



Finance and Administration Committee Agenda Item 9a

November 14, 2017

Item Name: Review of Finance and Administration Committee Risk Profiles

Program: Enterprise Risk Management

Item Type: Information

Executive Summary

As part of the Enterprise Risk Assessment, Committee Executives will present the Enterprise Risk Profiles to their respective Board Committees, as identified on the Enterprise Risk Dashboard. The objective of this item is to obtain input and perspectives of the committees that oversee the first line of defense on those risks. The FY 2017-18 Risk Management Dashboard (Dashboard) will be presented to the Risk and Audit Committee (RAC) in November 2017.

Strategic Plan

This agenda item supports CalPERS Strategic Plan Goal: Cultivate a Risk-Intelligent Organization. Enterprise Risk Management provides assurance to the Board through the implementation of an effective enterprise-wide risk management program and the promotion of a risk aware culture.

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 the strategic and operational levels across the enterprise.

The Annual Enterprise Risk Assessment process commenced in August when cross-functional teams and senior leaders across the organization collaboratively reviewed and updated the Enterprise Risk Profiles (Attachment 1). A major difference from last year's risk assessment exercise was the introduction of materiality, the level of impact at which a risk occurrence will threaten the achievement of a strategic or business objective. Completed risk profiles were reviewed by both senior leaders and executives in September and October, respectively, immediately followed by the Enterprise Risk Scoring exercise.

Each risk was scored in the areas of probability, impact, and velocity; while accounting for materiality. The scoring results and an updated Dashboard and heatmap will be presented to RAC in November 2017 (Attachment 2 and 3).

Analysis

The following are key changes in the risk profiles and scoring results when compared year over year for all risks overseen by the Finance and Administration Committee.

Business Continuity:

- Risk drivers, mitigations and controls were revised to be clearer and more concise.
- Scoring results remain the same year over year with expectations that Business Continuity Project - Phase II efforts will reduce the impact of this risk moving forward.

Internal Governance and Control Environment:

- The Enterprise Risk formerly known as Compliance was changed to Internal Governance and Control Environment to clarify that each CalPERS team member is accountable for mitigating this risk rather than solely our Enterprise Compliance team.
- Risk drivers, mitigations and controls were revised to be clearer and more concise.
- A slight decrease in the level of impact from 2016-17 to 2017-18 due to materiality.

Information Security:

- Risk drivers, mitigations, and controls were revised to be clearer and more concise.
- Scoring results remain the same year over year.

Pension Funding:

- For clarification, the Finance and Administration Committee (FAC) oversees financial soundness of the overall CalPERS system, approves asset liability management and funding risk methodologies, and actuarial methods while the Investment Committee sets investment risk appetite and tolerances.
- Risk drivers, mitigations, and controls were revised to be clearer and more concise.
- A slight decrease in the level of impact from 2016-17 to 2017-18 primarily due methodologies used to determine the Strategic Measure, percentage likelihood of falling below 50% funded status.

Stakeholder Confidence:

- Risk drivers, mitigations and controls were revised to be clearer and more concise.
- Scoring results remain the same year over year.

Next Steps Will Include:

- Incorporation of FAC feedback.
- Present 2017-18 Dashboard and Risk Profiles to the RAC in November 2017.
- Develop a risk appetite statement for Pension Funding based on Board input from the Asset Liability Management (ALM) Workshop and subsequent ALM related decisions.

Attachments

Attachment 1 - Enterprise Risk Profiles

Attachment 2 - Enterprise Risk Management Dashboard

Attachment 3 - Risk Heatmap

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