

June 13, 2016

**Item Name:** Semi-Annual Enterprise Risk Reports

**Program:** Enterprise Risk Management

**Item Type:** Information

### **Executive Summary**

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update of the current state of enterprise risk management efforts and identify the top risks to the organization.

Based on a review of the 30 enterprise risks presented to the Committee during the November 2015 meeting, the Enterprise Risk Summary (Attachment 1) reflects the revised risk summary, identifying 11 risks, their risk statements, the executive owner, and Board Committee oversight. The transition to the new Framework will result in a deferral in formal reporting to the Committee while staff develops and produces a revised dashboard and corresponding reporting documents. Staff proposes to provide these completed items to the Committee for review at the November 2017 meeting. The following four attachments are included:

- **Enterprise Risk Summary** (Attachment 1) – lists the top risks, risk categories, and risk statements identifying Board Committee and Executive owners.
- **Enterprise Risk Management Profile Example** (Attachment 2) – provides the Committee with an example of a risk profile that staff will develop for each enterprise risk. The profiles will include the CalPERS business objective, list the risk drivers and associated mitigation measures in place, provide the current residual risk, and identify future mitigation measures.
- **Risk Refinement Mapping** (Attachment 3) – illustrates the transition from risks included in the November 2015 Dashboard to the proposed enterprise risks.
- **Risk Management Dashboard** (Attachment 4) – provides a point of reference as the status quo view of risks to CalPERS.

### **Strategic Plan**

This agenda item supports CalPERS Strategic Plan B: Cultivate a high-performing, risk-intelligent and innovative organization. Enterprise Risk Management Division (ERMD) leads the integration of strategic and operational risk management through implementing an effective enterprise-wide risk management program and promoting a risk aware culture.

### **Background**

A key role of ERMD is to facilitate risk identification and risk monitoring activities that enhance decision-making and resource allocation priorities within the enterprise. ERMD collaborates with Enterprise Compliance Division (ECOM) and the Office of Audit Services (OFAS) to jointly conduct annual integrated assurance risk assessment interviews with each

CalPERS division and Senior Executive. One major objective is to provide the Board and Executive Staff with an updated multi-dimensional view of risks that could have a significant impact on CalPERS ability to achieve its goals and objectives.

To ensure an appropriate level of risk governance is in place, the overall results are reviewed by Executive Staff, and are then reported to the Risk and Audit Committee.

## **Analysis**

### Integrated Assurance Risk Assessments

Upon conducting the integrated assurance risk assessments ERMD, ECOM, and OFAS staff convened to analyze findings. This resulted in the confirmation of top enterprise risks and revealed common themes to consider when contemplating the most effective mitigation measures to determine if present mitigation plans are appropriate.

### Enterprise Risk Management Framework Development

A cross function ad hoc working group was convened to examine enterprise risks and descriptions included in the Risk Management Dashboard (Dashboard) producing the following findings and recommendations (Attachment 4):

- The current Dashboard does not succinctly state the specific nature of the risks
- Replacing risk descriptions with risk statements will provide more clarity
- Focused risks and risk statements will lead to more concise and effective mitigation measures
- Consolidating risks with significant correlations provides the opportunity to implement mitigation strategies that are synergistic and produce an enterprise-wide impact
- Mitigation efforts should be aimed at drivers of the risk

The result of the working group's efforts was a refinement of CalPERS enterprise risks that appear in the Enterprise Risk Summary. A profile sheet will be developed for each risk that includes the CalPERS business objective, lists the risk drivers and associated mitigation measures, will provide the residual risk rating, and identifies future mitigation measures. A sample profile for the Compliance risk was developed as the prototype and is included as Attachment 2. ERMD proposes to continue to work within the enterprise to develop the profiles for all enterprise risks during the first quarter of 2016/2017.

### Top CalPERS Enterprise Risks

The following top five enterprise risks were reported to the Committee at the November 2015 meeting and appeared on the Dashboard:

1. Pension Funding (Asset Liability Management)
2. Business Continuity Management
3. Participating Employer Financial Hardship/Insolvency
4. Information Security
5. Human Resources Management

The integrated risk assurance interviews confirmed that the organization continues to view these risk themes as the largest threats to CalPERS. Under the revised Framework, risks with common drivers have been combined and all prior risk descriptions have been rewritten as risk statements. The mapping of the transition of risks from the prior to new Framework is visually depicted in Attachment 3.

### Next Steps

Providing the Committee is in agreement that the revised Framework should be implemented, next steps will include:

- Develop a profile for each risk.
- Refine residual risk rating methodology
- Perform gap analysis in collaboration with the Enterprise Strategy and Performance Division (ESPD) to ensure that the risks have been contemplated when constructing strategic plan initiatives.
- Advance risk appetite awareness and incorporate risk appetite statements into the risk profiles
- Present updated Framework and new Dashboard to the Committee at the November 2016 meeting.

### **Attachments**

Attachment 1 - Enterprise Risk Summary

Attachment 2 - Enterprise Risk Management Profile

Attachment 3 - Risk Refinement Mapping

Attachment 4 - Risk Management Dashboard

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### **FORREST GRIMES**

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