November 15, 2016

Item Name: Semi-Annual Enterprise Risk Reports

Program: Enterprise Risk Management Division

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. The enhanced Enterprise Risk Management Dashboard (Dashboard) is the culmination of an organizational-wide effort to review and assess currents risks to the enterprise and revise the corresponding reporting documents.

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 across the enterprise.

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 the specific Board Committee oversight body. 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 and control measures in place for each enterprise risk.

In September 2016, Committee Executives presented the Risk Profiles that correspond to the enterprise risks delegated to their respective committees for feedback. Feedback from the committees was incorporated into the finalized Risk Profiles. (Attachment 3)

Analysis
The risk assessment and scoring methodology was comprised of two components, an assurance assessment and a collaborative scoring process with between the senior leaders and executive team.

Assurance Assessment
Program staff and staff from the Integrated Assurance areas evaluated the current mitigations and controls for effectiveness and rated on a confidence level of Low, Medium, or High. The assessments were provided to the scorers as informational prior to the scoring exercise.

Risk Scoring
Staff facilitated the Senior Leadership Council (SLC), comprised of the Division Chiefs, and the Executive Team in separate exercises to score the enterprise risks. Risks were scored in the areas of probability, impact and velocity on a five-point scale. Risk probability is defined as the likelihood that a given risk event will occur, risk impact is the extent to which a risk event might affect the enterprise, and risk velocity is the speed of onset in which an organization feels the impact if a risk event occurs.

The Executive Team scored the risks individually and then arrived at consensus on the ten risk scores. The Executive Team then was presented with their consensus-based score in comparison to the median senior leader scores for each of the risks. The commonalities and differences were discussed. The final results of this collaboration are reflected in the attached results.

Risk Reporting
The enhanced enterprise risk reports are as follows:

- **Enterprise Risk Management Presentation** (Attachment 1) – includes a summary of the methodology used to develop the enhanced risk framework and describes next steps.
- **Enterprise Risk Dashboard** (Attachment 2) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and Executive owners.
- **Enterprise Risk Management Profiles** (Attachment 3) – provides the Committee with detailed information on each enterprise risk. The profiles are aligned to the CalPERS Strategic Plan for 2017-22 and include the functional objective, lists the risk drivers and associated mitigation measures in place, provides the current residual risk rating, and identifies future mitigation measures, where applicable.
- **Risk Heat Map** (Attachment 4) – illustrates the prioritization of the enterprise risks and appropriate response.

Budget and Fiscal Impacts
Not Applicable.

Next Steps Will Include:
- Explore risk appetite at Board Offsite in January
- Prepare risk appetite statements
- Review risk appetite statements with Executive Team and achieve consensus
- Present risk appetite statements to Board

Attachments
Attachment 1 – Enterprise Risk Management Presentation
Attachment 2 – CalPERS Enterprise Risk Management Dashboard
Attachment 3 – Enterprise Risk Profiles
Attachment 4 – Risk Heat Map

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