Risk & Audit Committee

California Public Employees' Retirement System

Agenda Item 8a

May 15, 2012

ITEM NAME: Risk Exposure Reports

PROGRAM: Enterprise

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides an overview of the risk exposures faced across the enterprise, and provides additional detail on mitigation strategies for identified areas of high risk.

BACKGROUND

In the May reporting period, the risk landscape remained relatively stable. Executive staff however, identified elevated risk exposure under the Financial / Reporting category. Specifically, the Financial / Administrative Controls and Investment Accounting increased from yellow to orange. The Financial Office has implemented mitigation strategies to ensure the accounting records are accurate and to increase efficiency in the financial reporting process. As a result, the risk trend is anticipated to decrease over the next reporting period.

Health Care Cost leveled off with yellow rating and the outlook remains steady. The Pension Funding risk outlook has shifted to increasing from remaining steady. Customer Service risk remains elevated and the outlook remains steady. Pension Reform risk exposure leveled off at the moderate rating and the outlook remains steady.

The mitigation plans were updated to reflect current response to risk exposures. Management has indicated these mitigation plans remain mostly on track, though certain areas, such as enhancements to investment controls and systems, pension funding, investment risk management, and information security, have experienced minor impediments in executing some mitigation strategies.

ANALYSIS

As the Financial Office is analyzing measures to implement accounting provisions similar to private sector Financial Accounting Standards Board (FASB) and Sarbanes-Oxley requirements, new risk exposures were identified for valuation, reconciliation, and accounting for investment assets and expenses. Additionally, with the implementation of my|CalPERS system, upgrades are planned to control the flow of system generated financial transactions into the accounting records. The Financial

Office Initiative and Accounting Action Plan outline specific measures to be implemented that will reduce the risk exposure for the Financial / Administrative Controls and strengthen Investment Accounting.

ATTACHMENTS

Attachment 1 – Risk Dashboard

- Displays past risk level, current risk level, and expected future trend for all risk categories

Attachment 2 – Risk Focus List

- Provides mitigation strategies, mitigation status, and Executive owner for selected high-risk items

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