



Consent

Agenda Item 5e

March 17, 2015

ITEM NAME: Quarterly Status Report – Enterprise Risk Management

PROGRAM: Risk Management

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

This item provides a status update of key activities and accomplishments for the Enterprise Risk Management Division (ERMD) during the period of October 1, 2014 through January 31, 2015.

STRATEGIC PLAN

This item supports CalPERS 2012-2017 Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. By collaborating with stakeholders to focus on strategic and operational risk management, ERMD assists with building a risk-intelligent organization.

ERMD is leading implementation of the 2014-16 Business Plan initiative on developing Strategic Risk Measures. This initiative will create a direct link between the organization's strategic measures and enterprise top risks using key risk indicators to enhance risk-informed decision making and achievement of strategic goals.

BACKGROUND

Under the Integrated Assurance Model, CalPERS uses the three lines of defense methodology to integrate risk management and compliance responsibilities. ERMD's primary role is to provide the enterprise with a systematic approach to the identification of organizational risks, risk responses, mitigations, and continuous risk monitoring.

ANALYSIS

Following are brief updates on significant activities and accomplishments of ERMD during the second quarter of Fiscal Year 2014-15.

PIER Plus Report

ERMD facilitated the independent Post Implementation Evaluation Review (PIER) Plus assessment, an extensive review of the planning, development and implementation of the Pension Resumption Project (PSR) and my|CalPERS system

implementation. After a several-month effort conducting its review and analysis, the external consultant, Grant Thornton, finalized its analysis on lessons learned, benefits gained, and recommendations, and presented its report as an information item to the Finance and Administration Committee in February 2015. Management plans to continue to apply lessons learned and recommendations from the PIER Plus report to help reduce and manage risks of future projects.

Annual Risk Plan

ERMD continues to make progress on the Fiscal Year 2014-15 Annual Risk Assessment Plan. Highlights on projects in-progress include the following:

- Insurance coverage – ERMD engaged an independent insurance assessor to review CalPERS current insurance program. Within the scope of review are assessments of insurance needs for physical and non-physical assets, public liability risks, workers' compensation, directors' and officers' liability, cyber liability, professional liability, and employment practices liability. We anticipate receiving the draft report approximately late March 2015.
- Integrated assurance model development and implementation – Staff performed an extensive internal review on the roles and responsibilities of assurance roles within CalPERS, and are in the first phase of implementing improvements to integrated assurance in the three lines of defense model.
- Enterprise Governance, Risk and Compliance – As part of an ongoing effort to improve communications and efficiency, ERMD is implementing a tool to automate its risk analysis and reporting. Over the past three months, ERMD has configured and tested functionality.
- ERMD completed an enterprise risk dashboard recalibration to provide an updated overview of CalPERS risk environment. Overall, the level of risk intelligence continues to advance across the organization. The Enterprise Risk Management Dashboard and the Top Risk Report were presented to the Risk and Audit Committee at the November 2014 meeting.

A new Risk Management Plan will be submitted to the Risk and Audit Committee for approval in June 2015, as part of the annual process.

Business Continuity Management

ERMD updated 2015 Business Continuity Plans (BCPs) required annually pursuant to Executive Order S-04-06. In order to ensure all BCPs reflect continuity needs from an enterprise perspective, ERMD initiated a business impact analysis which will aid in the preparation of future BCPs. Finally, ERMD partnered with Operations Support Services Division and Colliers to conduct a required annual on-site evacuation drill for all Lincoln Plaza buildings.

Realignment of Operational Functions

As of January 31, 2015, CalPERS realigned certain functions formerly within ERMD to other functional areas to achieve improved strategic and operational alignment and

accountability. The realignment was based on the internal review of the assessment of enterprise compliance and risk activities and roles.

Specifically, the Emergency Response Program operational activities now report to Operations Support Services Division. Further, in accordance with best practices, the Information Security Section and Privacy and Awareness Section now reports to the Information Technology Services Branch. In addition, the Policy Administration Section now reports to the Enterprise Compliance Office. Updates on these activities will be under the new respective division's or branch's reporting structures.

ERMD will continue to monitor, review and assess the organization's management of strategic risks, including business continuity, information and cybersecurity, asset-liability management, investment controls, and other top strategic risks.

BENEFITS / RISKS

Effective enterprise risk management provides significant benefits to the organization. It assists enterprise in achieving CalPERS 2012-2017 Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. This is achieved by:

- Fostering a culture that seeks strong risk intelligence and enables the enterprise to surface strategic issues and responses.
- Providing leadership and promoting shared understanding of priorities
- Collaboratively reassessing top enterprise risks and mitigation strategies
- Collaboratively establishing risk identification and mitigations with business owners

Lack of enterprise risk management can lead to non-attainment of strategic objectives, siloed decision-making, and missed opportunities for the enterprise, with potential legal, financial, reputational, or operational impacts.

BUDGET AND FISCAL IMPACTS

Not Applicable.

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