

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

**A. GENERAL INFORMATION**

1. Date

April 7, 2020

2. Department

California State Teachers' Retirement System

3. Organizational Placement (Division/Branch/Office Name)

Financial Services Branch - Risk Management

4. CEA Position Title

Director of Enterprise Risk & Financial System Support

5. Summary of proposed position description and how it relates to the program's mission or purpose. (2-3 sentences)

Under the direction of the Chief Financial Officer, the Director of Enterprise Risk & Financial System Support is responsible for the leadership and management of the Enterprise Risk Management & Quality Assurance, and Business Direct System Support units. The incumbent provides leadership in the formulation, modification, and implementation of new and existing enterprise risk policies, strategies, procedures, systems and reporting for the identification and monitoring of enterprise risks for the entire CalSTRS organization. The incumbent will provide policy development, strategic analysis and oversight for all financial information technology system support activities. The incumbent is responsible to align risk management with strategy setting, incorporating intelligent risk management and fraud prevention practices throughout the organization, and identifying and scoring risks. The incumbent serves as a policy advisor to the Chief Executive Officer, Executive Staff, the Teachers' Retirement Board and the Audits & Risk Management Committee related to these responsibilities.

6. Reports to: (Class Title/Level)

Chief Financial Officer, a position under the TRB's compensation setting authority

7. Relationship with Department Director (Select one)

- Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(Explain): As a member of senior leadership, serves as a policy advisor to the Teachers' Retirement Board and the board's Audits and Risk Management Committee, the CEO, the Chief Financial Officer and Executive staff.

8. Organizational Level (Select one)

- 1st
- 2nd
- 3rd
- 4th
- 5th (mega departments only - 17,001+ allocated positions)

## B. SUMMARY OF REQUEST

### 9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

Provide leadership, management and policy direction for the work activities and performance of the Enterprise Risk Management & Quality Assurance, and Business Direct System Support units. Plan, direct and organize the work of staff assigned to enterprise risk management, quality assurance and business direct system support. Oversee the development of an enterprise risk management framework to ensure that risks and controls are properly managed to support the achievement of CalSTRS strategic goals and business objectives. Provide leadership in the formulation, modification and implementation of new and existing enterprise risk policies, strategies, procedures, systems and reporting for the identification, assessment and monitoring of risks for the enterprise. Design, develop and oversee risk management activities that identify risks, measure impact probability or likelihood of occurrence, and determining velocity or speed of onset to reduce the probability or potential effects of identified risks. Conduct risk assessments and report findings and remedial actions to Executive Staff, the board and the ARM Committee. Coordinate ERM's response to internal audit findings of risk management activities and recommendations for improvement. Coordinate management's response to external audit findings, consulting with the Chief of Audits as appropriate.

Advise and consult with management on matters related to enterprise risk. Participate in CalSTRS SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to assist Executive Staff and the board in evaluating the organization's current strategic position and identify potential risks to the organization. In a consulting capacity, participate in the initial stages of major projects so that risks can be appropriately identified, and managed and internal controls instituted in the design phase to limit control weaknesses and minimize the costs to remedy control weaknesses at a later stage. Oversee the coordination of the Risk Champion Network activities and collaborate with risk champions to discuss, review and make recommendations related to risk management activities. Participate with Branch Executives in the development of forward-facing key risk indicators (KRIs) that serve as leading indicators of potential risk exposures. Promote enterprise risk awareness and oversee the design, development, and establishment awareness education that inform employees about internal controls and their risk management responsibilities to ensure risk alignment throughout the organization.

Oversee the management of the Business Direct System Support Unit responsible for enhancement, maintenance and operations of a comprehensive and complex financial information system that is comprised of full corporate functionalities for general ledger, accounts receivable, accounts payable, asset management, procurement, cost accounting, budget, investment accounting, and financial reporting. Leverage innovative technology solutions that maximize operational efficiency and oversee the development of business requirements for system security, modifications and enhancements necessitated by legislative, regulatory, policy and/or program requirements.

Act as a policy advisor to the CEO, Executive Staff, the board and the ARM Committee recommending and implementing policies and strategies in support of the Strategic Plan, Annual Business Plan and risk management to provide critical policy direction and advice and to assist them in meeting their fiduciary and governance responsibilities. Participate in board meetings and deliver formal written and oral presentations including the semi-annual risk management report. Provide briefings, continuing education and expert consultation and advice to the board and the ARM Committee in rendering sensitive operational and risk mitigation decisions. Report potential and emerging program risks to the board and the committee. Oversee efforts to enhance quality assurance program that reviews the financial services branch adherence to policies and internal controls.

Serve as a Senior Leadership representative on other CalSTRS governance councils and organization-wide forums. Direct and oversee the review of legislation to determine risk impact and advise the CFO on legislative positions. Coordinate legislative recommendations to CalSTRS Governmental Affairs on behalf of the ERM program. Represent CalSTRS and serve as the primary point of contact with the Department of Finance for compliance with the State Leadership Accountability Act (SLAA).

Represent CalSTRS before constituent groups, State agencies and the legislature. Maintain relationships with internal and external stakeholders to advance CalSTRS commitment to risk intelligence. Acts on behalf of the CFO, as delegated, in his/her absence.

**B. SUMMARY OF REQUEST (continued)**

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- Program is directly related to department's primary mission and is critical to achieving the department's goals.
- Program is indirectly related to department's primary mission.
- Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description: The program area under the direction of the proposed CEA is responsible for enterprise risk management in support of CalSTRS mission to secure the financial future and sustain the trust of California's educators. Effective risk management is essential for long-term business sustainability and is necessary to support the delivery of member benefits (\$16 billion annually) and the investment of CalSTRS approximately \$250 billion portfolio (as of March 1, 2020).

The purpose of the enterprise risk management (ERM) program is to identify, assess, and prepare for any risks that may interfere with CalSTRS operations and business objectives. While not all risks can be eliminated, it is important to understand the risks faced by CalSTRS and to develop mitigation strategies to reduce risks. The program area under the direction of the Director of Enterprise Risk and Financial System Support will be responsible for developing, implementing and managing an effective enterprise-wide risk management program. The incumbent will provide senior leadership in the formulation, development and implementation of an enterprise risk management framework, conduct enterprise risk assessments, and provide risk training designed to promote a risk-intelligent culture. The incumbent will develop policies, procedures, training and core communications to set the tone for effective risk management.

As the highest technical expert on risk management, the CEA will act as a policy advisor to the CEO, Chief Financial Officer, Executive Team and the Teachers' Retirement Board and the board's Audits & Risk Management Committee on all matters of enterprise risk and will provide critical policy direction and advice to assist them in meeting their fiduciary and governance responsibilities.

## **B. SUMMARY OF REQUEST (continued)**

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

In recognition of continued growth and the operational complexity of its programs, CalSTRS seeks to establish a CEA Level B, titled Director of Enterprise Risk and Financial System Support to provide leadership and oversight over CalSTRS Enterprise Risk Management and Quality Assurance programs and the Business Direct System Support Unit within the Financial Services Branch.

CalSTRS is committed to a business strategy supporting the proactive identification, assessment, measurement, monitoring and management and reporting of risks. Enterprise Risk Management is responsible for aligning risk management with strategy setting, incorporating intelligent risk management practices throughout the organization, and identifying and scoring risks. These activities serve to reduce the probability or potential effects of identified risks that may impact the investment of CalSTRS portfolio and the delivery of benefits and services to California's educators. It is imperative that CalSTRS has the appropriate senior leadership and policy oversight to ensure risk management programs are operating within the highest fiduciary standards.

In March 2019, under the direction of CalSTRS Chief of Audits, a review of the organization's Enterprise Risk Management (ERM) Program was conducted to evaluate the program's effectiveness. This review resulted in several key audit findings in the areas of risk assessment, governance, strategy and objective setting, and performance monitoring that support the need for greater ERM oversight and program growth. CalSTRS' external auditor, Crowe Inc., also expressed its recommendation for CalSTRS to invest in the growth of the ERM program and articulated the necessity for greater enterprise risk management oversight. One of the primary objectives of the ERM Program is to establish a culture where risk management is linked to strategy setting and considered in business decision making. A key finding of the audit showed that although the Chief Financial Officer (CFO) participates in strategic planning, ERM was not involved at the beginning of the strategic and business planning process and was not able to provide input of potential key risks to strategic plan objectives or business plan for consideration. The Strategic Plan establishes priorities for CalSTRS and provides a clear blue print for the future of the organization, outlining a focused direction for the achievement of CalSTRS long-term goals which includes a comprehensive approach to corporate sustainability. The strategic-planning process requires enterprise risk management, strategy, and objective-setting working together since implementing strategic goals and objectives may reduce enterprise risks or they may introduce new risks to the organization. ERM enriches management dialog by adding perspective to the strengths and weaknesses of a strategy as conditions change, and to how well a strategy fits with the organization's mission and vision. The alignment of ERM with strategic planning is essential to consider the risk impact for achieving strategic goals and objectives. The need for greater program governance and oversight was also highlighted within the audit and included recommendations for a more dynamic and iterative process for identifying and assessing risks that may prevent or impact the achievement of objectives and forms the basis for how risks will be managed. The oversight includes the development of key risk indicators (KRIs) that provide early warnings of increasing risk exposures in various areas of the organization, the development of a standardized methodology for performing branch-level risk assessments and the development of risk tolerance ranges to represent the application of risk appetite to specific objectives on the annual business plan. These governance processes help to ensure risk alignment across the organization.

More recently, the CFO has assessed the organization structure of the Financial Services Branch and will also include the Business Direct System Support Unit under the proposed CEA. The BDSS Unit is responsible for managing financial information technology solutions. The BD system is a complex financial information system that is comprised of full corporate functionalities for general ledger, accounts receivable, accounts payable, asset management, procurement, cost accounting, budget, investment accounting, and financial reporting.

For an institution of the size and complexity of CalSTRS, a broad and rigorous risk management program is best practice and a crucially important component of long-term business sustainability and business continuity. This position is critical to CalSTRS strategic objective to become a risk intelligent organization and to enhance decision-making and implement appropriate risk transfer, mitigation, avoidance and acceptance strategies.

## C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

CalSTRS considers risk management an essential component of strategic, operational, financial and reputational management. CalSTRS faces a range of risks that can both positively (opportunities) and negatively (threats) impact the achievement of business objectives. The Director of Enterprise Risk and Financial System Support manages and oversees all aspects of the enterprise risk management function ranging from risk identification and assessment to measurement, monitoring and reporting risk. The Director of Enterprise Risk and Financial System Support will serve as a policy advisor to the CEO, Chief Financial Officer, and Executive Staff on all matters related to enterprise risk management and will assist Executive management in developing a risk management framework. The incumbent will serve as a policy advisor to the Teachers' Retirement Board and the board's Audits and Risk Management (ARM) Committee providing reports, briefings and continuing education and provide assistance to the board in its fiduciary responsibilities to:

- Ensure creation of a comprehensive approach and framework to anticipate, identify, analyze, prioritize and manage key risks to the System's business objectives,
- Provide the policy for an effective system of enterprise-wide risk management,
- Establish the overall enterprise risk appetite,
- Approve management's strategy relating to key risks, including, but not limited to strategic, operational, financial, compliance, and reputational and investments,
- Receive reports on selected risk topics,
- Ensure risk assessments are performed periodically and completely,
- Communicate risk management activities and risk appetite established by the board

The Director of Enterprise Risk and Financial System Support will develop sound policies, procedures and practices for the enterprise-wide management of risks to ensure that risk management is integrated into the organizational structure and in the decision making process. The incumbent will oversee the implementation of a risk management framework that incorporates internal controls to ensure risks are managed effectively and in compliance with CalSTRS governance and legislative requirements. The incumbent is responsible for the development and maintenance of efficient reporting to improve risk transparency to Executive Staff and the Teachers' Retirement Board including regular reporting that will enable the board to better understand the management of CalSTRS most significant opportunities and risk exposures. CalSTRS categorizes risks into five primary domains:

- Strategic Risk - Risk that could prevent CalSTRS from accomplishing its organizational objectives.
- Operational Risks - Risk that could prevent CalSTRS from operating in the most effective and efficient manner or be disruptive to other operations, including technology risks.
- Financial Risks - Risks that could result in a negative financial impact to CalSTRS (waste or loss of assets)
- Reputational Risks - Risk arising from negative perception that impacts earnings, access to capital, inability to establish new relationships or services, or continue servicing existing relationships.
- Compliance Risks - Risk of legal or regulatory violations, legal liability, material financial loss or loss to reputation that the enterprise may suffer as a result of its failure to comply with governing laws and regulations, its own core values, code of conduct, policies and procedures and relevant standards of best practice.

The Director of Enterprise Risk and Financial System Support will oversee the development of all risk management governance documents for Executive Staff approval, including but not limited to:

- CalSTRS Enterprise Risk Management Program Charter
- Enterprise Risk Committee Charter
- Risk Champion Network Charter
- Enterprise Risk Management Policy
- Enterprise Risk Management Report

The incumbent will serve as the primary contact to the Department of Finance in compliance with the State Leadership Accountability Act (SLAA), enacted to reduce the waste of resources and strengthen internal controls. The SLAA requires each state agency to maintain effective systems of internal control, to evaluate and monitor the effectiveness of these controls on an ongoing basis, and to biennially report on the adequacy of the agency's systems of internal control.

The incumbent will also oversee the BusinessDirect System Support Unit. BD is CalSTRS' custom implementation of the SAP software system. It is a comprehensive system and database for the tracking and reporting of budgeting, procurement, asset management, contract processing, business partner relationship management, accounts payable, accounts receivable, travel and expense processing, and financial reporting.

### **C. ROLE IN POLICY INFLUENCE (continued)**

#### **13. What is the CEA position's scope and nature of decision-making authority?**

The Director of Enterprise Risk & Financial System Support will provide leadership in the formulation, development, implementation and maintenance of a comprehensive, proactive, and risk aware program and has full management authority to direct the ERM activities that institute a risk-intelligent culture within the organization. The CEA will develop an enterprise risk management framework, develop risk management policy and strategy, develop key risk indicators, and conduct enterprise and program risk assessments. The Director of Enterprise Risk & Financial System Support will oversee the development and delivery of annual enterprise-wide risk awareness and internal controls training with a focus on enterprise risk management practices, the importance of internal controls and managing risks at CalSTRS. The incumbent will develop enterprise-wide awareness campaigns and communication plans that aid in mitigating risks that may interfere with CalSTRS operations and business objectives. As the highest technical expert on risk management, the CEA will act as a policy advisor to the CEO, Chief Financial Officer, Executive Team and the Teachers' Retirement Board and the board's Audits & Risk Management Committee on all matters of enterprise risk and will provide critical policy direction and advice to assist them in meeting their fiduciary and governance responsibilities. Without clear risk information, the board and executive management may not be able to perform effective risk oversight.

The Director of Enterprise Risk & Financial System Support will participate in meetings of Executive Staff in its periodic assessment of the Strategic Plan to evaluate factors that may require a shift in strategic priorities. From a risk perspective, the incumbent will participate in strategy meetings on the challenges facing CalSTRS and participate in the annual environmental scan activities including assessing CalSTRS strengths, weaknesses, opportunities, and threats (SWOT), potential legislative changes, and current and future projects that impact the system's long-term sustainability. The alignment of enterprise risk management with strategic planning is essential to consider risk impact for achieving strategic goals and objectives.

The incumbent will lead the activities of the Risk Champion Network, an internal governance committee consisting of Risk Champions from each branch responsible to manage and organize risk information within their respective business areas. The incumbent will collaborate with Branch Executives to develop forward-facing key risk indicators (KRIs) that serve as leading indicators of potential risk exposure. The CEA will have authority to challenge and oversee branch-level risk assessments and the monitoring of the branch performance of risk mitigation and will oversee monitoring and the development of remediation plans.

The CEA will participate in the initial stages of major projects, in a consulting capacity, so that risks can be appropriately identified and managed and internal controls instituted in the design phase in order to limit control weaknesses and minimize the costs to remedy the control weaknesses at a later stage.

#### **14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?**

As the ERM program grows and matures, the CEA will develop new policies and risk management strategies that continue CalSTRS commitment to being a risk intelligent organization with strong internal control foundations. Each year CalSTRS conducts environmental scan activities including assessing CalSTRS strengths, weaknesses, opportunities, and threats (SWOT), potential legislative changes, and current and future projects that impact the system's long-term sustainability. The CEA will formulate and direct the development of new or revised risk management policies and standards based on this analysis. Additionally, each year CalSTRS business plan is fine-tuned to represent the focus of the organization allowing CalSTRS to continually assess the changing environment including regulatory changes, operational risks, financial market risks and the changing needs of CalSTRS members. The CEA will formulate and direct the development of new or revised enterprise policies and strategies based on these ongoing changes. The CEA will continue to formulate and implement risk mitigation strategies to address risk identified in CalSTRS Risk Management report.