California State Teacher's Retirement System

Enterprise Risk Management Framework

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

May 2024

Contents

Introduction

Purpose

CalSTRS is committed to maintaining a robust Enterprise Risk Management (ERM) Framework that enhances decision-making, protects assets and ensures compliance with regulatory requirements. CalSTRS commitment to effective risk management begins with the Teachers' Retirement Board's (board) approval of this ERM Framework, which clearly articulates their expectations for managing risk throughout the organization.

This documented ERM Framework provides the guidance necessary to the organization to anticipate and respond to potential risks. The CalSTRS ERM Framework is based on the COSO[1] integrated ERM framework that comprises five components. These components include:

- Governance, culture and ethics
- Strategy and objective setting
- Performance
- Review and revision
- Information, communication, and reporting

These interrelated components work together to support the CalSTRS control environment, risk assessment processes, and monitoring activities. This model is used to effectively identify, assess and manage risks across the organization.

This documented ERM Framework helps the board and Chief Executive Officer (CEO) meet their responsibilities for oversight of the risk framework and for managing risk, as outlined in the board's Risk Management Policy[2]. This ERM Framework also helps the Audits and Risk Management (ARM) Committee meet their responsibility for reviewing and recommending to the board changes to the ERM Framework, as outlined in the ARM Committee charter.

The integration of enterprise risk management and compliance within the COSO framework promotes a proactive and coordinated approach to risk identification, assessment and mitigation, while maintaining ethical and responsible business practices. This integration fosters a culture of awareness, transparency, accountability, and integrity, while strengthening our overall risk management capabilities. This ERM Framework document outlines the various responsibilities and activities performed at all levels within the organization and how they support the five COSO components.

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[1] Committee of Sponsoring Organizations of the Treadway Commission (COSO) is an organization dedicated to providing thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control, and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations. COSO is a private-sector initiative jointly sponsored and funded by the American Accounting Society, American Institute of CPAs, Financial Executives International, Institute of Management Accountants, and the Institute of Internal Auditors. Applying the COSO ERM Framework

[2] Board Governance Manual, Section G: Risk Management Policy

Background

Enterprise risk management is a process designed to identify potential events and manage risks, to provide reasonable assurance regarding the achievement of business objectives. The ERM Program's primary objective is to enhance the organization's ability to anticipate and mitigate risks effectively while maximizing opportunities for growth. The ERM Program began with an April 2010 ARM Committee conversation about CalSTRS' risk management process. The board held a workshop in early 2012 to begin the framework of what would become the ERM Program. In 2012, the ARM Committee initially established seven risk categories, a decentralized ERM Program structure and risk management oversight. In 2013 staff presented the first risk oversight report to the ARM Committee with two additional risk categories, for a total of nine. Today, CalSTRS monitors 10 risk categories. ERM Program responsibilities are outlined in the ERM Program charter and the Enterprise Risk Management Policy #17-030.

Compliance risk management is a process designed to identify, assess, monitor and mitigate potential financial losses or reputational damage that may arise from irresponsible, unethical acts or noncompliance with laws, regulations, standards and applicable policies. In 2016, the ARM Committee approved the establishment of the Enterprise Compliance Services (ECS) Program. ECS Program responsibilities our outlined in the ECS Program charter, the Compliance and Ethics Hotline Reporting Policy #21-152, System and Organization Controls Report Review Policy #17-125 as well as the Policy Management Policy #21-160.

The ERM and ECS Programs are administered by dedicated teams within the Financial Services Branch with sufficient knowledge and expertise to support the programs. Under the general direction of the Chief Financial Officer (CFO), the Director of Enterprise Risk Management and Compliance Services leads the ERM and ECS teams.

Governance, culture and ethics

Governance sets the organizations tone. It reinforces the importance of oversight responsibilities for enterprise risk management and compliance. Culture pertains to the ethical values, desired behaviors, and understanding of our organization's risks. The CalSTRS ERM Framework describes the structured approach used to establish the authorities and responsibilities of the board and all CalSTRS staff in supporting risk management.

Authorities and responsibilities

The **Teachers Retirement Board** establishes the organization's tone and culture toward effective risk management and maintains oversight of CalSTRS' approach to risk management. The board has the ultimate responsibility for overseeing the organization's risk management efforts, setting the risk appetite, approving management's strategy relating to key risks, receiving risk reports, ensuring risk assessments are performed periodically, providing strategic direction and confirming board committees oversee adoption of processes and tools for managing risk associated with business objectives. This responsibility is codified in the Board Governance Manual, Section 2.G Risk Management Policy.

Figure 1 provides a high-level description of the key groups and responsibilities associated with the ERM Framework.

Figure 1: Summary of key groups that support the ERM Framework

Key Groups	Members	Risk Responsibilities
Board/Audits and Risk Management Committee	Trustees	Governance and oversight
Executive Risk and Compliance Committee	Executive team	Oversight, strategy and implementation
Aligned assurance groups	Enterprise Risk Management Enterprise Compliance Services	Risk and compliance training, support and reporting
Internal and external audits	Audit Services and External auditor	Independent reporting to the board and senior management
Risk Champions Network	Internal staff selected by branch executive	Identification and reporting of risks
Business area risk owners	Management and staff	Identification and management of risks

The **Audits and Risk Management Committee** was established to assist the board in fulfilling its fiduciary oversight for the ERM Framework, compliance, financial reporting, internal controls, internal audit and external audit engagements. The Audits and Risk Management Committee supports the board by managing oversight of CalSTRS' ERM Framework. This responsibility is codified in the ARM Committee charter.

An **Executive Risk and Compliance Committee,** comprised of the CEO, Chief Operating Officer (COO), Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Technology Officer (CTO), Chief Benefits Officer, General Counsel, Chief Administrative Officer, Chief Public Affairs Officer, and System Actuary. In addition, the following CalSTRS staff serve in a consultative role to the ERCC: the Chief Auditor, Director of Investment Services, Director of Communications, Human Resources Director, Director of Enterprise Strategy Management and Chief Information Security Officer.

This committee demonstrates commitment to risk management by ensuring effective risk oversight and decision-making by focusing on risk-related matters, reviewing enterprise-level risks, and monitoring the effectiveness of risk management and compliance activities. In addition, the ERCC helps the CEO meet the risk responsibilities delegated to the CEO in the Board Governance Manual, Section 2.G Risk Management Policy.

Aligned assurance groups include the ERM and ECS teams. These teams provide the organization with risk management and compliance expertise, support, training, and analysis. ERM and ECS reports on the management of risks and compliance to the board, ARM Committee, and the ERCC. Responsibilities of the ERM and ECS Programs are outlined in their respective charters.

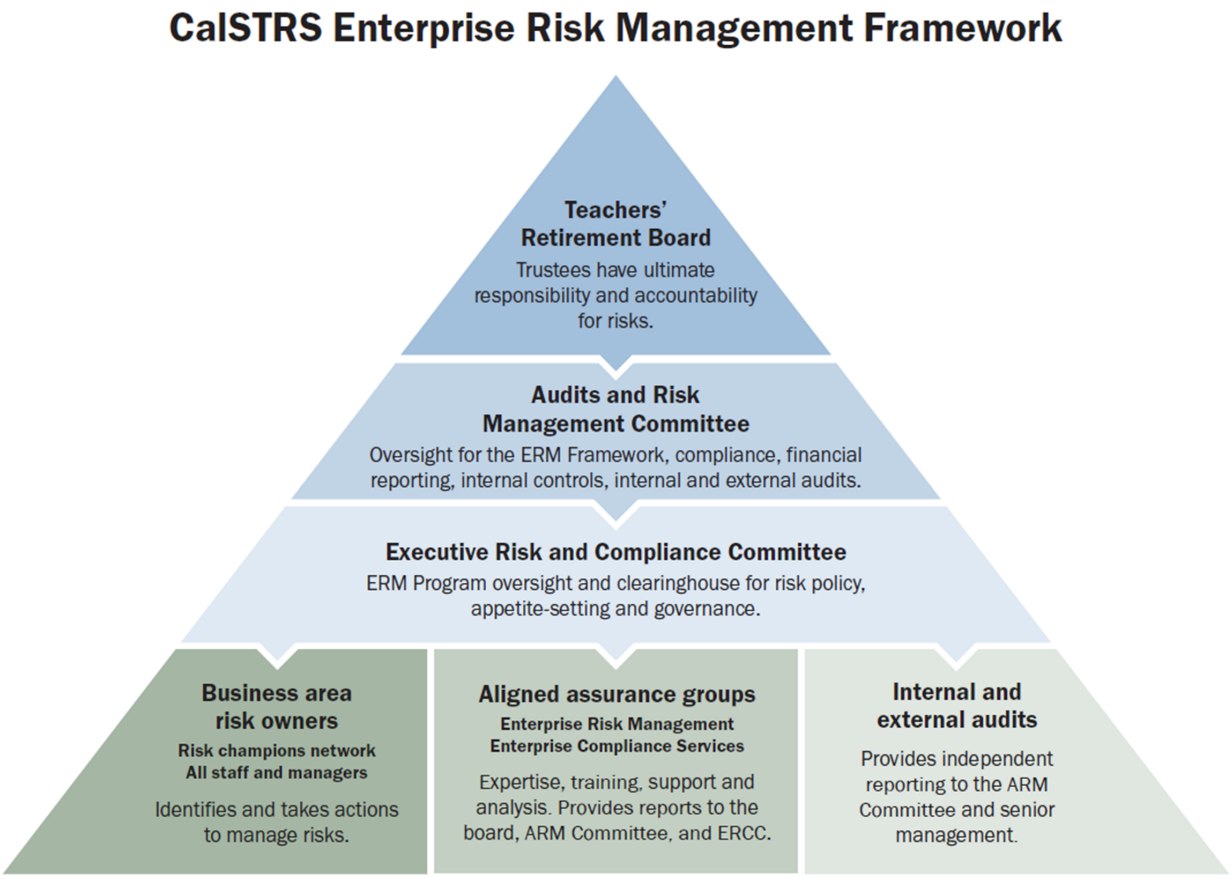
Internal and external audit groups provide independent reporting to the board and CalSTRS leadership on risk management and compliance activities. Responsibilities of the Chief Auditor and Audit Services staff are defined in the Audit Services charter.

Risk Champions Network are internal staff selected by executives to represent their branch and large projects, such as Pension Solution, to manage and organize the risk information within their respective branches. They coordinate communications and reporting with the ERM Team.

Business Area Risk Owners are responsible for the identification and management of risks within their respective branches.

Figure 2 on the next page describes how these groups work together to support the overall ERM Framework.

Figure 2: CalSTRS Enterprise Risk Management Framework



The ERM Framework's governance structure promotes transparency, accountability and communication, fostering a risk-awareness culture throughout the organization and ensuring that risk management is integrated throughout all levels of the organization in decision-making and operations in the pursuit of strategic goals and objectives.

Policies and standards management

Policies help the organization in documenting and communicating desired behaviors and expectations. Policy management is a process involving an organized review cycle to ensure policies and standards remain updated, consistent with industry best practices and in alignment with our core values. ECS maintains and monitors policies and standards in a centralized repository called Epicenter to reduce the risk of duplicated or outdated policies. ECS collaborates with all business areas within CalSTRS to manage policies and standards. This collaboration ensures that all CalSTRS employees and contractors have access to and have an understanding of the rules, expectations and best practices within our organization, which are necessary to promote compliance.

Risk and compliance culture

CalSTRS' risk and compliance awareness culture is built upon our core values, which are a set of attitudes, beliefs and behaviors that define CalSTRS and our employees. Our core values emphasize customer service, accountability, leadership, strength, trust, respect and stewardship. These values shape the organization's risk and compliance culture, setting the expectation that all employees adhere to high standards of behavior and act in the best interests of the organization, our members and various stakeholders. In addition, the CalSTRS Code of Ethics and Business Conduct creates a safe, respectful and professional work environment for all employees and serves as guidance for ethical decision-making.

"Annual enterprise risk management and compliance training is required to be completed by all employees to promote awareness of their responsibilities as it relates to risk management, compliance and ethics."

Annual enterprise risk management and compliance training is required to be completed by all employees to promote awareness of their responsibilities as it relates to risk management, compliance and ethics. Employees are provided with the opportunity to complete an anonymous survey at the conclusion of the annual training to provide feedback and foster continuous improvement.

Education about specific risk and compliance topics are provided throughout the year to employees to promote continuous learning and awareness. Furthermore, CalSTRS promotes a speak-up culture, encouraging employees to raise concerns or report potential compliance issues or warning signs of risk without fear of retaliation by leveraging the CalSTRS Compliance and Ethics Hotline.

Strategy and objective-setting

Enterprise risk management, strategy, and objective-setting work together to support the strategic planning process. Risk appetite provides boundaries for risk-taking that are aligned with strategy, which serve as the basis for identifying, assessing, and responding to risks. The CalSTRS ERM Framework is designed to support strategic alignment and objective-setting.

Strategy alignment

CalSTRS board and executive staff with the guidance of the board governance consultant develop and publish a formal *strategic* plan, adopted by the board, that aligns core values with strategic goals and objectives. A formal *business* plan is also developed to provide details on specific initiatives that drive the accomplishment of the strategic goals and objectives. ERM and ECS staff work collaboratively with the Strategy and Organizational Performance Team to ensure risk and compliance considerations are contemplated during development and ongoing execution of both the strategic and business plans to ensure the organization is considering risk in alignment with CalSTRS risk appetite.

Risk appetite

Risk appetite can be defined as the types and amount of risk on a broad level that an organization is willing to accept in pursuit of value. Risk appetite provides a common understanding of the organization's approach toward risk management and establishes boundaries for risk-taking or risk-aversion activities in the pursuit of strategic goals and objectives. In addition, risk appetite helps with regulatory compliance requirements by ensuring that risk-taking activities are within acceptable limits defined by legal requirements. The ERM Team, working with the risk champions, business area risk owners and executives, collaborate in the identification and development of risk appetite while recognizing the appetite is broadly defined by the board through investment beliefs, actuarial assumptions, investment targets and strategic decisions.

We regularly assess risk appetite to ensure ongoing alignment with strategic objectives as the risk and regulatory environments change.

Risk metrics

Key risk indicators (KRIs) are metrics used to monitor risk within CalSTRS' business areas and serve as early warning signs. These indicators help measure risk tolerance based on the organization's defined risk appetite and are designed to align with strategic objectives to maintain an optimal balance between risk-taking and risk mitigation to achieve objectives. By tracking KRIs, management can identify deviations from acceptable risk levels and take proactive measures to mitigate risks and bring them back within tolerance. The risk champions gather the quarterly KRI data and provide the information for the ERM Team's review and assessment.

Risk domains and categories

CalSTRS recognizes six domains of risk, comprised of strategic, operational, financial, reputational, investments and compliance[3]. Through assessment of these domains, staff has identified the top 10 enterprise-level risk categories. Figure 3 shows the enterprise-level risk categories and the associated risk for each.

Figure 3: Enterprise level risk categories and associated risks.

Enterprise-level risks	
Risk category	**Associated risk**
Pension funding - Investments	Fund performance objectives not achieved as set in the Investment Policy and Management Plan.
Pension funding - Actuarial	Actuarial methodologies and assumptions vary from experience.
Pension funding – Contribution rate	Insufficient contribution rates to amortize unfunded actuarial obligation.
Pension administration	Untimely or inaccurate delivery of benefits and services due to inadequate or failure of processes, technology systems, staff actions or data.
Financial reporting	Material misstatement of the financial statements or deviation from U.S. Generally Accepted Accounting Principles caused by failure of internal controls.
Information security	Loss of information security or compliance violations as a result of unauthorized or unintentional breaches.
Operational	Inability to achieve business objectives due to lack of compliance with internal controls, lack of accessibility to technology systems, or loss of critical staff knowledge.
Reputational	Loss of confidence in CalSTRS as a respected fiduciary of public funds.
Transformational change	Inability to accomplish major transformational change initiatives.
Third parties	Failure to appropriately manage risks associated with third parties.

These categories and correlating sub risks may change over time depending on new strategic objectives, initiatives and the risk environment.

[3] These six risk domains are outlined in the February 2024 Teachers' Retirement Board's Board Governance Manual.

Performance

Specific risks that may impact the achievement of strategy and objectives need to be regularly identified and assessed. At CalSTRS, risks are prioritized by severity in the context of risk appetite and risk responses are selected to manage and mitigate the identified risks. This helps us in taking a portfolio view of the amount of risk it has assumed.

Risk identification

Emerging risks are potential risks to the organization which have not been previously identified, were not yet significant enough to impact the organization or were dormant for an extended period. Their onset may be years in the future or immediate due to unforeseen changes. We recognize that emerging risks' probability may vary and may have a high impact that threatens meeting our business objectives. The identification of emerging risks is essential to fully understand the risk landscape and determine which of these risks should be further assessed and actively managed when necessary. In addition to the risk identification reported by enterprise risk management, the chief investment officer regularly keeps the board informed about potential emerging risks that may affect the CalSTRS investment portfolio.

"While risk can never be eliminated, awareness of risks and root causes allow CalSTRS employees to effectively and proactively monitor and manage risks that evolve because of the risk environment and regulatory changes that may threaten our strategic goals and business objectives."

Existential risks are potential risks that would require a significant and immediate shift in strategy and how we administer the fund for our members. We recognize existential risks have a low probability but would result in a high impact on how we currently do business. Existential risks can be a subset of emerging risks. Like emerging risks, the identification of existential risks is essential to fully understand the risk landscape and determine which of the risks should be further assessed and actively managed when necessary. To assist the ERM and ECS teams in the identification of emerging and existential risks, as well as enterprise-level risks, various external and internal sources are continuously monitored. ERM staff regularly provide updates to the board on emerging and existential risks that may impact business operations.

While risk can never be eliminated, awareness of risks and root causes allow CalSTRS employees to effectively and proactively monitor and manage risks that evolve because of the risk environment and regulatory changes that may threaten our strategic goals and business objectives.

Risk assessment and monitoring

The CalSTRS ERM Policy requires that each branch conduct an annual risk assessment and submit the results of the risk assessment to the ERM Team by fiscal year-end. Branch risk champions assist branch leadership in the identification and assessment of the current risk landscape and how internal and external factors affect previously identified risks as well as identification of new emerging risks that may impact their business processes. Each executive is responsible for approval of their annual branch risk assessment.

The ERM Team is responsible for awareness of all branch-level identified risks and their potential effect on existing enterprise-level risks. The ERM Team reviews each branch-level risk assessment and monitors performance of risk mitigations to respond to risks and escalate branch-level risks to the ERCC as needed.

In addition, investment staff along with the board's investment consultants, continually assess risks to the investment portfolio. A comprehensive asset liability study occurs at least every four years that includes comprehensive market studies, strategy and historic analysis, risk identification, diversification, scenario analysis, quantitative modeling and stress testing. Investment staff regularly monitor the global markets' impact to the total portfolio and its sub-components to ensure adequate liquidity is maintained to meet financial obligations and take advantage of opportunities in the market. Investment staff monitor and oversee the control environment that includes investment policy oversight and report regularly to the board through semiannual performance reporting, tactical allocation reporting and investment compliance reporting.

ECS conducts regular compliance risk assessments that enables the team to systematically identify and analyze potential areas of noncompliance with laws, regulations and internal policies across the organization. Compliance risk assessments are coordinated and aligned with other enterprise-level risk assessments and assists the team with development of work plans, monitoring, and training.

Evaluation and prioritization

Evaluation and prioritization of risks are critical components of the CalSTRS ERM Framework. To accomplish these tasks, the organization follows a systematic approach. The evaluation and assessment of risks are based on predefined risk ranking criteria adopted by the ERCC and outlined in the ERM Policy. This evaluation helps determine the significance of risks, considering factors such as impact, which gauges the potential severity of the risk for the organization, probability which rates how likely the risk is to occur, and velocity, which considers how fast a risk may impact CalSTRS. Figure 4 provides a summary of the risk ranking criteria and definitions.

Figure 4: Summary of risk ranking criteria

Risk ranking criteria

Impact range	
1 - Negligible	Minimal impact
2 - Minor	Causes variances requiring explanation
3 - Moderate	Significant impact but viability not threatened
4 - Major	Significant impact threatening business unit viability
5 - Catastrophic	Likely to threaten the continued existence of the business
Probability range	
1 - Remote	(0 to 20%)
2 - Unlikely	(21 to 40%)
3 - Possible	(41 to 60%)
4 - Likely	(61 to 80%)
5 - Almost certain	(81 to 100%)
Velocity range	
1 - Very low	Very slow onset, occurs over a year or more
2 - Low	Onset occurs in a matter of several months
3 - Medium	Onset occurs in a matter of a few months
4 - High	Onset occurs in a matter of days to a few weeks
5 - Very high	Very rapid onset, little or no warning, instantaneous

Following the evaluation, the ERM Team prioritizes all risks based on their significance and potential impact on the organization. This prioritization assists in effectively allocating resources and focusing on managing the most critical risks. We use various methods to show the prioritized risks, including heat maps, risk scores, and emerging risk maps.

Risk evaluation and prioritization are not one-time activities but require regular updates as the risk and regulatory environments evolve. Monitoring ensures that risks continue to be managed effectively and allows for adjustments in risk mitigation strategies when needed.

Similarly, evaluations are performed on identified third party contractors that are required to submit a System and Organization Controls Report to ensure the contractor has effective internal controls in place. SOC reports are independent evaluations performed by a certified public accountant. The independent CPA will assess and report on a contractor's internal control environment and test controls when needed. The ECS Team manages the SOC report review process to ensure the reviews are performed by contract managers and supporting functions in accordance with CalSTRS policy. These reviews are critical to evaluate the contractor's internal controls and determine if any deficiencies need correction or whether we have compensating internal controls in place to address identified gaps.

Risk response

CalSTRS recognizes various responses to manage risks within the ERM Framework. These responses include accept, share, reduce and avoid:

- **Accept:** Used when no action is planned due to the cost/benefit of the decision. However, the risk is monitored and documented.
- **Share:** Used to transfer a portion of the risk to a third party.
- **Reduce:** Used to manage potential impact and probability of risk.
- **Avoid:** Used when we choose not to engage in activities that lead to the risk.

The selection of a specific risk response strategy depends on factors such as CalSTRS risk tolerance, appetite, potential impact, velocity, likelihood and available resources. The goal is to effectively manage and mitigate risks within regulatory boundaries to ensure alignment with CalSTRS risk appetite and strategic objectives, while minimizing the likelihood and impact of adverse events.

Risk portfolio

In the context of the ERM Framework, the ERM risk portfolio refers to the comprehensive collection and assessment of all identified risks, including compliance risks, that the organization faces. It provides a consolidated view of the organization's risk landscape, including both branch-level and enterprise-level risks and their collective impact on the achievement of strategic objectives. The risk portfolio serves as a central repository of risk information and enables us to gain a holistic understanding of the risk landscape to aid in prioritizing, managing, and monitoring risks effectively.

Review and revision

By continuously reviewing our performance, we can consider how well the enterprise risk management and compliance components are functioning over time. It also helps identify whether changes are needed.

Continuous improvement

The ERM and ECS Teams perform annual reviews of their respective programs to assess their effectiveness and identify areas for improvement. As part of the annual program review process, the teams revisit governance documents, training and resource needs, program maturity and reporting. The results of the ERM and ECS Program reviews are presented to the ERCC and considered in the development of future program work plans.

In addition, Audit Services may periodically perform independent reviews to evaluate the effectiveness of these programs in accordance with the auditing standards promulgated by the Institute of Internal Auditors. The results of internal audits are shared with the ARM Committee.

Information, communication and reporting

A successful enterprise risk management and compliance program requires a continual process of obtaining and sharing necessary information, from both internal and external sources. The CalSTRS ERM Framework is designed to collect and disseminate information up, down, and across the organization.

Information

Information and sources of data are used to identify, assess, monitor and respond to risks. Information is also used to ensure compliance and promote transparency of risk management activities throughout CalSTRS. Information is received from various internal and external sources. Internally, the ERM and ECS Programs have access to CalSTRS newsroom media clips, relevant data systems, branch files and records as well as personnel. External sources of information include outside news sources, consultants and publications about emerging risks and compliance-related topics that may have an impact to our organization. This information and sources of data contribute to our ability to proactively manage risks and make informed decisions.

Communication

The ERM and ECS teams work collaboratively with the risk champions and the ERCC in the identification and assessment of enterprise-level risks that have the potential to impact our strategic objectives. This collaboration is key to promoting information sharing. This requires ongoing communication about relevant branch risks and related information across the organization and fosters informed decision-making. We recognize access to accurate and timely information about risks allows for better understanding of the potential impact on CalSTRS operations while promoting risk-informed decisions by leaders and stakeholders.

We encourage all employees to communicate potential risks they observe or become aware of within the organization to their managers or risk champions. In addition, employees can leverage the CalSTRS Compliance and Ethics Hotline to report risks. Communication and reporting mechanisms help ensure that identified risks are communicated for implementation of mitigation strategies. This promotes a proactive approach to risk mitigation and facilitates the development of effective risk responses.

The ERM and ECS Teams work closely with the CalSTRS' Communications Team to develop annual communication plans that support sharing of information and education to all CalSTRS' employees. The communication plans include activities such as development and socializing of various risk, compliance and ethics related topics on Central and development of annual required training, which support a proactive risk management, ethics and compliance culture at CalSTRS.

Reporting

Internal Reporting

Reporting of enterprise-level risks and instances of noncompliance are an essential part of our ERM Framework. Various reports are regularly provided to the ERCC as well as the board and board committees.

The ERM and ECS teams meet monthly with the risk champions to discuss and implement initiatives to mature the programs and support a risk aware and compliance culture throughout the organization. In addition, the risk champions provide business area updates on enterprise-level risks, compliance activities and key risk indicators on a quarterly basis, which is information needed to build reports for the ERCC and the board.

The ERM and ECS teams meet quarterly with the ERCC to present and consider the data gathered from the risk champions as well as discuss emerging and existential risks that may impact our strategic objectives.

The annual risk and compliance survey results are shared with the ERCC and the board. In addition, branch executives, risk champions and business area leaders perform individual branch risk assessments and provide the results to the ERM Team for consideration on the impact of risks at the enterprise level. Figure 5 provides a summary of the key ERM, ECS, and Audit Services risk reports and their frequency.

Figure 5: Summary of key ERM, ECS, and Audit Services risk reports and their reporting frequency

Reporting		
Meeting	**Schedule**	**Topics**
Teachers' Retirement Board	Regularly	• Emerging, existential and enterprise level risks that may impact strategic objectives.
Audits and Risk Management Committee	Regularly	• ERM Framework and ERM and ECS program charters. • Semi-annual risk scoring reports including heat map and emerging risk map. • Education on risk and compliance related topics. • ERM and ECS program workplans and progress updates. • Annual risk and compliance training and survey results. • Audit Services annual audit plan and results of audit reports. • Annual Compliance and Ethics hotline reporting • External auditors report on the adequacy of the financial statements.
Executive Risk and Compliance Committee	Quarterly	• Emerging, existential and enterprise level risks that may impact strategic objectives. • Annual risk and compliance training and survey results. • ERM and ECS program updates. • ERM/ECS Director updates.

		• Recommendations to continuously improve the ERM and ECS Programs. • State Leadership Accountability Act report summary. • Results of branch-level risk assessments. • Compliance related findings. • Annual System and Organization Controls Report results.
Risk Champions Network	Monthly	• Discuss and consider emerging and existential risks threatening strategic objectives. • Review and update enterprise level risks (quarterly). • Key risk indicators (quarterly). • Branch-level risk assessments (annually). • Discuss and implement ERM and ECS Program initiatives.

Information sharing and reporting enhance transparency, which is crucial for building stakeholder confidence in our organization. ERM and ECS staff provide regular reports to the board and the ARM Committee, as needed, to communicate our risk management and compliance practices, successes and activities, which fosters trust while demonstrating a commitment to managing risks effectively to ensure compliance and achievement of our strategic goals and objectives. Audit Services provides the ARM committee with reports on their independent audits and audit workplans. Transparent reporting also enables executives and the board to assess our risk profile and our ability to manage potential threats and vulnerabilities.

In addition to the risk items presented to the ARM Committee, Investments staff and the Investment Committee's consultants provide risk reports regularly to the Investments Committee. The Investments Compliance staff reports any policy deviations semi-annually to the Investment Committee. Investment Committee responsibilities are outlined in the Investment Committee charter.

External Reporting

The State Leadership and Accountability Act[4] (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 report on the adequacy of the agency's systems of internal control. SLAA reports are issued to the Department of Finance every other year and mitigation plans are reported every six months. The ERM Team works with CalSTRS various business areas to collect the risk and internal control information used in preparing the SLAA reports and is responsible for submitting the reports to the Department of Finance.

[4] Pursuant to Government Code sections 13400 through 13407.