



Board Governance Committee Agenda Item 6

March 14, 2016

Item Name: Chief Executive Officer Delegation of Authority – Annual Review

Program: Governance

Item Type: Action

Recommendation

Approve and recommend to the Board of Administration (Board) revisions to the Chief Executive Officer (CEO) Delegation of Authority (CEO Delegation) to clarify delegation of actuarial, financial and investment authority and conform the CEO Delegation to the new Delegation Standards for Executives and Senior Management (Delegation Standards).

Executive Summary

The Board Governance Policy provides that the Board Governance Committee will annually review and revise as necessary the CEO Delegation. Staff recommends revisions to the CEO Delegation to reflect past Board decisions, add clarity, and conform the language to the Delegation Standards.

Revisions to the CEO Delegation were last approved by the CalPERS Board at its October 13, 2014, meeting. In the future, the CEO Delegation will be reviewed annually to ensure it reflects the Board's direction and organizational needs.

Strategic Plan

This item is not part of the strategic plan, but periodic review of the CEO Delegation is consistent with good governance.

Background

As part of the CalPERS 2015-17 Compliance Plan, the Enterprise Compliance Division (ECOM) assumed responsibility for the oversight, development and maintenance of delegations of authority for executives and senior management. ECOM has developed Delegation Standards in line with the Board Governance Policy and industry best practice and applied these standards in reviewing management delegations.

At its September 2014 meeting, the CalPERS Board approved a revision to the executive management reporting structure. Under the revised reporting structure, the CEO is the Board's sole direct report, and the CEO is responsible for sub-delegating authority to his or her direct reports as needed to achieve the goals and objectives of CalPERS and the Board. ECOM conducted a review of the CEO Delegation to ensure consistency with the Delegation Standards, Board decisions and delegations. Based on this review, staff is recommending revisions to the CEO Delegation, as described below.

- Clarify that the authority previously delegated by the Board to the Chief Actuary and the Chief Investment Officer have been delegated to the CEO. The CEO will in turn delegate this authority to the Chief Actuary and Chief Investment Officer, retaining oversight over these activities.
- Ensure that the CEO Delegation is aligned with the Board’s delegations to its committees and the Delegation Standards.

Authority Needed to Align with Current Delegations

The following changes are recommended to reflect that the CEO is the sole direct report of the Board and has been delegated authority over the financial, actuarial and investment functions of CalPERS:

- Paragraph 2:
 - Clarifies that the CEO’s authority over the administration and management of all functions within CalPERS includes “actuarial, financial, and investment” functions.
 - Adds authority to “approve” the administration and management of all functions within CalPERS.
- Paragraph 3:
 - Adds authority to “approve” the administration of all units and functions within CalPERS and the operation of CalPERS’ headquarters facilities.
 - Requires the CEO operate within the Board’s “delegations of authority.”
 - Adds business continuity as an area within the CEO’s authority.
- Paragraph 11:
 - Removes the Board’s federal representative as a service provider procured by the Board, consistent with the Board’s direction at its June 16, 2015, Governance Committee meeting.
- Paragraphs 12 and 13:
 - Clarifies authority of the CEO to set and oversee public agency contracts, including related actuarial activities.
 - Clarifies authority of the CEO over public agency contracts, terminations and approval of actuarial activities affecting individual public agencies.
- Paragraph 15:
 - Grants authority to the CEO to set and oversee administration and investment of the retirement fund.

In a discussion last year with the Board’s prior compensation consultant, questions were raised about decision-making responsibility around compensation for the CEO’s direct reports. Staff recommends that if the Board wishes to pursue that discussion, it do so with its current compensation consultant.

Administrative Edits

Staff additionally recommends the following changes to clarify and align the CEO Delegation with the Delegation Standards.

- Add requirement for CEO to comply with applicable laws and regulations in the performance of his or her duties under the delegation.
- Re-orders paragraphs 1 through 3 to improve logical flow (from general to specific).
- Paragraph 1: Revise from “conduct” to “conduct and oversee,” to retain oversight of these activities after delegation to others.
- Paragraph 3: Combine with requirement to provide for sufficient resources to support CalPERS’ business and operational needs and to improve organization.
- Paragraphs 11 and 14: Non-substantive clarifying edits.

The proposed revisions to the CEO Delegation are set forth in underline/strikeout (Attachment 1) and final format (Attachment 2).

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Staff’s recommendation clearly and effectively aligns the CEO Delegation with the Delegation Standards, Board direction and industry best practice. The CEO Delegation should be as precise as possible so that roles, responsibilities and concomitant accountability is clear.

The risk of not adopting this recommendation is that the CEO Delegation will not clearly reflect the Board’s direction and intent. This will further impact the delegation of authority from the CEO to his or her direct reports.

Attachments

Attachment 1 – Proposed Revisions to CEO Delegation of Authority – underline/strikeout

Attachment 2 – Proposed Revisions to CEO Delegation of Authority – final

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