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Audits & Risk Management Committee
Item Number 7 – Open Session

Subject: Enterprise Risk Management & Compliance Services Maturity Plan Progress Report

Presenter(s): Lynn Bashaw, Phil Burkholder, Meagan Hatfield

Item Type: Information

Date & Time: May 1, 2024 – 10 minutes

Attachment(s): Attachment 1 – Enterprise Risk Management Plan Update

Attachment 2 – Enterprise Compliance Services Plan Update

PowerPoint(s): PowerPoint – Enterprise Risk Management and Compliance Plan Update

Item Purpose

The purpose of this item is to provide the Audits and Risk Management (ARM) Committee with an update on the Enterprise Risk Management and Compliance Services 18-month maturity plans as of March 31, 2024. These plans cover the period of January 1, 2024, through June 30, 2025 and were developed in support of CalSTRS Strategic Plan Goal 1, Objective E: Enhance how risks are defined, viewed and managed. This strategic initiative is designed to enhance CalSTRS' ability to identify, assess, and mitigate risks while ensuring an ethical culture and compliance with relevant regulations.

Recommendation

This is an information item only.

Executive Summary

In today's rapidly evolving business landscape, effective risk management and compliance are paramount for organizations to thrive and to safeguard their reputation. This report provides an update on the 18-month plans for maturing the Enterprise Risk Management (ERM) program and the Enterprise Compliance Services (ECS) program in alignment with industry standards. These plans cover the period of January 1, 2024, through June 30, 2025.

The maturity plans include deployment of enterprise risk software, an update to the enterprise risk framework, updates to the ERM and ECS charters, staff training, third-party risk management program support, integration of risk appetite statements, and implementation of key risk indicators. The maturity plans also include developing an ECS procedure manual, mapping the compliance activities across the organization, and outlining the framework for a compliance monitoring program.

Attachments 1 and 2 to this item outline the progress made on the maturity plans for ERM and ECS. As the maturity plans cover an 18-month period, not all items on the plans are scheduled to begin yet. Items on the progress plans listed as "Not started" are still scheduled to be completed during this plan period.

ERM presented draft risk appetite statements to the executive team and will coordinate with Enterprise Strategy Management to pilot the statements. In addition, ERM has identified desired competencies to support the team's training and development and has begun succession planning.

ECS has developed an internal procedures manual that covers the compliance and ethics hotline administration, policy management processes, and risk assessment. In addition, the ECS team has performed a training gap analysis and ECS team members completed over 75 hours of professional education in compliance and ethics topics. The annual enterprise-wide policy attestation process has been transferred from Human Resources to ECS.

ERM and ECS have drafted charters and an integrated framework to document and support the maturity plan. Both teams continue to work through the internal procurement process to acquire software that will streamline internal processes for identifying, assessing, and monitoring risks.

<u>Background</u>

A maturity assessment was completed by Weaver & Tidwell, LLC that was presented to the ARM Committee in March 2023. This assessment included several recommendations for maturing the ERM and ECS programs. Many of the recommendations included in these initial 18-month plans are designed to build or enhance our internal ERM and ECS infrastructure.

The maturity plans were developed by the ERM and ECS staff and presented to the Executive Risk and Compliance Committee (ERCC), the Risk Champions Network (RCN) and various stakeholders to solicit feedback, answer questions, and share our enthusiasm for elevating the risk and compliance culture at CalSTRS. The 18-month maturity plans were presented to the ARM Committee in November 2023.

These plans cover the period of January 1, 2024, through June 30, 2025. As we mature the programs we will regularly assess and report on our progress and challenges to the ERCC and to the ARM Committee. Towards the end of this 18-month plan, we will develop another workplan that continues the progress towards our maturity goals.

Our vision is to transform our risk and compliance programs into best-in-class models, meeting or exceeding industry standards. This maturity project will enable us to proactively identify and address risks, further strengthen our resilience in the face of challenges, and maintain a culture of compliance and ethical behavior.

Strategic Plan Linkage: Goal 1: Trusted stewards – Ensure a well-governed financially sound trust fund, Objective E: Enhance how risks are defined, viewed and managed.

Board Policy Linkage: Board Governance Manual, Section G: Risk Management Policy

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Optional Reference Material: *(prior board items, supplemental educational materials, etc.)*

March 2023 ARM Committee, Item 7 – Enterprise Risk Management and Compliance Services Framework and Maturity Recommendations

November 2023 ARM Committee, Item 7 – Enterprise Risk Management and Compliance Services 18-Month Maturity Plan.