



Risk and Audit Committee

Agenda Item 4e

November 15, 2022

Item Name: Enterprise Risk Management Framework Review

Program: Enterprise Risk Management Division

Item Type: Information Consent

Executive Summary

The purpose of this item is to update the Risk and Audit Committee on the current state of CalPERS' enterprise risks. The Enterprise Risk Management Division (ERMD) collectively worked with cross-functional workgroups comprised of subject matter experts (SMEs), senior leaders, and the executive team to review and update all Enterprise Risk Profiles (Profiles). The organization's perception of enterprise risks is reflected and prioritized in the updated Enterprise Risk Management Dashboard (Attachment 1) and Enterprise Risk Management Heat Map (Attachment 3). Additionally, the updated Developing Risks Report informs the committee of risks that are not yet well understood that are being evaluated and monitored (Attachment 4). This fiscal year ERMD facilitated updates to risk appetite statements to ensure alignment to enterprise risk and strategic goals and objectives (Attachment 5).

Strategic Plan

This agenda item supports the 2022-27 CalPERS Strategic Plan Goal – Operational Excellence: Cultivate a risk-intelligent and innovative culture through our team and processes.

Background

The Enterprise Risk Assessment began in August 2022 with ERMD communicating and holding workshops with cross-functional team members and senior leader SMEs from throughout the organization to review and update the Enterprise Risk Profiles (Attachment 2). Current and new risk drivers, the presence of high-level internal controls, and future mitigations were evaluated to reflect an overarching view of the current assessment of enterprise risks.

ERMD led SMEs and executive leaders in reviewing and evaluating the enterprise risks in the areas of probability, impact, and velocity compared to the prior fiscal year. Probability is defined as the likelihood that a given risk event will occur. Impact is the extent to which a risk event might affect the enterprise. Velocity is the speed of onset in which the organization feels the impact if a risk event occurs. The risks were reviewed by the Integrated Assurance Risk Council (IARC) which is a risk focused committee that includes all executive team members. The

developing risk report was updated to reflect the current environment and take into consideration potential new risks facing CalPERS. ERMD also researched what other organizations considered top risks that were not yet well understood. After discussing risks that are either missing or not yet well understood with executives, the following developing risks were identified for monitoring: a) Inflationary pressures/macroeconomic downturn, b) Organizational culture, and c) Third party risk (Attachment 4).

Analysis

The following enterprise risk reports were reviewed and updated:

- **2022-23 Enterprise Risk Dashboard** (Attachment 1) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and executive oversight.
- **2022-23 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 2022-27 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.
- **2022-23 Risk Heat Management Map** (Attachment 3) – illustrates the prioritization of the Enterprise Risks and appropriate urgency of response.
- **2022-23 Developing Risks Report** (Attachment 4) – provides a summary of the top developing risks we are monitoring that are not yet well understood.
- **2022-23 Risk Appetite Statements** (Attachment 5) – provides summary of the level of risk CalPERS is willing to assume in the pursuit of strategic objectives on the basis of risk return trade-offs.

The following substantive changes were made from the prior year reports:

Risk Profiles

The profiles are continuously refined with each risk assessment cycle and have been revised to read more clearly and concisely taking into consideration organizational changes. The following is a summary of changes to the Enterprise Risk Profiles:

Benefit Administration:

- Risk drivers and controls were revised to be more clear and concise. Additionally, controls related to fraud were strengthened to increase detection and prevention capabilities; High Impact/Low Probability.

Business Continuity:

- Business continuity efforts demonstrated CalPERS' ability to resume business functions which is working in unison with the business plan. The pandemic tested and validated processes contained in the business plan and as a result, CalPERS was able to successfully transition to a hybrid work environment. This risk was removed from the Enterprise Risk Management Dashboard and will be managed at the operational level.

Climate Change:

- Risk drivers and controls were revised to be clearer and more concise; High Impact/High Probability.

Governance and Control Environment:

- Risk drivers and controls were revised to be clearer and more concise; High Impact/High Probability.

Health Care Administration:

- Risk drivers and controls were revised to be more clear and concise. A health equity risk driver was added to align with the 2022-27 strategic plan objectives: High Impact/Low Probability.

Information Security:

- Risk drivers and controls were revised to be clearer and more concise; High Impact/High Probability.

Long-Term Care:

- Risk drivers and controls were revised to incorporate the new asset allocation and premium increases; High Impact/High Probability.

Pension Funding:

- The Investment Underwriting Committee was added as a mitigating control to provide oversight of larger transactions; High Impact/High Probability.

Stakeholder Confidence:

- The overall stakeholder perception survey results indicate that the general perception of CalPERS remains positive; High Impact/Low Probability.

Talent Management:

- The new working model developing risk was incorporated into the risk profile. CalPERS faces increased challenges in recruiting and retaining team members. This is reflected in the elevated position into the upper right quadrant on the heat map; High Impact/High Probability.

In addition to updating the profiles we made changes to the following risk reports that are also included in the attachments for your review:

Risk Appetite Statements:

- The appetite statements were refreshed to reflect the risk tolerances identified in the Strategic Risk Indicators included in the prior 4d agenda item, statements were added for Climate Change and Long-Term Care risks.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – 2022-23 Enterprise Risk Management Dashboard

Attachment 2 – 2022-23 Enterprise Risk Profiles

Attachment 3 – 2022-23 Enterprise Risk Management Heat Map

Attachment 4 – 2022-23 Developing Risks Report

Attachment 5 – 2022-23 Risk Appetite Statements

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