



Risk and Audit Committee

Agenda Item 6a

April 19, 2021

Item Name: 2021-22 Enterprise Compliance and Risk Management Plans

Program: Enterprise Compliance and Enterprise Risk Management Division

Item Type: Action

Recommendation

Approve the proposed 2021-22 Enterprise Compliance and Enterprise Risk Management Plans (Plans).

Executive Summary

This item provides an overview of the Plans presented for Risk and Audit Committee (Committee) approval.

Strategic Plan

The Enterprise Compliance Office (ECOM) and the Enterprise Risk Management Division (ERMD) prepared the proposed plans to support CalPERS' FY 2017-22 strategic goal: cultivate a risk-intelligent organization and strategic objective: enhance compliance and risk functions throughout the enterprise.

Background

During FY 2020-21, ERMD transitioned from the Financial Office and merged with ECOM. This change better aligned compliance and risk functions within the organization. CalPERS team members developed the FY 2021-22 Enterprise Compliance and Enterprise Risk Management Plans by comparing current operations and strategy with industry best practices and analyzing the effectiveness of the prior FY 2020-21 plans to carry out successful enterprise compliance and risk management programs. The Plans are designed to continue to mature the compliance and risk functions while promoting collaboration and capitalizing on synergies that exist between the two programs to more efficiently maintain a strong ethical culture and support risk-informed decision-making.

Analysis

Enterprise Compliance

ECOM partners with program areas to ensure that CalPERS complies with all applicable laws and regulations.

During FY 2020-21, ECOM successfully enhanced Enterprise-wide protocols and processes for the following focus areas:

- Continue to build compliance risk-specific mitigation plans in coordination with program areas and other second line of defense functions.
- Manage third-party risks, by strengthening vendor conflict-of-interest oversight practices.
- Measure compliance training effectiveness, through administration of pre- and post-training concept familiarity tests.

Additionally, Enterprise Compliance continued to develop compliance principles and standards across the enterprise.

The 2021-22 Plan is designed to continue CalPERS' momentum in expanding compliance standards and frameworks enterprise-wide. In the upcoming year, focus areas for ECOM will include the following:

- Mitigate Strategic Compliance Risk Exposure
- Identify and mitigate potential Conflicts of Interest risk
- Enhance CalPERS' Culture of Compliance
- Assess management of Compliance Data & Automation

Enterprise Risk Management Division

ERMD is charged with advancing the organization's goal of cultivating a risk intelligent organization in partnership with program areas.

During FY 2020-21, ERMD successfully completed the following activities:

- Facilitated the Asset Liability Management Advisory Committee (ALMAC) to assist the Board in making decisions throughout the ALM cycle.
- Advanced maturity of the risk management program by embedding developing risk into enterprise-wide risk assessments.
- Reevaluated enterprise risks by completing the 2020 Annual Enterprise Risk Assessment.
- More fully incorporated enterprise risk analysis in the strategic planning process by providing enterprise risk assessment information to support environmental scan analysis.
- Documented internal controls by mapping program level cross-functional processes.
- Implemented Operational Risk Event Reporting: Phase III that included the Notice Something, Say Something campaign to promote first line of defense reporting across the enterprise.
- Educated CalPERS team members and stakeholders to continue to cultivate a risk-intelligent organization through the implementation of the ERMD Communication Plan.

- Enhanced enterprise data governance to ensure accuracy, consistency, and strengthen data-driven decision through data retention policy research and finalizing the Business Glossary.
- Completed 2019 State Leadership Accountability Act (SLAA) Report Implementation Plan updates.
- Reviewed CalPERS' insurance portfolio and made recommendations for updates.

The 2021-22 Plan is designed to continue multi-year activities to support risk-informed decision making across the enterprise. In the upcoming year, focus areas for ERMD include the following:

- Facilitate the Asset Liability Management Advisory Committee meetings to assist the Board in making decisions throughout the ALM cycle.
- Complete the 2021 Annual Enterprise Risk Assessment to reevaluate the current state of enterprise risks and mitigations.
- More fully incorporate enterprise risk analysis in the strategic planning process by continuing to partner with Enterprise Strategy & Performance Division in the development of the 2022–27 Strategic Plan.
- Enhance enterprise data governance to ensure accuracy, consistency of CalPERS' data and strengthen data-driven decisions.
- Complete 2021 State Leadership Accountability Act Reporting.
- Educate CalPERS team members and stakeholders to continue to cultivate a risk-intelligent organization through the implementation of the ERMD Communication Plan.
- Operationalize continued review and maintenance of CalPERS' insurance portfolio.

Budget and Fiscal Impact

Funding for the proposed activities will be provided through the approved ECOM budget.

Benefits and Risks

The purpose of the Plans is to help ensure that CalPERS maintains compliance with all applicable laws, regulations, and policies. To this end, ECOM and ERMD continue to partner with program areas to support risk-informed decision-making and improve risk and compliance practices enterprise-wide.

Benefits of implementing the Plans include the following:

- Coordinated compliance and risk management efforts enhances the consistency of controls and supports monitoring for adherence to policies and procedures
- Creates clarity in compliance roles, responsibilities, and expectations
- Enhances internal controls and compliance effectiveness

Risks associated with failure to implement the plan include the following:

- Allowing failures of policies, procedures, and laws to remain undetected
- Lack of risk awareness impacting organizational decision making
- Potential loss of stakeholder confidence in CalPERS ability to manage known risks

Attachments

Attachment 1 – 2021-22 Enterprise Compliance Plan

Attachment 2 – 2021-22 Enterprise Risk Management Plan

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