
September 20, 2016

Item Name: Risk Profile Review

Program: Enterprise Risk Management Division

Item Type: Information

Executive Summary

To further enrich the integrated enterprise assessment and management of risk, Committee Executives presented the Risk Profiles that correspond to the enterprise risks delegated to their respective committees for feedback. The objectives of the presentations are to obtain the input and perspectives of the committees that oversee the first line of defense on those risks, and to use this information to finalize the risk profiles prior to their assessment and the presentation of the Risk Management Dashboard (Dashboard) to the Risk and Audit Committee (RAC) in November 2016.

Strategic Plan

This agenda item supports CalPERS Strategic Plan B: Cultivate a high-performing, risk-intelligent and innovative organization. To achieve this goal, management across the enterprise continues to contribute to a robust risk management framework that includes consideration of risk in decision-making, planning, and prioritization of business activities to achieve strategic and operational objectives.

Background

Enterprise risk management is a vital function in facilitating risk identification and monitoring activities that inform and support decision-making and resource allocation priorities at both the strategic and operational levels and across the enterprise.

A cross-functional ad hoc working group was convened in Spring 2016 to examine enterprise risks and descriptions included in the Risk Management Dashboard (Dashboard) producing the following findings and recommendations:

- The prior Dashboard did 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

In June 2016, Enterprise Risk Management Division (ERMD) provided RAC with a summary, identifying the proposed enterprise risks, their risk statements, the executive owner, and specific Board Committee oversight body (Attachment 1).

Incorporating feedback from the June RAC meeting, staff met with process owners and the Executive team in the first quarter of 2016/17, to identify risk drivers and associated mitigations measures in place for each enterprise risk.

To ensure risk management is effective and delegated committees are receiving appropriate, useful information to carry out their delegated authority related to risk management, and to further enhance the assessment and management of enterprise risk, the respective Committee's risk profiles will be presented for discussion and feedback from the Committee will be incorporated into the finalized Dashboard.

Analysis

Risks Overseen by the Finance and Administration Committee

The Finance and Administration Committee's (FAC) responsibilities encompass a broad array of business functions and related risks. This committee ensures appropriate pension funding through oversight of Asset Liability Management and provides oversight to several operational functions including: business continuity, data governance, information security. It also oversees the strategy to ensure stakeholder confidence as a trusted fiduciary. As such, the FAC is the oversight body over many of the risks on the Dashboard. Attachment 2 includes the six risk profiles reported to the FAC.

Brief overviews of the FAC enterprise risks are as follows:

- **Pension Funding (Asset Liability Management):** The risk drivers that impact the pension funding risk are framed in two themes: Investment Performance and Asset Liability Management. The risk drivers associated with Investment Performance under the Pension Funding risk will be presented and discussed in the Investment Committee.
- **Stakeholder Confidence:** CalPERS relationship with its stakeholders and the media is categorized as a strategic risk due to the level of importance placed on engagement with members and stakeholders as a trusted fiduciary.
- **Business Continuity:** Due to the inherent nature of potential business interruption threats and the level of enterprise preparedness needed to resume critical systems, management believes business continuity continues to be an enterprise risk.
- **Data Management:** The largest risk driver impacting consistency in financial reporting to support decision making is the ability to collaboratively govern and document data definitions throughout the enterprise.
- **Information Security:** Unauthorized access to information assets and cybersecurity threats remain a top enterprise risk, and by the nature of this risk, management anticipates that despite ongoing mitigations evolving to counter the threat, cybersecurity threats will continue to require continuous attention.
- **Operational Efficiency:** As part of the 2017-2022 Strategic Planning process, Operational Efficiency was identified as an area of concern due to complexity within internal processes, competing priorities and need for process improvement and cost-efficiency measures.

Next Steps Will Include:

- Incorporate feedback from Committee into Risk Profile(s)
- Refine residual risk rating methodology
- Perform gap analysis in collaboration with the Integrated Assurance workgroup to assess the effectiveness of current mitigations.
- Conduct risk assessments for the enterprise risks with Executive team, senior leaders, and members of the Integrated Assurance workgroup.
- Present updated Framework and Dashboard to the RAC at the November 2016 meeting.

Attachments

Attachment 1 - Enterprise Risk Summary

Attachment 2 - Enterprise Risk Profiles

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