



## Agenda Item 6a

November 19, 2013

**ITEM NAME:** Enterprise Risk Reports

**PROGRAM:** Risk Management

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

The Enterprise Risk Management Dashboard and Top Risk reports provide an overview of CalPERS risk environment. The Enterprise Risk Management Dashboard represents CalPERS current risk profile broken down into strategic, operational, financial, and compliance/ethics categories. The risk domains under each category include specific related risks that are individually assessed and monitored. The aggregate ratings of the underlying risk in each domain are illustrated on the Enterprise Risk Management Dashboard. The Top Risk report displays the most significant risks that may impact the organization and outlines management's response, including mitigation strategies. These reports are designed to promote governance, transparency, increase risk awareness, and improve risk management at CalPERS.

### **STRATEGIC PLAN**

Enterprise risk management reporting supports CalPERS 2012-2017 Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. The Enterprise Risk Management Dashboard and Top Risk Report will assist the Board to more effectively oversee enterprise risk management at CalPERS.

### **BACKGROUND**

The Enterprise Risk Management Division periodically performs risk assessments to update the enterprise risk reports. A robust risk assessment process forms the foundation for an effective enterprise risk management program. A risk assessment is intended to provide management with a view of events that could impact the achievement of goals and objectives. As one component of CalPERS Risk Management Framework, risk assessments are performed to identify, analyze, evaluate, treat, communicate, and monitor risks on an on-going basis. The process is a collaborative effort involving staff, management, and executive leadership. A Risk Report Process Map is included in this agenda item as Attachment 1.

The Enterprise Risk Management Dashboard provides an overview of the CalPERS risk landscape that CalPERS is managing to better serve our members, employers, and other stakeholders. To further promote a risk intelligent organization, the CalPERS Division Chief Council (DCC) members were involved with development of detailed risk registers supporting the risk domains on the Enterprise Risk Management Dashboard during this last reporting period. The results of these risk assessments are reflected in the domain risk ratings on the Enterprise Risk

Management Dashboard. To ensure an appropriate level of risk governance, the overall results are reviewed by the DCC and the Executive Risk Management Committee (ERMC). The risk assessment results are then reported to the Risk and Audit Committee on the Enterprise Risk Management Dashboard which is included as Attachment 2.

The ERMC identifies the most significant risk domains that may impact achievement of CalPERS goals and objectives. A Top Risk Report is prepared which identifies the key risks based on the degree of impact to the organization and likelihood of an event. The Top Risk Report outlines the key risks within a domain and a summary of the planned mitigation strategies designed to reduce the level of risk over time. The Top Risk Report is appended to this agenda item as Attachment 3.

### **ANALYSIS**

Risk assessment is a systematic process for identifying and evaluating events (i.e., possible risks and opportunities) that could affect the achievement of business objectives. Such events can be identified in the external environment (e.g., economic and political trends, regulatory landscape, news and industry trends) and within CalPERS internal environment (e.g., strategic plans, business plan objectives, people, processes, and technology). When these events intersect with CalPERS strategic or business plan objectives, or can be predicted to do so, they become risks. Risk is therefore defined as “the possibility that an event will occur and adversely affect the achievement of objectives.”<sup>1</sup>

The risk assessment process, applied consistently throughout the organization, empowers management to better identify, evaluate, and manage the right risks, all while maintaining the appropriate controls to ensure effective and efficient operations and compliance with applicable laws, rules, and policies. The risks are assessed using consistent criteria to determine the impact and likelihood of an event from a strategic, operational, financial, and compliance perspective.

The DCC identified, assessed, and prepared a response to the key risks within each domain. Consistent with the Board approved Annual Risk Assessment Plan, a detailed risk register including a risk description, inherent and residual rating, risk response, and overall domain rating was developed for 24 of the 31 domains on the Enterprise Risk Management Dashboard. The definition of each domain was reviewed and updated to more accurately describe the domain, consistent with the key risks. Some of the risk domains were consolidated and one domain was replaced with a new more comprehensive domain. The DCC reviewed the changes to the Enterprise Risk Management Dashboard and forwarded their recommendations to the ERMC.

The Enterprise Risk Management Dashboard, the CalPERS risk portfolio, risk domain heat map, emerging risk report, and top risk report were presented to the ERMC for review. After a thorough review and discussion of the risks portfolio ratings and

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<sup>1</sup> Committee of Sponsoring Organizations, Enterprise Risk Management—Integrated Framework.

changes to the Enterprise Risk Management Dashboard, the ERMC made additional suggestions to update the Dashboard.

The Enterprise Risk Management Dashboard represents CalPERS current risk profile broken down into strategic, operational, financial, and compliance/ethics categories. A member of the Executive Leadership team is assigned ownership of a risk domain and provides a response to manage the most significant risks. Management provides assurance as to whether the strategies are on track, within budget, and having the desired effect on treating the risk. Independent review of the responses to the Top Risk is provided by the Office of Enterprise Risk Management or Office of Audit Services.

In the October 2013 reporting period, the overall risk landscape remained relatively stable. The Enterprise Risk Management Dashboard includes 31 risk domains that were reviewed and updated to better illustrate the current view of CalPERS risk environment. Specifically, the following updates were made to the Dashboard:

- While the domain ratings have not changed this reporting period, the following risk trends were adjusted:
  - Business planning trending changes to constant from decrease;
  - Technology/Systems Management trending changes to constant from increase;
  - Investment Risk Management trending changes to constant from increase;
  - Policy and Procedures trending changes to constant from decrease;
  - Ethical Conduct trending changes to constant from decrease.
- Risk domain titles were revised to more accurately reflect the domain definition and key risks:
  - Strategy and Policy is retitled as Strategic Planning and Implementation;
  - Health Care PPO Funding is retitled as Health Plan Management,
  - Pension Funding is retitled as Pension Funding (Asset Liability Management);
  - Internal Policy is retitled as Policy and Procedures.
- Risk domain definitions were revised to be consistent with the type of risks within each domain:
  - Pension Funding (Asset Liability Management);
  - Health Plan Management;
  - Legislative/Regulatory;
  - Laws, Rules, and Regulations;
  - Ethical Conduct and Standards.
- Risk domains were moved to a different category, consistent with the type of risks within the domain:
  - Actuarial Policies/Practices is moved to Financial Risk Category;

- Health Care PPO Funding, after retitled as Health Plan Management, is moved to Operational Risk Category.
- Risk domains removed and consolidated with other domains include:
  - Health Care Reform into Legislative/Regulatory;
  - Ethical Conduct is replaced by a new domain entitled Ethical Conduct and Standards.
- Current Top Risk Domains within the Enterprise Risk Management Dashboard are annotated in red. There are 14 Top Risk Domains for this reporting period as agreed upon by consensus of the ERM.
- Top Residual Risk Report has been reformatted to independently present each top risk identified and the pertinent mitigation strategies and metrics. This better serves the Executive team and Board to monitor top risks identified and progress in mitigation strategies.

#### **ATTACHMENTS**

Attachment 1 – Risk Report Process Map

- Displays the risk assessment and risk report update process.

Attachment 2 – Enterprise Risk Management Dashboard

- Displays the current risk environment and changes since the last reporting period as well as the expected future trend for 31 risk domains.

Attachment 3 – Top Residual Risk Report

- Describes the most significant risk and provides an overview of the mitigation strategies and status of the measures taken to mitigate or manage the risk.

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