



Risk and Audit Committee

Agenda Item 7a

November 14, 2018

Item Name: Enterprise Risk Management Framework Review

Program: Enterprise Risk Management Division

Item Type: Information

Executive Summary

The purpose of this item is to update the Risk and Audit Committee (Committee) on the current state of CalPERS' enterprise risks. Cross-functional workgroups comprised of subject matter experts, senior leaders, and the executive team collectively worked with the Enterprise Risk Management Division (ERMD) to review and update all enterprise risk profiles. In addition, senior leaders and executives participated in a risk scoring exercise to evaluate and prioritize enterprise risks. The updated FY 2018-19 Enterprise Risk Management Dashboard (Attachment 1) is the culmination of an enterprise-wide effort to review and assess current risks to the enterprise and revise the corresponding reporting documents.

Strategic Plan

The agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. ERMD provides assurance to the Board of Administration (Board) through the implementation of an effective enterprise-wide risk management program and the continued cultivation of a risk-intelligent organization.

Background

The annual Enterprise Risk Assessment began in June 2018 with ERMD facilitating workshops comprised of cross-functional team members and senior leaders across the organization to review and update the Enterprise Risk Profiles (Attachment 2). Current risk drivers, the strength of current internal controls, and future mitigations were discussed at length and reflect the most accurate assessment of risk mitigations in place.

ERMD led senior leaders in a voting session to score all enterprise risks. Risks were scored in the areas of probability, impact, and velocity. 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. Risk velocity is the speed of onset in which an organization feels the impact if a risk event occurs.

Variances in scores from the prior year were discussed with the executive team. The scoring results for FY 2018-19 are reflected in the Heat Map for Committee review (Attachment 3).

Analysis

The following is a high-level summary of changes to the risk profiles and scoring results. The profiles are continuously refined with each risk assessment cycle and have been revised to read more clearly and concisely. Descriptions of the attached risk reports are also included.

Risk Profiles:

Benefit Administration:

- Risk remains the same from prior year; Low Impact/Low Probability.

Business Continuity:

- This risk level has decreased from High Impact/High Probability to High Impact/Low Probability due to the completion and implementation of the Enterprise Business Continuity Plan, Phase II.

Governance and Control Environment:

- The functional objective statement was updated to include governance.
- New risk statement: *Lack of a strong internal control environment could result in increased non-compliance and litigation risk, operational risks due to inefficiency and improper activity, loss of authority or reputation, and/or incurred penalties.*
- Risk remains the same from prior year; High Impact/Low Probability.

Health Care Administration:

- Decrease in probability risk score due to successful contract negotiations and less political uncertainty. Risk level remains the same from prior year; High Impact/Low Probability.

Information Security:

- Risk remains the same from prior year; High Impact/High Probability.

Pension Funding:

- Decrease in probability risk score due to implementation of risk reduction measures and improved funded status. Risk level remains the same from prior year; High Impact/Low Probability.

Stakeholder Confidence:

- Increase in probability risk score due to inherent risk associated with the external environment. Risk level remains the same from prior year; High Impact/Low Probability.

Talent Management:

- New risk statement: *Inability to recruit and retain a diverse and qualified workforce compromises the ability to meet business objectives*
- Risk remains the same from prior year; High Impact/Low Probability.

Risk Reporting:

The updated enterprise risk reports are as follows:

- **Enterprise Risk Dashboard** (Attachment 1) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and Executive owners.
- **Enterprise Risk Management Profiles** (Attachment 2) – 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, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.
- **Risk Heat Map** (Attachment 3) – illustrates the prioritization of the Enterprise Risks and appropriate urgency of response.

In addition to the enterprise risk reports listed above, ERMD will provide the Committee with a proposed Strategic Risk Measures (SRMs) reporting tool in February 2019. The risk measures and tolerance levels were introduced to RAC in June and September 2018. SRMs are risk measures that will primarily serve as leading indicators by monitoring when a risk poses a threat to achieving the organization's strategic goals.

Next Steps Will Include:

- Provide SRM data, reporting tools, and reporting schedule

Attachments

Attachment 1 – Enterprise Risk Management Dashboard

Attachment 2 – Enterprise Risk Profiles

Attachment 3 – Enterprise Risk Management Heat Map

Forrest Grimes
Chief Risk Officer

Michael Cohen
Chief Financial Officer