



Agenda Item 5a

June 17, 2014

ITEM NAME: Review of the Risk & Audit Committee Delegation

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Recommend the proposed changes to the Risk & Audit Committee (Committee) Delegation Resolution for Board of Administration (Board) consideration and approval.

EXECUTIVE SUMMARY

Attachment 1 displays the current Committee Delegation Resolution (Delegation) with the proposed changes. These changes will help to strengthen the alignment between the Committee's authority and CalPERS long-term objectives.

STRATEGIC PLAN

This item supports Goal B of the CalPERS 2012-2017 Strategic Plan (Strategic Plan) which is to cultivate a high-performing, risk-intelligent and innovative organization. It also supports the specific objectives: use a focused approach to generate, test, refine and implement new ideas, to deliver superior end-to-end customer services that are adaptive to customer needs, and to actively manage business risks with an enterprise-wide view.

BACKGROUND

In accordance with the Board Governance Policy, each committee's delegation is reviewed annually and updated as needed. Staff reviewed the Risk and Audit Committee's Delegation Resolution with consideration to the evolving Strategic Plan and change in Enterprise needs. This item brings to the Committee the opportunity to update its authorities, enhancing the overall role of the Committee from an enterprise-wide perspective.

ANALYSIS

Most of the recommended changes are for clarification or improved organization. The most notable proposed change includes adding the following delegation:

- Conduct the selection of the Board's independent actuary for performing parallel valuations and other actuarial reassurance functions and recommend the finalist to the Board.

Consistent with the Risk and Audit Committee's Delegation to approve and oversee actuarial reinsurance, and in accordance with the recent governance improvements, which moved the management of the actuarial reinsurance contract from the Actuarial Office to Office of Audit Services, staff recommends the additional delegation as proposed. The current Risk and Audit Committee's Delegation provides the authority to approve and oversee actuarial reinsurance (primarily provided by the parallel actuarial valuations performed by an external actuary). The Board of Administration has reserved the power to conduct selection of the Board's actuary. It is the recommendation of staff to the Risk and Audit Committee to recommend that the Board grant the authority to conduct selection of the external actuary that will be engaged to perform the parallel valuation and other actuarial reinsurance, and recommend the finalist to the Board. By this change, the Risk and Audit Committee would conduct preliminary rating of bidders and interviews, but the Board would retain the power to award the contract. Further, the proposed delegation would only apply to the specific actuarial services related to reinsurance or actuarial audits. Conducting selection of all other actuarial services would remain a power reserved by the Board.

The proposed delegation will align the Risk and Audit Committee's delegated authority to approve and oversee actuarial reinsurance with conducting the selection of the external actuary that will be providing the reinsurance. In addition, the proposed change is timely because the current contract will soon expire, so staff plans to bring an agenda item to the Risk and Audit Committee in September 2014 requesting approval to issue a request for proposal for a new actuarial reinsurance contract. The proposed delegation, if adopted, would be immediately utilized and help promote alignment of responsibility and authority.

BENEFITS/RISKS

The benefits of approving this item include:

- Ensuring the Committee has appropriate authority to maintain strategic oversight of Enterprise operations and needs
- The Board retaining its power reserved to award contracts for actuarial services.
- Maintaining Committee authorities that align with the Strategic Plan and the Board Governance Policy

The risks of not approving this item include:

- The Committee not having the required authority to take action on or oversee mission critical objectives.
- Reduced efficiency if the full Board must participate in the interview panels for actuarial reinsurance services.

ATTACHMENTS

Attachment 1 – Risk & Audit Committee Delegation Resolution: Proposed Changes

Attachment 2 – Risk & Audit Committee Delegation Resolution: Original Delegation

CHERYL EASON
Chief Financial Officer