

September 20, 2016

Item Name: Quarterly Status Report – Enterprise Risk Management

Program: Enterprise Risk Management

Item Type: Information Consent

Executive Summary

Enclosed is the Enterprise Risk Management Division's (ERMD) quarterly report for the period April 1, 2016 through June 30, 2016. This report includes summary information on the following items:

- Status report on the Enterprise Risk Management Plan
- Status report on Enterprise Risk Management and Oversight

Strategic Plan

This agenda item supports CalPERS Strategic Plan B: Cultivate a high-performing, risk-intelligent and innovative organization. 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

In alignment with the CalPERS Business Plan, ERMD developed the 2015-17 Enterprise Risk Management Plan (Plan) to communicate strategic priorities in support of CalPERS' Strategic Plan, vision, and mission. In June 2015, ERMD staff (Staff) received Risk and Audit Committee approval for the 2015-17 Plan, which includes five strategic focus areas:

- Business Continuity Management;
- Record Retention/ Destruct;
- Key Risk Indicator Development/Implementation;
- Asset-Liability Management (ALM);
- Financial Integrity and State Manager's Accountability Act (FISMA) – GC 13400-13407
 - FISMA requirements have since been incorporated into the State Leadership Accountability Act (SLAA).

Analysis

ERMD significant activities and accomplishments for the second quarter of fiscal year 2015-16 include:

2015-17 Enterprise Risk Management Plan

Business Continuity Management

ERMD transferred all Business Continuity responsibilities to OSSD upon a determination that OSSD is best suited to oversee this risk mitigation process. ERMD staff will perform business continuity risk assessments and develop monitoring tools for this risk moving forward.

Asset-Liability Management (ALM)

ERMD participated in continuing to advance ALM within the enterprise by:

- Engaging with the Financial, Investment, Actuarial, Legal and Public Affairs Offices in order to review and collaborate on the new pension funding enterprise risk. This new approach in identifying and discussing risks allows for the creation and prioritization of risk drivers and mitigations from an enterprise rather than individual program perspective
- Assisting in the preparation of Board Offsite materials to explore the creation of a risk factor based model to enhance CalPERS' asset liability management strategy.

State Leadership Accountability Act (SLAA) (Formerly known as FISMA)

Government Code sections 13400-13407 were modified and updated through legislative action that became effective on June 24, 2015. The intent of the change is to provide the Department of Finance with assurance that all levels of management are involved in evaluating, strengthening, and monitoring internal controls. SLAA requires that each state agency:

- Maintain effective systems of internal control;
- Evaluate and monitor the effectiveness of these controls on an ongoing basis; and,
- Biennially report on the adequacy of the agency's systems of internal control.

In addition, a Corrective Action Plan (CAP) is required biannually by June 30th and December 31st, for every control with a status of partially or not implemented. The CAP report was completed and filed prior to the deadline.

Enterprise Risk Management and Oversight

Risk Assessment

Enterprise Risk Management Framework Development

A cross-functional 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:

- 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 in order to increase effectiveness

The result of the working group's efforts initiated a refinement of CalPERS enterprise risks and development of the Enterprise Risk Summary. A profile sheet will be developed for each risk that includes: the CalPERS' Strategic Goal and Objective, the functional objective, the risk statement, risk drivers and associated mitigation measures, the residual risk rating, and future mitigation measures. This culminated in the development of a new Enterprise Risk Management Framework that was presented to RAC during the June meeting.

Key areas ERMD will address in the coming fiscal year include:

- Risk Reporting – Refining enterprise risks and implementing a new enterprise risk dashboard
- Strategic Planning – Enhancing integrated processes for conducting enterprise risk assessments with strategic planning efforts
- Risk Awareness – Establishing risk appetite and tolerances to guide decision-making
- Development of a communication and training plan to ensure each team member understands their role in risk management
- Asset-Liability Management:
 - Collaborating with the Financial Office (FINO), Actuarial Office (ACTO), and Investment Office (INVO) in the development of the Asset Liability Management Policy that will be presented to the Board
 - Regularly attending Asset Liability Management Advisory Committee meetings to ensure that ERMD is apprised of and engaged in the ALM process to advance risk awareness within the team

Budget and Fiscal Impacts

Not Applicable

FORREST GRIMES

Chief Risk Officer

CHERYL EASON

Chief Financial Officer