Finance & Administration Committee

California Public Employees' Retirement System

Agenda Item 8a

February 20, 2013

ITEM NAME: Financial Office Initiative Update

PROGRAM: Financial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

This information agenda item presents an overview of process improvement efforts and progress related to the Financial Office (FINO) Initiative. The majority of the FINO Initiative activities align with the 2012-14 Business Plan.

STRATEGIC PLAN

The FINO Initiative aligns with the 2012-17 Strategic Plan goal of cultivating a high-performance, risk-intelligent and innovative organization by supporting the active management of business risks with an enterprise-wide view.

BACKGROUND

FINO is working collaboratively with the Investment and Actuarial offices to refine and expand functions and processes that will benefit the organization by:

- Creating a higher level of financial transparency
- Improving the precision of our enterprise cash management process to ensure CalPERS financial stability
- Creating a timely and accurate monthly close process to improve our internal and external financial reporting; and
- Improving our investment reconciliation process and expense reporting to fully understand the total cost of doing business

In an effort to create a higher level of financial transparency, CalPERS launched the FINO Initiative which is focused on developing new functions and improving existing processes to fully develop the FINO. The FINO Initiative is focused on the following key priorities:

- Internal monthly reporting
- Cash management
- Investment expense reporting
- Investment reconciliation
- One Budget model

Addressing these FINO Initiative priorities will empower CalPERS decision makers with high-quality, timely financial information to be utilized as a vital component for reaching informed decisions.

ANALYSIS
The 2012-14 Business Plan and FINO Initiative align across the following activities:

Business Plan Initiative	Description
9.6	Developing enhanced monthly internal financial reports for the organization
9.7	Establishing a cash management functional group and activities that support the Chief Financial Officer (CFO) to monitor and ensure CalPERS financial stability
9.8	Developing functions to account for and report on Investment Expenses
9.9	Developing an improved Investment Reconciliation process
9.10	Developing one Enterprise budget to support enhanced operational efficiency, transparency and accountability

The following highlights some key progress made during the First and Second Quarters of the 2012-13 fiscal year (July 1 through December 31):

9.6 Internal Financial Reports
The Internal Financial Reports initiative is focused on developing better controls and analysis of financial data on a monthly and quarterly basis, including financial statements based upon fully reconciled activities. This will provide CalPERS management with analyses on financial trends, risks, and issues.

Staff is currently analyzing draft financial reports, evaluating existing processes and the timing of data collection. This includes evaluating the cyclical nature of the data to provide better analysis of the financial information reported on a quarterly basis. To increase efficiency in capturing data, current control and reconciliation processes are under evaluation. Staff will continue to refine these financial reports over the next six months. Staff is currently on schedule to meet the June 30, 2013 timeline.

9.7 Cash Management
The Cash Management initiative is designed to support the analysis of cash management and forecasting by using reports and tools, creating forecast variance processes and procedures, and forming a functional unit to support these activities.

FINO created a Cash Management Unit to effectively manage and forecast the operational cash activities for the Public Employees' Retirement Fund (PERF) to meet operational cash needs and monitor and maintain CalPERS financial stability. The Cash Management Unit developed and implemented an accurate and reliable

twelve month rolling forecast which details the PERF operational cash needs. The Unit is also developing forecasts for the other Trusts and continues to refine the processes and tools. Staff is currently on schedule to meet the June 30, 2013 timeline.

9.8 Investment Expense Reporting
The Investment Expense Reporting initiative is designing improved functions and processes to account for and report on draft investment expenses. Staff has been producing investment expense report information for the past four months for the Investment Office (INVO). The FINO Initiative team continues to work with INVO to refine data and processes. This information supports the One Budget model. The goal of this project is to increase transparency of the services provided and costs incurred by asset class. Staff is currently on schedule to meet the June 30, 2014 timeline.

9.9 Investment Reconciliation Process
The Investment Reconciliation initiative will provide the appropriate reconciliation and accounting of investment transactions. This process is aligned with the INVO Target Operating Model. The FINO Initiative team has been working with INVO to create a data interface from the Automated Real Estate Investment System (AREIS) into the PeopleSoft financial system. The next step in the process is to develop data mapping of information from all the Investment Books of Record and Fund Accounting Books of Record to the general ledger and financial management reports. This work stream is scheduled to be completed by June 30, 2014. Due to potential delays caused by resource and time constraints, this will be re-evaluated as part of the 2013-15 Business Plan development process.

9.10 One Budget Model
Completing the One Budget model will enhance the decision making process and management of all CalPERS budgets by implementing improved management reports and creating a governance process for managing CalPERS total costs. This will provide transparency and sound, prudent fiduciary information regarding CalPERS total costs. To achieve the One Budget model, staff is analyzing several processes and products within the current budget process.

As part of the annual budget cycle, staff is evaluating processes and reports to meet the One Budget project objectives. The first phase consists of aligning budget resources correctly as part of the Zero Based Budget. Realignment of the budget allows for more accurate analysis and evaluation of resource usage.

Staff has also been evaluating the cost allocation procedures and methodology. This methodology is used to allocate the appropriate costs to each Trust in order to increase transparency of the services provided and costs incurred by the Trusts.

In addition, staff will be evaluating the reports and processes used for displaying budget information to the Finance and Administration Committee, with the goal of

aligning the financial information with the business plans. This alignment will enable the Finance and Administration Committee and Executive team to make more informed decisions and ensure resources are allocated to the appropriate business planning priorities. Staff is currently on schedule to meet the June 30, 2014 timeline.

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