

California Public Employees' Retirement System Enterprise Risk Management - Top Residual Risk Report as of May 1, 2012								
Top Risks			Oversight		Management Assurance		Independent Reassurance	
Inherent Risk (Before Mitigations)	Residual Risks		Board Committee	Executive Owner	Summary of Additional Planned Mitigation Strategies	Mitigation Status (Time, Budget, Effect)	Reassurance	Reassurance Source
	Previous	Current						
Extremely High		<b>Investment Controls and Systems</b>			<ul style="list-style-type: none"> <li>[Implement the CFO functions, roles and responsibilities]</li> <li>Delineate and document roles and responsibilities for FCSD, INVO, and Master Custodian - A joint steering committee comprised of executives from the Financial, Investment and Actuarial Offices has been created to ensure that FINO and INVO initiatives are aligned and governed. INVO has prioritized several INVO TOM initiatives that align with the FINO project which included Finance / Expense Management, Private Assets IBOR (Investment Book of Record) project, PM2: Public Markets Portfolio Management project, Cash / Liquidity Management, Fund Structure.</li> <li>Implement new equity portfolio construction system and global equity investment book of record - The Public Markets Portfolio Management project is in progress with completion targeted for Dec 2012.</li> <li>Implement operating event measurement and escalation processes - INVO established the operating event measurement and escalation processes in Sept 2011.</li> <li>Develop books of record strategy for private assets and valuation oversight process for private equity - INVO has initiated the AIM IBOR project with target completion of Dec 2013. INVO has initiated steps to transition oversight processes currently done thru an external vendor internally.</li> <li>Establish Investment Office data management function - Work stream has been sequenced to begin Jan 2013 and is contingent on the completion of several of the INVO TOM projects.</li> <li>Continue to push forward enhancements in AREIS, enabling the end to parallel processing - AREIS enhancements have been completed and discussions between INVO and FCSD have begun to enable the end to parallel processing</li> <li>Develop the ability to record and track Investment expenses - FINO/INVO Initiative has been initiated with target completion of Sept 2013.</li> <li>Implement new travel policy, enhance restricted trading policy process, and train staff - INVO has established a new travel policy, has drafted and received board approval for new personal trading policy, and is developing INVO staff training schedule</li> <li>Complete financial reporting project - Project has been initiated by FINO</li> <li>Investment Compliance and Operational Risk Unit established (ICOR) within the Investment Office</li> <li>ICOR to develop investment policy monitoring program - Portfolio monitoring enhancement to Aladdin and CRD to be completed by December 2012</li> </ul>			Office of Audit Services
Extremely High		<b>myCalPERS</b>			<ul style="list-style-type: none"> <li>Schedule regular, frequent system releases to capture additional required system functionality.</li> <li>Continue internal and external outreach campaigns to update members, employers, and staff of system status and business process/service level status.</li> <li>Complete staff and member transition readiness activities (April 2012)</li> <li>Initiate special task forces to address key areas where service levels have not rebounded to pre-launch levels.</li> <li>Update IT transition activities based on early lessons learned to include adjustments to staffing estimates and required transition activities.</li> </ul>			Office of Enterprise Risk Management
Extremely High		<b>Pension Funding</b>			<ul style="list-style-type: none"> <li>Deliver investment performance that exceeds benchmark results within acceptable risk targets</li> <li>Regularly review actuarial policies and update as appropriate</li> <li>Conduct economic study every 4 years</li> <li>Board has adopted actuarial smoothing and amortization method that strive for a balance between contribution stability and improved funded status over 30 years</li> </ul>			Office of Enterprise Risk Management
Extremely High		<b>Investment Risk Management</b>			<ul style="list-style-type: none"> <li>Implement new investment risk management system and risk budgeting framework (June 2012) - Barra II implementation complete; new reporting function being rolled out.</li> </ul>			Office of Enterprise Risk Management
Extremely High		<b>Pension Reform</b>			<ul style="list-style-type: none"> <li>Staff are meeting with stakeholders to review new proposals and specific proposed language. Each potential ballot proposition is reviewed and evaluated. Staff have a robust internal structure to respond quickly to new reports and proposals as appropriate and have developed internal guidance for response mechanisms.</li> <li>Establish a pension policy and research function (March 2012)</li> <li>Proactive education of decision makers</li> </ul>			Office of Enterprise Risk Management
Extremely High		<b>Information Security</b>			<ul style="list-style-type: none"> <li>Implement the 2011 Information Security Strategy (June 2012)</li> <li>Develop and implement instant messaging, mobile endpoint, and malicious code policies</li> <li>Test PSR information security for member self-service functionality</li> <li>Adopt policies to address risks of sharing confidential information</li> </ul>			Office of Audit Services
High		<b>Customer Service</b>			<ul style="list-style-type: none"> <li>Recruit for additional temporary resources to support Death Benefit processing, Disability Retirement, and Customer Contact Center</li> <li>Continue to monitor the core backlogs (Death Benefits, SCP, and Payroll Adjustments) and seek additional alternatives to accelerate the reduction of the backlogs.</li> <li>Redirection of staff and overtime usage</li> <li>Continue to implement releases to address fixes and defects</li> <li>Re-engineering business to streamline and gain efficiencies</li> <li>Continue outreach efforts to share information with members on alternatives available to them to process requests (i.e. Retirement Estimate Calculator, Service Credit Costing Estimator, on-line education, etc.)</li> </ul>			Office of Enterprise Risk Management
High		<b>Long Term Care Program</b>			<ul style="list-style-type: none"> <li>The Program continues to carefully monitor the financial performance of the Fund.</li> <li>Staff developing programmatic improvement proposals for board consideration (2012)</li> <li>Program enhancements will be developed for implementation when TPA is selected (2012)</li> <li>Continuation of board approved premium increases for the comprehensive coverage through 2014 will continue to improve fund status.</li> <li>Implementing Board approved portfolio allocation (May 2011)</li> </ul>			Office of Enterprise Risk Management
High		<b>Health Care Costs</b>			<ul style="list-style-type: none"> <li>Implement the Board approved 21 Health Benefits Purchasing Review Initiatives</li> <li>Complete Potentially Avoidable Complications review</li> <li>Expand priority care, integrated health care systems, and wellness strategies</li> <li>Focus on the top 3-4 cost drivers and work with the health plans to develop targeted strategies to address complete Potentially Avoidable Complications review</li> <li>Expand priority care, integrated health care systems, and wellness strategies</li> <li>Focus on the top 3-4 cost drivers and work with the health plans to develop targeted strategies to address</li> </ul>			Office of Enterprise Risk Management
High		<b>Governance / Leadership</b>			<ul style="list-style-type: none"> <li>CEO is sponsoring a staff work group, including the General Counsel, to work closely with the Board President and Board to implement actions approved by the Board in August and September. The work group has identified eight work streams, several of which are close to completion.</li> <li>Monthly reporting to the Governance Committee is in place.</li> <li>The new Board committee structure was implemented in February 2012. Executive liaisons to each of the committees were established, and roles and responsibilities defined.</li> <li>A new agenda template and format, designed to streamline the meetings and make them more efficient and strategic was approved by the Governance Committee and implemented.</li> <li>In February 2012, the Board adopted a new Governance Policy that incorporates the approved principles and recommendations.</li> <li>Webcasting was introduced in March 2012.</li> <li>A Board approved a gift policy in April 2012, a proposed travel policy to follow.</li> </ul>			Office of Audit Services
High		<b>Stakeholder Perception</b>			<ul style="list-style-type: none"> <li>Conduct Stakeholder Relations risk assessment</li> <li>Develop a unified strategy that strengthens product and service marketing of all programs (June 2012)</li> <li>Proactively inform Legislative leaders, key committee chairs and vice chairs, and consultants about issues that could impact CalPERS reputation.</li> <li>Develop and implement communications strategy to increase visibility and public presence of CalPERS leadership, ethics, governance and accountability in the media and among stakeholders</li> <li>Develop a social media strategy that targets growth, engagement, education and awareness of CalPERS online community.</li> </ul>			Office of Enterprise Risk Management

Residual Risk - Previous   Current	Trend	Mitigation Status
Considering controls currently in place, the remaining risk exposure is <b>minimal</b> .	Considering planned mitigations and environmental factors, the risk is expected to <b>decrease</b> over the next 3-6 months	Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <b>on track</b> .
Considering controls currently in place, the remaining risk exposure is <b>moderate</b> .	Considering planned mitigations and environmental factors, the risk is expected to <b>remain constant</b> over the next 3-6 months	Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <b>at risk</b> .
Considering controls currently in place, the remaining risk exposure is <b>elevated</b> .	Considering planned mitigations and environmental factors, the risk is expected to <b>increase</b> over the next 3-6 months	Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <b>off track</b> .
Considering controls currently in place, the remaining risk exposure is <b>high</b> .		