



## Risk and Audit Committee

# Agenda Item 6b

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**September 14, 2021**

**Item Name:** Enterprise Risk Management Framework Review

**Program:** Enterprise Risk Management Division

**Item Type:** Information

### **Executive Summary**

The purpose of this item is to update the Risk and Audit Committee (Committee) on the current state of CalPERS' enterprise risks. The Enterprise Risk Management Division (ERMD) 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 (Profiles). The organization's perception of enterprise risks reflected in the updated Enterprise Risk Management Heat Map (Attachment 4) has not changed from our prior report submitted to the Committee in November 2020. Additionally, the updated Developing Risk Report informs the Committee of risks that are not yet well understood that are being evaluated and monitored (Attachment 3).

### **Strategic Plan**

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization.

### **Background**

The annual Enterprise Risk Assessment began in July 2021 with ERMD either communicating and/or holding virtual workshops with cross-functional team members and senior leader SMEs from throughout the organization to review and update the Profiles (Attachment 2). Current and new risk drivers, the presence and strength of internal controls, and future mitigations were evaluated to reflect a high-level view of the current assessment of enterprise risks and corresponding mitigations.

ERMD led SMEs and senior leaders in voting exercises to evaluate the enterprise risks. Risks were scored in the areas of probability, impact, and velocity. Probability is defined as the likelihood that a given risk event will occur. Impact is the extent to which a risk event might affect the enterprise. Velocity is the speed of onset in which the organization feels the impact if a risk event occurs. Once scored, the risks were reviewed by the Integrated Assurance Risk Council (IARC) which is a risk focused committee that includes all executive team members.

The developing risk report was updated to reflect the current environment and take into consideration potential new risks facing CalPERS. ERMD surveyed SMEs and senior leaders to determine if they were aware of risks that did not presently appear on the Profiles. ERMD also researched what other organizations considered top risks that were not yet well understood. After discussing risks that are either missing or not yet well understood with senior leaders and executives, we identified developing risks we are monitoring including: a) The new working model, b) Organizational culture, and c) Third party risk (Attachment 3).

## **Analysis**

The following is a high-level summary of changes to the Risk Profiles. The enterprise risks remain consistent with the prior year risk scores through implementing additional controls to respond and mitigate increases to probability, impact, and velocity. The profiles are continuously refined with each risk assessment cycle and have been revised to read more clearly and concisely taking into consideration the COVID-19 pandemic and organizational changes from transitioning to a primarily remote work environment. Descriptions of the attached risk reports are also included.

### Risk Profiles:

#### **Benefit Administration:**

- Risk drivers and controls were revised to be more clear and concise. Additionally, controls related to fraud were strengthened to increase detection and prevention capabilities; High Impact/Low Probability.

#### **Business Continuity:**

- Business continuity efforts demonstrated CalPERS's ability to resume business functions which is working in unison with the business plan; High Impact/Low Probability.

#### **Climate Change:**

- The Governor's office formed the California Climate Risk Committee to help advance a state-wide strategy to address climate risk for California public agencies that will support CalPERS' mission; High Impact/High Probability

#### **Governance and Control Environment:**

- The Code of Conduct was implemented and existing controls were revised to be more clear and concise; High Impact/High Probability.

#### **Health Care Administration:**

- Risk drivers and controls were revised to be more clear and concise. The implementation of controls helped mitigate concerns related to health care and pharmaceutical costs, but persistent increases continue to be a concern; High Impact/Low Probability.

#### **Information Security:**

- The implementation of increased security measures and controls have mitigated risk to a reasonable level however evolving cyber-criminal sophistication continues to create new threats; High Impact/High Probability.

### **Long-Term Care:**

- The implementation of 2020-21 future controls were successfully completed. Risk drivers and controls were revised to be more clear and concise; High Impact/Low Probability.

### **Pension Funding:**

- A new asset risk driver and mitigating controls were identified to monitor the achievement of the same rate of return in the future; High Impact/High Probability.

### **Stakeholder Confidence:**

- The overall stakeholder perception survey results indicate that the general perception of CalPERS remains positive; High Impact/Low Probability.

### **Talent Management:**

- CalPERS faces uncertainty in balancing the transition to a hybrid environment and maintaining talent while also maintaining its strong organizational culture within extended remote work and hybrid work environments. These developing risks are being actively monitored and mitigated by frequent leadership communication and investing in team members' professional growth; High Impact/Low Probability.

### **Risk Reporting:**

The updated enterprise risk reports are as follows:

- **Enterprise Risk Dashboard** (Attachment 1) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and executive oversight.
- **Enterprise Risk Management Profiles** (Attachment 2) – provides the Committee with detailed information on each enterprise risk. The Profiles are aligned to the CalPERS Strategic Plan for 2017-22 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.
- **Developing Risks Report** (Attachment 3) – provides a summary of the top three developing risks we are monitoring that are not yet well understood.
- **Risk Heat Map** (Attachment 4) – illustrates the prioritization of the Enterprise Risks and appropriate urgency of response.

### **Budget and Fiscal Impacts**

Not Applicable

### **Attachments**

Attachment 1 – Enterprise Risk Management Dashboard

Attachment 2 – Enterprise Risk Profiles

Attachment 3 – Developing Risks Report

Attachment 4 – Enterprise Risk Management Heat Map

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