
April 19, 2016

Item Name: Review of the Risk and Audit Committee Delegation

Program: Administration

Item Type: Action

Recommendation

Approve the proposed changes to the Risk and Audit Committee (RAC) Delegation for Board of Administration's (Board) consideration and approval at the May 2016 Board meeting.

Executive Summary

The Board of Administration Governance Policy requires that each Board Committee conduct an annual review and revise their Committee Delegation Resolution as necessary. Attachment 1 is the current Committee Delegation, attachment 2 is a black-line version of the proposed changes and attachment 3 is a clean version of the proposed Committee Delegation. The proposed changes are primarily administrative in nature to improve the flow of the document and align the authority language with the terms defined in the Board Governance Policy.

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 of Administration Governance Policy, each committee's delegation is reviewed annually and updated as needed. This process provides the Committee the opportunity to update its authorities, clarifying the role of the Committee and providing guidance on topics for future agenda items.

Analysis

Staff analyzed the Risk and Audit Committee Delegation against the Investment Committee and Finance and Administration Delegation Resolutions to ensure there were no overlaps in authority. Additionally, staff reviewed the Chief Executive Officer Delegation of Authority and the CalPERS Strategic Plan looking for opportunities to strengthen and clarify authorities. Staff also reviewed the Board Governance Policy (Policy) and identified several opportunities to conform to the four authorities outlined in the Policy; set, approve, conduct, and oversee. To improve clarity of the authorities, items of a like nature were grouped together to make the authorities more concise, and some items were removed which are no longer applicable. The changes are summarized below.

- References to the State Peace Officers' and Firefighters' Defined Contribution Plan and associated government code sections were removed from whereas 1 & 2, as this plan was terminated through legislation.
- Paragraph 1 & 2 - Added enterprise, compliance, and ethics for clarification and moved authority to top of document since they apply to multiple programs. (formerly paragraph 15 & 16)
- Paragraph 2 - Changed from "adopt" to "approve" to conform to the Board Governance Policy.
- Paragraph 4 - Combined risk management activities into one item. (formerly paragraph 1 & 2)
- Paragraph 5 - Clarified the language regarding investment risk management, investment policy compliance, and enterprise operating risk management processes so they do not conflict with the Investment Committee delegation.
- Paragraph 6 - Combined compliance activities into one item to streamline the delegation. (formerly paragraphs 6, 7, 8, 9 & 10)
- Paragraph 7 - Combined audit activities the Committee oversees into one item to streamline the delegation and removed reference to "approve, as required" in order to clarify the Committee's role over internal audit activities. (formerly paragraphs 3 & 4)

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of accepting this item include:

- Appropriately defined guidance to the Risk and Audit Committee and staff to manage the effectiveness and integrity of the Board's processes, including oversight, accountability, transparency, efficiency and decision-making.
- Maintaining Risk and Audit Committee authorities that align with the Strategic Plan and the Board Governance Policy.
- Identifying and distinguishing between the roles of the Board, Risk and Audit Committee, and staff.
- Ensuring the Risk and Audit Committee has appropriate authority to maintain strategic oversight of Enterprise operations and needs.

The risks of not accepting this item include:

- Reduced effectiveness of the Risk and Audit Committee and staff in operating in accordance with the Board's processes, including oversight, accountability, transparency, efficiency and decision-making.
- Reduced clarity between the roles of the Board, Risk and Audit committee, and staff.
- The Risk and Audit Committee not having the required authority to take action on or oversee mission critical objectives.

Attachments

Attachment 1 – Risk and Audit Committee Delegation: Current Delegation

Attachment 2 – Risk and Audit Committee Delegation: Proposed Changes Blackline Version

Attachment 3 – Risk and Audit Committee Delegation: Proposed Changes Clean Version

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