



## Agenda Item 7a

June 17, 2014

**ITEM NAME:** 2014-16 Enterprise Risk Management Plan

**PROGRAM:** Enterprise Risk Management

**ITEM TYPE:** Action

### **RECOMMENDATION**

Approve the proposed 2014-16 Risk Assessment Plan.

### **EXECUTIVE SUMMARY**

ERMD prepared a Risk Assessment Plan for the Committee's review and recommendation to the Board of Administration. The proposed Risk Assessment Plan for Fiscal Year 2014-16 is Attachment 1 of this agenda item. This Plan is designed to focus on CalPERS key risk areas and to provide assurance on enterprise risk management.

To prepare the Plan, the Enterprise Risk Management Division (ERMD) considered the May 2014 enterprise risk dashboard recalibration conducted to identify current and emerging risks that may impact the achievement of strategic goals and objectives. Additionally, input was provided from the Enterprise Compliance Office and the Office of Audit Services who conducted an enterprise risk assessment.

ERMD periodically performs these risk assessments to update CalPERS risk environment. A risk assessment is intended to provide management with a view of events that could impact the achievement of goals and objectives and enhance decision making. 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.

### **STRATEGIC PLAN**

This agenda item supports Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. A robust risk framework includes consideration of risk in decision making, planning, and prioritization of business activities.

### **BACKGROUND**

"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and

manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”<sup>1</sup>

Risk is a measurement of the impact and likelihood that an organization’s goals and objectives will not be achieved. When assessments are performed systematically and consistently throughout CalPERS, management is empowered to focus its resources on the most significant risks and make more informed risk decisions.

The risk assessment is an essential part of the ongoing risk management process that identifies and evaluates risks; prioritize risks, and assigns resources for risk responses associated with events that could affect the achievement of business objectives. The enterprise risk management function is proactive, highly anticipatory and systematically focused. The proposed Risk Assessment Plan anticipates and effectively respond to the organization’s changing risk profile.

ERMD currently faces limited enterprise risk management resources. The purpose of the proposed risk assessment plan is to allocate these limited resources to areas of the organization that are most critical to the success of the organization in reaching its goals. The Risk Assessment Plan is designed to meet the objective of providing the most effective and efficient deployment of enterprise risk management resources in a manner that addresses:

- Areas of high risk ranking
- Core business activities of the organization
- Assurance on management risk response
- Enhancement of a more robust risk management program

To develop the Plan, we considered the internal and external environment, enterprise risk dashboard recalibration results, observation from the Information Security risk assessment projects, and audit findings as a foundation for developing this risk assessment plan as well as available ERMD resources. The Plan outlines the risk assessments that are on-going as well as new assessments to be performed during Fiscal Year 2014-16. The plan will however be refreshed annually and adjusted according to the current risk environment.

The proposed Risk Assessment Plan was prepared to continue enhancing CalPERS enterprise risk management program. This includes conducting enterprise-wide risk assessment, performing business plan risk assessment, recalibrating enterprise risk management dashboard, developing and implementing Key Risk Indicators, developing integrated assurance model, as well as evaluating risk responses and control activities to enhance the management of identified key risk areas.

Enterprise risk management objectives and scope of work are aligned with the strategic goals and objectives. Whereas enterprise risk management program

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

provides reasonable risk management assurance and consulting activity designed to add value and improve the organization's operations, it helps the organization accomplish its objectives by bringing a systematic, disciplined approach to improve the efficiency of risk management, control, and governance processes.

### **ANALYSIS**

The principles of enterprise risk management require organizations to perform a risk assessment and implement a process to address and manage potential risks. By incorporating these requirements, based on risk assessment result in terms of potential impact and likelihood of events, the enterprise risk management function monitors and reviews key risk areas taking the following approaches:

- Facilitate immediate action to resolve the risk, through coordination with key stakeholders.
- Review the key risk areas and propose corrective actions to reduce risk exposure.
- Arrange with Enterprise Compliance and Office of Audit Services to perform an integrated review of selected key risk areas.
- Monitor key risk areas on a continuous basis.

### **BUDGET AND FISCAL IMPACTS**

Funding for the proposed risk assessment activities will be provided through the Enterprise Risk Management Division budget.

### **BENEFITS/RISKS**

The risk assessment process, applied consistently throughout the organization, empowers management to better identify, evaluate, and manage the right risks, while maintaining the appropriate controls to ensure effective and efficient operations and compliance with applicable laws, rules, and policies.

Without a cohesive, coordinated approach, limited risk and control resources may not be deployed effectively, and significant risks may not be identified or managed appropriately.

Approval of the proposed plan will focus the risk assessment efforts on CalPERS strategic issues and provide a basis for further development of the enterprise risk management program. Approval of the plan also advances CalPERS towards its strategic goal of becoming a risk intelligent organization. Failure to approve the plan may reduce the likelihood of achieving the strategic goal or advance the enterprise risk management program.

**ATTACHMENTS**

Attachment 1 – Proposed 2014-16 Risk Assessment Plan

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