood that a given risk event will occur. Impact is the extent to which a risk event might compromise the organization's ability to achieve its mission and strategic goals. Velocity is the speed of onset in which the organization experiences the impact if a risk event were to occur. The risks were reviewed by the Integrated Assurance Risk Council (IARC) which is a risk focused committee that includes all executive team members.

Analysis

The following enterprise risk reports were reviewed and updated:

- **2023-24 Enterprise Risk Dashboard** (Attachment 1) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and executive oversight.
- **2023-24 Enterprise Risk Profiles** (Attachment 2) – provides the Committee with detailed information on each enterprise risk. The Profiles are aligned to the CalPERS 2022-27 Strategic Plan and include the functional objective, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.
- **2023-24 Enterprise Risk Heat Map** (Attachment 3) – illustrates the probability and impact of the Enterprise Risks and appropriate urgency of response.
- **2023-24 Enterprise Risk Appetite Statements** (Attachment 4) – provides a summary of the level of risk CalPERS is willing to assume in the pursuit of strategic objectives on the basis of risk return trade-offs.

The following substantive changes were made from the prior year reports:

Risk Profiles

The strategic goal section of each risk profile was updated to incorporate the organization's focus on diversity. The following is a summary of updates made to each Enterprise Risk Profile:

Benefit Administration:

- To address acts of fraud risk in the Regional Offices and Contact Center, authentication protocols were enhanced. The resulting risk rating remains the same: High Impact/Low Probability.

Climate Change:

- The risk analysis was updated to highlight climate solutions-related investments that help transition the economy to a low carbon world. The climate solution investments were added as a control to the financial risk driver. The resulting risk rating remains the same: High Impact/High Probability.

Governance and Control Environment:

- To enhance the lack of strong governance risk driver, additional enterprise governance committees and data management policies were identified as controls. To strengthen monitoring activities related to unethical behavior and personal trading, improved personal trading monitoring and Form 700 reviews were identified as controls. The resulting risk rating remains the same: High Impact/High Probability.

Health Care Administration:

- To help ensure high quality health care benefits, enhanced contract management, audits, and business review action plans were added as a control for HMO plans. Clinical quality performance measures were added as a control. A future mitigation to require health plans to share demographic data with CalPERS was added. The resulting risk rating remains the same: High Impact/Low Probability.

Information Security:

- The inability to identify and protect business systems risk driver was enhanced by adding non-disclosure agreements and the formation of the Information Security and Privacy Advisory Committee as controls. The resulting risk rating remains the same: High Impact/High Probability.

Long-Term Care:

- The risk analysis was updated to identify the engagement of an expert Long-Term Care investment manager. To address the risk of underperforming investments, modification to benefit design and premiums based on actual experience were added as a control. The resulting risk rating remains the same: High Impact/High Probability.

Pension Funding:

- To enhance the Assets risk driver, the private debt asset class and fixed income expansion into emerging markets were added as controls. Risk budgeting and dollar value add framework were added as future mitigations. The resulting risk rating remains the same: High Impact/High Probability.

Stakeholder Confidence:

- The workgroup agreed stakeholder confidence/perception is elevated due to pension sustainability inputs such as investment returns and global influences resulting in the probability side of the risk equation increasing from last year. Despite the heightened concerns, the resulting risk rating remains the same: High Impact/Low Probability.

Talent Management:

- To enhance the inability to recruit, select, and retain team members, improved systems and technology, recruitment strategies, and focus on Diversity, Equity, and Inclusion practices were added as controls. This resulted in a reduction to the probability side of the risk equation. Despite the improvements, the resulting risk rating remains the same: High Impact/High Probability.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – 2023-24 Enterprise Risk Dashboard

Attachment 2 – 2023-24 Enterprise Risk Profiles

Attachment 3 – 2023-24 Enterprise Risk Heat Map

Attachment 4 – 2023-24 Enterprise Risk Appetite Statements

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