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Introduction

This report summarizes the compliance accomplishments of the California Public Employees' Retirement System (CalPERS) for the period from January 1, 2011, through July 30, 2012. This is the first year that the Annual Compliance Report has been included in the Comprehensive Annual Financial Report.

The Office of Enterprise Risk Management coordinated input from throughout CalPERS to generate this report, which reflects CalPERS strong commitment to practicing ethics, compliance, risk management and good governance, at all levels of operation. This commitment is demonstrated on a daily basis by CalPERS Board of Administration, Executive Staff, management and staff throughout the organization and has resulted in significant improvements to the security, stability and quality of our programs.

Audits and Internal Reviews

In 2011-12, CalPERS Office of Audit Services (OFAS) received the highest possible overall opinion, Generally Conforms, on the recently completed Quality Assurance Review (QAR). OFAS engaged an external reviewer to assess conformance with the standards required by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Contracting Public Agency Reviews
The Contracting Public Agency Reviews focus on ensuring contracting agencies comply with requirements prescribed by the applicable sections of the California Government Code and Title 2 of the California Code of Regulations. The reviews cover areas such as compensation reporting, member enrollment, payroll reporting and employment of retired annuitants. In 2011-12, CalPERS conducted 74 Public Agency Reviews. CalPERS also conducted high profile reviews of the City of Bell, City of Vernon and other contracting public agencies that disclosed numerous unlawful activities, excessive pay rates and misclassified positions, to enhance retirement benefits.

In 2012-13, CalPERS will assess the necessity of expanding the Public Agency Review team to increase the number of public contracting agencies reviewed per year, in addition to leveraging resources within CalPERS and will evaluate methods for using information in my|CalPERS to identify high risk agencies that warrant review.

Internal Audits
OFAS performs assurance and consulting work consistent with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Internal audit areas cover retirement, health, investments, information technology, fiscal and operations support. Internal Audits also evaluates risk exposures relating to the organization's governance, operations and information systems.

In 2011-12, CalPERS completed 48 Internal Audits, consulting projects and follow-up reviews.

As a result of CalPERS effective audit program, CalPERS has recovered significant funding from vendors over the last 18 months. In particular:

- As a result of CalPERS Real Estate Compliance program reviews, an external firm identified over $1 million in overpayments to the General Partner that was subsequently refunded to CalPERS.
- CalPERS co-sourced with an external firm to resolve a compliance issue resulting in recovery of approximately $3.5 million from the General Partner.
- CalPERS audited healthcare providers and identified approximately $900,000 in recoveries for failure to meet contractual claims processing performance standards.

In 2012-13, CalPERS will expand investment related audit coverage through use of the Investment Audit Specialty Pool and co-sourcing opportunities.

FISMA

In accordance with the Financial Integrity and State Managers Accountability Act of 1983 (FISMA), Government Code sections 13400 - 13407, CalPERS submitted a report describing the review of our system of internal control for the biennial period ended December 31, 2011. CalPERS management is responsible for maintaining a system of internal controls which provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and financial statements are reliable.

Financial Statement Audit

The Board of Administration's independent financial statement auditor completed its audit of CalPERS Financial Statements for the Fiscal Year ended June 30, 2011, as required in Government Code Section 20228.

In connection with the audit of the financial statements, the auditor prepared a Management Letter that includes observations and recommendations to enhance accounting and administrative internal controls as well as operational processes. The 2011 Management Letter identified several significant deficiencies in controls over financial reporting as well as opportunities for strengthening internal controls and operating efficiency. CalPERS staff provided a report to the Board's Risk and Audit Committee, at their March 13, 2012, meeting, setting forth a preliminary implementation plan for each response and staff is in the process of implementing these changes. The Board accepted the Management Letter at their March 14, 2012, meeting.

Audit Resolution Policy

CalPERS revised the Audit Resolution Policy to ensure internal audit finding resolution complies with the steps described in the Special Review recommendations and implementation plans. As of June 30, 2012, there are no open internal audit findings more than one year old, bringing CalPERS into compliance with the Board approved Audit Resolution Policy.

Business Administration

Actuarial Reviews
Actuarial staff conducted several internal reviews of the actuarial program, aimed at evaluating compliance with applicable laws, regulations, Board policy and fiduciary obligations, including reviews of:

- Pension plan funding levels and risks, to comply with Board Governance changes requiring an annual review of unfunded liability, overall pension soundness and sustainability
- Actuarial policies regarding funding methods and assumptions
- Policies and practices, to ensure employer rate volatility caused by unexpected demographic events has been appropriately minimized for small employers

Asset Management
In 2011-12, CalPERS conducted and completed a system-wide physical inventory of CalPERS assets in accordance with the State Administrative Manual (SAM),which requires state departments to make a physical count of all property and reconciliation of that property with accounting records at least once every three years. Completion of this inventory provided CalPERS the opportunity to maintain more accurate records pertaining to the acquisition, disposition and control of property. Ultimately, this exercise ensured that we are maintaining an accurate accounting of records along with adhering to internal controls to protect against and detect unauthorized use of State property. In 2012-13, CalPERS will begin conducting smaller scale physical inventories of assets on an ongoing, rotational basis so as to better meet the SAM requirements.

Contracting Agency Oversight
CalPERS implemented procedures for contract amendment valuations, to improve controls over public agency contract amendments. CalPERS also provided contracting employers with investment return scenario analysis in valuations, so employers can more accurately evaluate and budget for, the effect of investment risk on their contribution rates.

Pursuant to the California Government Code Section 20229, in 2012-13 CalPERS will begin to provide discount rate sensitivity, contribution rates and termination liabilities analysis in an annual valuation report that provides additional risk exposure information to the California Legislature, the Governor and the Chair of the California Actuarial Advisory Panel.

Health
In 2011-12, CalPERS conducted divisions/elections for Social Security/Medicare or "Medicare Only" coverage, to help ensure they were being administered in compliance with federal and state laws. A special project was conducted to validate over 1,500 member health accounts. Health deduction reviews were also conducted to verify that retiree warrants were being administered in compliance with applicable laws and regulations.

In 2012-13, staff will conduct regular reviews of monthly employer health invoices for financial integrity.

Investments

In 2011-12, CalPERS established an investment compliance division, within the Investment Office, establishing an extra layer of protection and oversight.

For 2011-12, CalPERS successfully created an inventory of policies, laws and regulations that impact the Investment Office and established end-to-end processes for monitoring compliance with those policies, laws and regulations. CalPERS established a comprehensive investment-specific compliance training course, integrated all conflict of interest policies and procedures, including procedures for placement agent disclosures, Form 700 and Securities and Exchange Commission (SEC) Form ADV. CalPERS also established the Operating Risk Event reporting process.

CalPERS also performed annual compliance reviews of BlackRock user permissions and of the CalPERS Alternative Investment Management (AIM) program (which was subsequently incorporated into CalPERS Private Equity program).

For 2012-13, CalPERS investment compliance focus will be on improving controls and policy management. In particular, CalPERS will improve automated controls over investments to help avoid preventable non-compliance incidents. In addition, CalPERS will continue to identify and develop new policies and procedures that reflect best practices in the asset management industry, including a valuation policy and associated governance structure. CalPERS will also realign investment monitoring functions and responsibilities to improve accountability and separation of duties.

Pension

In 2011-12, CalPERS established a new division to improve CalPERS effectiveness in responding to the complex and quickly-changing legal, regulatory and policy environment surrounding pension administration.

CalPERS has developed a pension reform cost impact and implementation analysis, addressing the primary pension reform proposals under consideration in the Legislature.

Services Contracts

In 2011-12, CalPERS made significant changes to the contracting process, centralizing, streamlining and automating the process to improve consistency, oversight and efficiency. CalPERS updated the Contract-Related Disclosure Policy to comply with the regulation that was adopted in May 2012. In addition, CalPERS implemented the new Board Contracting Activity Reporting Policy, which requires Board approval for all contracts costing equal to or more than $1 million. A new Prospective Report will be submitted to the Board semi-annually in December and April, in support of this policy.

In 2012-13, CalPERS will roll out the new contracts automation project, including providing training on the new contracts database. CalPERS will also bring the contracts database in-house and will begin the next phase, including solicitations.

Education and Outreach

Employer Compliance Training

CalPERS provided educational opportunities to State, School and Public Agency employer representatives throughout California on CalPERS laws and rules related to contracts, compensation, membership, payroll, PEMHCA business rules and eligibility, which resulted in the reduction of employer errors and inquiries and improved the accuracy of members' benefits.

CalPERS also published updated Employer Reference Guides to ensure employers have the necessary support to comply with CalPERS laws, regulations and procedures and updated all internal and external employer training offerings to reflect changes to laws, regulations and rules. CalPERS also issued the first of a planned series of Public Agency bulletins regarding Social Security compliance matters to more than 600 Public Agency representatives.

CalPERS has created an Employer Outreach plan, which will be implemented in 2012-13, to educate employers regarding the importance of complying with laws surrounding reportable compensation. CalPERS also plans to assess and streamline internal member and employer staff training programs to ensure that information provided to members and employers about their benefits is consistent and accurately reflects legal and regulatory standards.

Equal Employment Opportunity

Disability Advisory Council
CalPERS hosted monthly meetings of the CalPERS Disability Advisory Council (DAC), pursuant to the California Government Code (GC) sections 19230 - 19237 and 19795(b). In 2011-12, the CalPERS DAC Brochure was created and distributed to all employees to increase visibility of the DAC and its mission, consistent with GC sections 19230-19237 and 19795(b), requiring staff notification efforts.

Disability Survey
Under the Rehabilitation Act of 1973 and GC Section 19233, the State Personnel Board requires departments to provide employees with the opportunity to self-identify any disabilities. Survey data is confidential and protected under the Privacy Act of 1974. CalPERS administered the most recent staff survey on February 1, 2010, which raised CalPERS rate to 18 percent of people with disabilities in our workforce over the mandated 16.6 percent. Detailed compliance statistics were published in the CalPERS Annual Workforce Analysis.

Equal Employment Opportunity
CalPERS maintains an internal complaint process where employees can report alleged discrimination and harassment. Employees have additional protection through complaint processes with the Department of Fair Employment and Housing and the federal Equal Employment Opportunity Commission. CalPERS Diversity Outreach Program continues to respond to employment discrimination complaints within 90 days of the complaint filing pursuant to 2 CCR 64.4.

CalPERS developed and distributed Interview Panel Composition and Division Chief Approval of Hires Policies, to create additional safeguards supporting State fair-hiring practices and EEO laws. In 2012-13, CalPERS will continue to roll these new policies out to the organization and will also conduct Limited Examination and Appointment Program (LEAP) educational workshops for managers and supervisors.

In addition, CalPERS continues to enhance workforce development, information sharing and collaboration across the enterprise. CalPERS is implementing and upgrading several automated systems that will increase transparency and compliance reporting regarding the state's hiring laws, rules and regulations. These systems will enable us to improve candidate/employee tracking and reporting which can be used for appointment statistics, training and career development activities.

Essential Functions Duty Statements
CalPERS developed and presented training on the new Essential Functions Duty Statement format to comply with legislation which revised the State's definition of a disability and required agencies to determine essential functions for each position. By the end of the reporting period, this training had been rolled out to 75 percent of the organization.

Harassment Prevention
CalPERS issued its Harassment Prevention Policy, effective October 2011, which replaced the previous Zero Tolerance Sexual Harassment Prevention Policy. As of June 30, 2012 - 96% of the staff were compliant with training Mandate, significantly exceeding the requirements of State law, which mandate Sexual Harassment training only for managers and supervisors.

Web Accessibility
In 2011-12, CalPERS took significant steps to improve the accessibility of CalPERS Web pages. In particular, CalPERS developed and deployed a new CalPERS On-Line website template in April 2012, which incorporates larger font size, improved screen resolution and a clean grid layout, making the site easier to scan and read, consistent with the requirements of Section 508 of the federal Rehabilitation Act. CalPERS also updated the my|CalPERS Web interface to be Section 508 compliant.

Pursuant to the California Government Code Section 11135 Section D and the federal communication law, Twenty-First Century Communications and Video Accessibility Act of 2010, CalPERS has drafted a Web Accessibility Policy, which will take effect in 2012-13. This policy will govern CalPERS and any contractors working for CalPERS, to make public and internal websites accessible to both the general public and employees, including persons with disabilities. Accessibility procedures were developed and implemented for staff assigned to closed captioning, webinars and webcasts. CalPERS also implemented Communication Access Realtime Translation (CART) to facilitate Web-based communication accessibility for the CalPERS Board of Administration monthly meetings and CalPERS member and employer education large-scale webcasts. The webcast captions appear in an “open” format, which means they can be seen by all Web media players.

In 2012-13, CalPERS will provide increased accessibility for webcasts and webinars and will evaluate new Telephony technologies for the hearing impaired that will replace our existing video phones and TeleTypewriter (TTY) equipment.

Fiscal

In 2011-12, CalPERS received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 16th consecutive year. In addition, a CalPERS employee was appointed to be a member of the Governmental Accounting Standards Board (GASB) Task Force on Other Post-Employment Benefits (OPEB), the purpose of which is to deliberate on possible standard changes to GASB 43 and 45 and OPEB accounting liabilities.

New Financial Controls

Staff established several new financial controls:

- Instituted an advanced matrix for operational cash management of the Public Employees' Retirement Fund (PERF), with new metrics tracking variance and accuracy and by developing a methodology for allocating shared investment costs to all trusts, in compliance with Generally Accepted Accounting Principles (GAAP). In 2012-13, staff will identify priority trusts and roll out the advanced matrix in these areas, to better manage operational cash transparency
- Instituted a secondary review process for the Long Term Care (LTC) fund that ties to CalPERS balance sheet and income statement
- Revised direct deposit forms and information in compliance with National Automated Clearing House Association banking regulations regarding international transactions
- Strengthened reporting transparency by reviewing and revising the Comprehensive Annual Financial Statement (CAFR) to ensure conformance with GAAP and GFOA standards
- Reviewed office practices and implemented procedures to ensure adequate management controls are in place and minimize the potential for fraudulent acts among the regional offices in key areas, such as check handling and vehicle usage

In 2012-13, CalPERS will expand ongoing risk assessment processes relevant to the preparation of CalPERS financial statements to help ensure they are consistent with GAAP and will enhance tracking and reporting investment costs on a monthly basis for improved accountability. CalPERS will distribute the monthly financial reporting package, which will include a balance sheet, income statement and a report on investment expenses. CalPERS will also prepare our 2012-13 annual financial reports in compliance with expanded reporting responsibilities under GASB Statement 43 and will complete an implementation plan for the proposed enhancements to GASB 25[1] to be implemented in FY 2013-14.

In 2012-13, CalPERS will align the Strategic Plan, Business Plan and Budget, and develop supporting Performance Measures to comply with the Governor's Executive Order B-13-11.

[1] GASB 25 was replaced by GASB 67, subsequent to the reporting period for this report. CalPERS will comply with GASB 67 in FY 2013-14.

Information Technology

my|CalPERS
In 2011-12, staff throughout CalPERS participated in extensive review, testing and implementation of mylCalPERS to ensure compliance with laws, rules and regulations. To improve information security in my|CalPERS, CalPERS implemented the Health Insurance Portability and Accountability Act (HIPAA) Security Reports, Sentinel 6 & Sentinel 7 in compliance with HIPAA and the Health Information Technology for Economic and Clinical Health (HITECH) Act and implemented Guardium to perform database compliance monitoring. The Pension System Resumption Project was also expanded to include judges and legislators.

IT Controls
In 2012-13, CalPERS will implement an Enterprise Test Center of Excellence (TCoE) that aligns with industry best practices such as the Institute of Electrical and Electronic Engineers (IEEE) 829 Standard for Software and System Test Documentation, and drives standardization of quality through people, processes and technology for continuous quality assurance improvement and maturity.

CalPERS will also evaluate implementation of a Governance, Risk and Compliance system, improving staff's ability to identify and focus efforts on key risks and control issues, including access policy conflicts. Staff will conduct a series of Business Plan projects to identify business needs and requirements that will support efforts to build a risk intelligent culture and measure compliance.

Investigations

CalPERS Ethics Helpline
The CalPERS Ethics Helpline allows employers, employees, contractors and the general public to anonymously and securely report concerns about potential misconduct or inappropriate activities, consistent with U.S. Federal Sentencing Guidelines. The CalPERS Ethics Helpline is monitored by an external party and reports can be submitted through a toll-free phone number or by submitting reports via a secure website 24 hours a day, 365 days a year.

During the 2011-12 reporting period, staff investigated 180 CalPERS Ethics Helpline allegations. These investigations were independently conducted by program staff, often in addition to their day-to-day workload. Compliance staff centrally monitored ongoing investigations to ensure completion and consistent reporting.

As part of the Board Governance process, the CalPERS Ethics Helpline agenda items presented to the Risk and Audits Committee were redesigned, resulting in an automated environment that improved analytic capacity, which directly contributed to improved efficiencies and transparency in reporting.

Investigations
In 2011-12, CalPERS developed an Investigations Policy to facilitate the internal and external investigation of allegations of wrongdoing, violations of CalPERS or State of California policy and/or criminal activity. The policy applies to any actual or suspected allegations of wrongdoing, policy violations, or any criminal activity that may involve internal entities (employees, consultants, vendors, or contractors) or external entities (Members, Employers, outside agencies doing business with employees of such agencies and/or any other parties with a business relationship with CalPERS).

In 2012-13, CalPERS will centralize coordination responsibilities for all investigation activities throughout CalPERS, including CalPERS Ethics Helpline reports. Centralized investigation staff will work with program areas conducting investigations, to identify ways they can provide additional support and guidance and improve consistency and compliance with best practices. CalPERS is in the process of conducting a system review and upgrade, to provide more efficient, consistent investigation tracking and improved reporting capabilities. We expect to implement these system changes in 2013-14.

Legislation and Regulations

At the close of each legislative session, CalPERS compiles a list of all newly enacted legislation and monitors implementation progress. In 2011-12, CalPERS successfully lobbied for the passage and enactment of the following Board sponsored state legislative proposals:

- AB 1042 (Chap. 688, Stats. 2011), authorizing CalPERS to recruit a Chief Financial Officer (CFO)
- AB 782 (Chap. 107, Stats. 2011), which will allow CalPERS to recover administrative expenses incurred when employer audits exceed the time estimates provided
- AB 1028 (Chap. 440, Stats. 2011), which aligns the Public Employee Retirement Law (PERL) to the Board's revised rate setting process and to reflect the recently adopted Board policy on state employer contribution rates, strengthens and clarifies the limits on post retirement employment, and clarifies the definition of the term "payrate" for school employees to clarify that salary deductions for tax-deferred retirement plans, deferred compensation plans and the flexible benefits program could be included when calculating CalPERS members retirement benefits; the same as State and contracting agency members participants.

CalPERS also provided support to lawmakers, in the form of comments on regulations associated with federal healthcare and financial market reform. Additionally, staff provided executive support for the Pension Reform Dialogue and Joint Legislative Conference Committee Hearings and provided comments on regulations associated with federal healthcare, financial market reform and future valuation requirements.

In 2012-13, CalPERS will continue advocating for CalPERS members and stakeholders on Pension Reform initiatives and legislation and will lobby for the successful passage and enactment of two 2012 Board sponsored state legislative proposals: AB 2142, regarding CalPERS Wellness and Risk Adjustment Programs, and SB 987, the CalPERS 2012 omnibus bill. CalPERS will also continue to assist with the implementation of regulations associated with federal healthcare and financial market reform and support efforts aimed at preventing the dismantling of the finance industry changes enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Implementation

In 2012, CalPERS successfully implemented the following significant pieces of legislation and regulations:

- AB 1028 (Chap. 440, Stats. Of 2011), strengthening restrictions on members working after retirement
- Internal Revenue Service (IRS) regulations applying to safety member defined benefit plan dollar limits for the main CalPERS defined benefit plan

In 2012-13, CalPERS will strengthen Public Agency contracting processes in compliance with Social Security Act, Section 218.

Patient Protection and Affordable Care Act (PPACA)
In 2011-12, CalPERS was recognized by White House staff as a national leader in the implementation of the Affordable Care Act (ACA). CalPERS continued to implement the provisions of the Patient Protection and Affordable Care Act (PPACA), as modified by subsequent legislation, and tracking and implementing related regulations and federal guidance. In support of these efforts, staff implemented a provision and document tracking system to more efficiently and accurately track PPACA rules.

In addition, CalPERS staff took the following actions to implement health care reform requirements:

- Modified the CalPERS health plan benefit designs by removing annual and lifetime limits for essential health benefits, as required under PPACA. Staff also developed cross-reference of preventive services billing codes, which was shared with the Federal department of Health and Human Services (HHS), related to elimination of copays under PPACA for these types of services

- Promulgated State regulations to implement the extension of dependent health care coverage up to age 26 and the Prohibition on Rescissions and developed business requirements for system changes to implement these changes

- Participated in Early Retiree Reinsurance Program under PPACA and distributed funds in the form of lower premium rates

- Redesigned its appeals process to conform to the revised standards

New CalPERS Regulations
CalPERS promulgated clarifying regulations regarding publicly available pay schedules and clarifying payroll and contribution submission requirements relative to the new my|CalPERS system. CalPERS also initiated the rule making process for the proposed personal trading regulation, which will help provide additional protections against potential conflicts of interest. We anticipate that the personal trading regulation will go into effect in December 2012.

Also in 2012-13, CalPERS will promulgate regulations related to compensation review, payroll reporting and establishing an amnesty period to employees or annuitants who voluntarily terminate their ineligible dependent's enrollment in a CalPERS health benefits plan, preparatory to conducting a dependent audit on all CalPERS members to identify and reconcile eligibility discrepancies.

Risk Management

Risk Management Program
The Enterprise Risk Management Division (ERMD) provides assurance that CalPERS approach to risk aligns with our strategic goals and objectives. This includes enterprise privacy and security, enterprise risk intelligence, compliance, business continuity and disaster recovery.

The CalPERS risk management program will continue to develop and coordinate risk assessment and mitigation activities throughout CalPERS and help establish a culture that incorporates Risk Intelligence into day-to-day operations and decision-making processes.

Risk Identification Activities
In 2011-12, CalPERS created a Risk Intelligent Enterprise Management Policy to formalize and communicate CalPERS commitment and approach for managing a risk intelligent enterprise. Through a model developed to integrate risk into CalPERS governance processes, staff works within a framework for integrating CalPERS governance, risk and compliance functions throughout the organization. Staff uses standard definitions for risk-rating criteria related to a risk's impact, likelihood, velocity, risk category and trend rating to provide a comparison of all enterprise risks.

During the first meeting of the CalPERS Enterprise Risk Management Committee, the members reviewed an enterprise-wide risk focus list to discuss and prioritize the risks, identified how each risk was addressed within the Business Plan and introduced a 90-day plan to kick-off the CalPERS governance and risk management initiative.

Staff refined the following risk-exposure reporting templates for CalPERS management and Board members:
- Enterprise-wide risk dashboard to identify key risk results
- Top risks list
- Emerging risks list

They also developed other tools to help management identify, track and manage residual risks and to articulate their risk appetite and risk tolerance levels for top risks. In 2012-13, CalPERS will continue to build and enhance the risk management framework.

In 2011-12, CalPERS conducted enterprise-wide risk assessments of CalPERS activities to help focus future activities on the areas of highest risk. Staff will prepare an Annual Risk Assessment Plan in 2012-13.

Disaster Recovery
Pursuant to 19 CCR 2400, CalPERS coordinated a Standardized Emergency Management System (SEMS) training course with full Executive Staff participation. The

course focused on learning in a non-crisis environment how to respond during a catastrophic event and their roles and responsibilities during emergency situations.

Security

Building Security
CalPERS contracted with the California Highway Patrol (CHP) to station an officer in the auditorium during Board meetings and implemented use of a screening portal at the entrance to the auditorium consisting of metal detection and parcel x-ray equipment.

CalPERS also revised the format of the Lincoln Plaza (LP) Badge Card Access Request Form (CARF) to reflect all restricted areas of Headquarters and to require respective Division Chief authorization before access is granted. CalPERS posted the revised CARF and card access form instructions to the CalPERS Insider.

In 2012-13, in keeping with CalPERS increased focus on enterprise-wide security, CalPERS will develop a Regional Office Minimum Security roadmap and three-to-five year implementation plan to mitigate potential risks associated with worker safety. CalPERS will work with the Regional Offices to plan for additional security enhancements for lobby and reception areas, such as cameras and panic buttons. Staff will also develop security procedures for the Thomson Diggs and 400 R Street buildings.

Hiring Process
CalPERS will develop and implement a “live scan” criminal history check process for all new employees and a Background Investigations policy for key positions at CalPERS to reduce the risk of inappropriate hires.

Information Security
The CalPERS dedicated information security team works to protect members’ privacy and the safety of CalPERS information assets by performing the following:

- Monitoring compliance with CalPERS Information Security Policy and relevant information security laws, regulations and best practices. Variances are documented and risks are mitigated.
- Preservation and production of electronic records
- Investigating security events and reporting those that are security incidents to the proper authorities in compliance with the California State Administrative Manual (SAM) section 5350
- Ensuring compliance with State requirements that all staff must complete an online security and confidentiality training course each year (SAM 5325)
- Continuously monitoring all Internet access by CalPERS staff and contractors for compliance with CalPERS use policies
- Working with Data Owners pursuant to SAM section 5320 that requires all data assets to be identified, classified and inventoried
- Conducting information security risk assessments every two years pursuant to SAM section 5305.2, GC section 11019.9 and the Information Practices Act (Civil Code section 1798 et seq.)

- Annually submit the Agency Risk Management and Privacy Program Compliance Certification (SIMM Section 70C) to the California Technology Agency, Office of Information Security
- Annually submit the Agency Telework and Remote Access Security Compliance Certification (SIMM Section 70E) to the Office of Information Security

Improved Information Security Oversight
In 2011-12, CalPERS measured the state of CalPERS security against the security standards of State and federal regulations, resulting in a Security Roadmap designed to close these gaps over the next five years.

CalPERS implemented the following information security technology improvements:

- A new server patch management tool, to streamline and automate monthly and critical server software updates, consistent with CalPERS policies on server management and virus protection
- An automated tool to measure Windows server and workstation configurations for compliance with security policy and practices
- New state of the art firewalls, resulting in improved data and system protection

In addition to these efforts, staff created a process to generate automated reports to identify workstations potentially compromised with malicious software and reimage those infected machines.

CalPERS implemented an electronic Governance Risk and Compliance (eGRC) Policy module to contain and manage all information security policies.

In 2012-13, CalPERS will implement Phase I of the Security Roadmap, which includes enhancements to identity and access management, data loss prevention and mobile device management. In addition, staff will establish processes and procedures, training and a designated team to respond to inquiries received through the new “member secured messaging” channel via my|CalPERS in a way that protects member privacy.

Social Security Numbers
Pursuant to California Civil Code Section 1798 et seq., CalPERS replaced social security numbers with numeric CalPERS IDs and updated relevant procedures accordingly.

Transparency and Accountability

Board Governance Project
In 2011, the CalPERS Board initiated a compliance and best practice review of our governance practices. Based on recommendations from the review, the Board has taken the following actions:

- Approved new Delegation Resolutions for each Committee and the Chief Executive Officer
- Approved new meeting agenda, consent item and agenda item templates
- Implemented a new Board Committee Structure, reducing the number of Committees from seven to six and aligned each committee with the appropriate powers reserved to the Board
- Approved the new Governance Policy
- Approved the Board Gift Policy, strengthening existing restrictions on gift acceptance by Board members and mitigating the risk of actual or perceived conflict of interest
- Approved the Board Travel Policy

These activities, along with the adoption of powers reserved, improved the Board's ability to oversee program activities. There are 65 powers reserved that have been delegated to the appropriate Committee and 15 powers reserved that remain the responsibility of the full Board. Each power reserved identifies the Board or Committee's responsibility as "conduct," "set," "approve," or "oversee."

The Board also attended a Fiduciary Training Workshop and approved a new CalPERS Strategic Plan Framework, Governance Principles and the 2012-14 Business Plan. Processes were also developed to implement annual certification requirements and a Board Self-Assessment consultant was selected to assess the full Board, Board President and Vice President, individual Board members, Committees and Committee Chairs and Vice Chairs, in the areas of principles, responsibility and authority, process and outcomes.

Fraud Prevention Policy
In May 2012, CalPERS updated the Fraud Prevention Policy to promote consistency by providing guidelines and assigning responsibility for reporting fraud and conducting investigations.

Delegations of Authority
In 2012, staff developed 41 delegations of authority for each Executive staff and Division Chiefs to align with the recently adopted CEO delegation resolution and 2011 enterprise reorganization. The staff delegations of authority were all executed by August 2012.

In 2011, staff created and administered new CalPERS Contracting Delegated Authority Certification Training. This training is now available in the CalPERS Learning Management System (LMS) and will be mandatory every two years for all Division

Chiefs and above. In addition, staff developed delegations of authority for each Executive Officer and Division Chief to give them authority to execute contracts, letters of engagements and purchase orders.

Disclosure Policy
CalPERS updated the Contract-Related Disclosure Policy to comply with the regulation that was adopted in May 2012. All applicable contracts will now have the updated form and contract language. Subsequently, CalPERS revised retirement publications, State and Public Agency manuals and on-line content to ensure compliance with the disclosure policy. Revision efforts will continue into 2012-13.

Form 700 Process
In 2011, CalPERS centralized full filing officer duties for CalPERS with other existing monitoring and oversight responsibilities. To help detect and prevent potential conflicts of interest, CalPERS went above and beyond Fair Political Practices Commission (FPPC) minimum requirements for state agency Form 700s, by performing full and enhanced reviews of all Form 700s submitted by CalPERS staff, including all annual, assuming office and departure from office Form 700 submissions submitted by Board members, consultants and identified CalPERS staff during the 2011-12 reporting period.

CalPERS also successfully implemented an automated Form 700 system for all CalPERS Form 700 filers, in order to simplify the submission process and help filers avoid inadvertent errors or omissions. The new Form 700 system was rolled out to all CalPERS Form 700 filers in time for the annual Form 700 submissions, due April 2012.

In 2012-13, CalPERS will continue to improve transparency and monitoring of the CalPERS Form 700 Process, by aligning Form 700 reporting requirements with CalPERS Personal Trading Policy.

Ethics Training for Form 700 Filers
In 2011, CalPERS strengthened the existing procedures to include more stringent escalation protocols for non-completion, which has resulted in staff achieving a 100 percent compliance rate.

In 2012-13, CalPERS will develop web-based Ethics training that will be mandatory for all employees that file Form 700s. This training will fulfill the conflict of interest training requirements. The LMS will be used to launch and track the completion of this mandatory training.

Form 700 Travel and Transparency Policy
CalPERS published Form 700 submissions and Travel Expense Claims for Board members and other key staff, consistent with the CalPERS Form 700 and Travel Transparency Policy.

Governance Policy
CalPERS developed processes to implement the certification requirements identified in the Governance Policy. In 2012-13, staff will manage the implementation of the Board Governance Initiatives to ensure accountability and transparency.

Public Records Act
In April 2011, CalPERS relocated and redesigned processes for administration of Public Records Act (PRA) requests. CalPERS established guidelines and procedures for CalPERS staff and Colliers security, enabling them to provide consistent, accurate information to members of the public who ask about submitting a PRA request. Staff also conducted internal training on the PRA laws and processes, which was delivered to over 65 CalPERS staff and six regional offices.

In addition to these transition efforts, CalPERS created and launched a web submission tool the public can use to easily submit a PRA request via CalPERS On-Line. CalPERS posts monthly Executive Summary reports of all PRAs processed and received to CalPERS On-Line.

In 2012-13, CalPERS will develop a policy of increased transparency for PRAs, in support of the 2012-2014 CalPERS Business Plan. CalPERS will also conduct a second-annual internal PRA training for CalPERS Program areas that are impacted by PRA requests and will assess and upgrade the web submission tool to improve and maintain customer service levels for PRA requests.

Personal Trading Policy
In 2012-13, CalPERS will finish promulgating the Personal Trading Policy regulations and will implement an automated system to help Board members and affected staff comply with CalPERS Personal Trading Policy. Once the regulations and automated system are in place, staff will roll the policy out to all covered persons and will provide ongoing monitoring and support.

Undue Influence
In 2012, CalPERS will implement a new Undue Influence procedure, requiring Executive Staff and Investment Senior Management to certify, at least annually, that they have been free of all undue influence during the prior calendar year. The procedure also includes instructions on how to notify CalPERS of any instances where undue influence may exist. Beginning in 2012, ECOM staff will be responsible for administering the Undue Influence procedure, including monitoring staff compliance with the annual undue influence certification process. The deadline to submit the Undue Influence Certification is August 31, 2012, for the reporting period January 1, 2011, through December 31, 2011.

Compliance Training

As required in the U.S. Federal Sentencing Guidelines, ECOM's compliance program includes a training component to help ensure employees are aware of their legal and ethical responsibility to be compliant with applicable laws and rules for each business line.

The following compliance-related training was provided in 2011-12:

Course Title	Summary	Source of Mandate	Staff Required to Take Training	Required Frequency of Training	Staff Compliant w/Training Mandate As of 6/30/12		
					# of staff required to take training	# of staff completed training	% of staff compliant with mandate
CalPERS Ethics Training	Familiarizes staff with Form 700 reporting obligations, gift limits and other ethical requirements.	Government Code (GC) §11146.1	Form 700 filers.	Biennial	596	596	100%
Health Insurance Portability & Accountability Act (HIPAA)	Familiarizes staff with HIPAA privacy and information security requirements.	HIPAA staff training policy	All CalPERS staff, all contractors & consultants	Within 90 days of hire and annually thereafter.	2860	2761	99%
Information Security Awareness	Familiarizes staff with basic information security principles and requirements pertaining to CalPERS business operations.	Awareness and Training Policy	All staff, including Executive staff, students, contractors, retired annuitants	Within 90 days of hire and annually thereafter.	2860	2823	97%

Course Title	Summary	Source of Mandate	Staff Required to Take Training	Required Frequency of Training	Staff Compliant w/Training Mandate As of 6/30/12		
					# of staff required to take training	# of staff completed training	% of staff compliant with mandate
L.E.A.D.E.R.	Introductory training for new supervisors and managers. Includes: • Conflict of Interest/ Incompatible Activities • HIPAA • Information Security • Diversity, EEO, Harassment Prevention • Workplace Violence Prevention • Disability Awareness and Reasonable Accommodation • Injury and Illness Prevention Program (IIPP) • Employee Assistance Program (EAP)	GC 19995.4	New supervisors and managers	Once within probationary period or within 12 months of supervisory appointment	113	89	79%
New Employee Orientation (NEO)	Includes: • CalPERS training policy • Conflict of Interest/ Incompatible Activities • EAP • Ergonomics • Disability awareness • HIPAA • Information Security Awareness • IIPP • Sexual Harassment Prevention	New Employee Orientation Attendance Policy (effective 7/1/11)	All new-to-CalPERS employees	Within 90 days of hire date.	395	144	36%

Course Title	Summary	Source of Mandate	Staff Required to Take Training	Required Frequency of Training	Staff Compliant w/Training Mandate As of 6/30/12		
					# of staff required to take training	# of staff completed training	% of staff compliant with mandate
Sexual Harassment Prevention Training	Provides staff with tools to recognize, avoid and address potentially sexually harassing situations.	• CalPERS Harassment Prevention Policy, revised October 2011 • State and Federal law • U.S. Federal Sentencing Guidelines	All Supervisors and managers. CalPERS policy requires all employees to take the training within 90 days of hire and every other year, including students and retired annuitants.	All new supervisors or managers within six months of start and every other year thereafter. All non-supervisory employees within 90 days of start. All staff must complete biennially.	2860	2750	96%
First Aid/CPR Training	Provides staff with limited first aid/ CPR skills.	• Injury and Illness Prevention Program (IIPP) • Section 3203 of the General Industry Safety Orders • SAM section 4842.2 • CalOSHA guidelines	Voluntary	Every three years to remain certified	Voluntary	129	N/A
Working Values: Ethical Decision-Making	Provides staff with tools and strategies for identifying and appropriately responding to ethical dilemmas	CalPERS 2011-12 Business Plan	Mandatory	Annual	2,860	2,626	93%

Mandated Licenses and Certifications

Division	Classification	License / Certificate Required	# of Staff
LEGO	Attorney Series (I, III, IV)	California State Bar Membership	28
ACTO	Pension Actuary Class Series	Associate of the Society of Actuaries	38
BPPP	Nurse Consultant Class Series	Active valid license as a registered nurse in California.	2
BPPP	Pharmaceutical Consultant	Valid Certification of Registration in Pharmacy issued by the California State Board of Pharmacy	1
BPPP	Medical Consultant Class Series	Possession of the legal requirements for the practice of medicine in California as determined by the California Board of Medical Quality Assurance or the California Board of Osteopathic Examiners.	1
OSSD	Warehouse Worker	Possession of a Class III California Driver License	1
OSSD	Warehouse Worker	Forklift Operation Certification	1
LEGO	Investigator (Peace Officer)	Requires a psychological evaluation	1

Mandated Reports

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date
Legislators Retirement Fund The Board shall file with Governor a report of its work for such Fiscal Year. Not later than March 15th next following the close of the Fiscal Year, the Board shall transmit a copy of such report to each house of the Legislature and may transmit a copy to every member and beneficiary of the system.	GC § 9354.3	As soon as practical after the close of each Fiscal Year.	June 30, 2012
Comprehensive Annual Financial Report Report of financial statements and investments of Public Employees' Retirement System board for the Fiscal Year.	GC § 20232	As soon as practical after the close of each Fiscal Year.	January 2012
In addition to any other reports that it may be required to make by law, the Board shall annually file a separate report to the Legislature and each appointing power and other appointing authority on the number of new state retirees, by individual state employer, that are processed in the immediately preceding Fiscal Year to the service, disability and industrial disability retirement rolls and on the incurred cost of this system for state members for the immediately preceding three Fiscal Years.	GC § 20238	Annual	January 2012
Budget Act of 2011 Report Report on the final expenditures under this item, including an accounting and explanation of changes from estimates previously reported to the Legislature.	1900-003-0830 of Section 2 of the Budget Act of 2011	On or before January 10, 2013.	November 15, 2011
Report regarding any revision of the estimate of expenditures for external investment advisers and other investment-related expenses to be made during 2011-12, pursuant to GC § 20172, 20208 and 20210, including an accounting and explanation of changes and the amount of, and basis for, investment adviser expenditures proposed for 2012-13.	1900-003-0830 of Section 2 of the Budget Act of 2011	On or before January 10, 2012.	November 15, 2011
Expenditures and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900015-0815 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2008.	November 15, 2011
Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0820 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2008.	November 15, 2011

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date
Budget Act of 2011 Report (continued) Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0822 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2008.	November 15, 2011
Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0830 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2008.	November 15, 2011
Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0833 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2008.	November 15, 2011
Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0849 of Section 2 of the Budget Act	Quarterly, commencing October 1, 2010.	November 15, 2011
Expenditure and performance workload data provided to the board of administration.	1900-015-0884 of Section 2 of the Budget Act	Quarterly commencing in budget act of 2005 and again on October 1, 2008	November 15, 2011
Expenditure and performance workload data provided to the board of administration, as updated on a quarterly basis, in sufficient detail to be useful for legislative oversight purposes and to sustain a thorough ongoing review of Public Employees' Retirement System expenditures.	1900-015-0962 of Section 2 of the Budget Act of 2007	Quarterly commencing October 1, 2007	November 15, 2011
Northern Ireland Report Report on extent to which United States and international corporations operating in Northern Ireland, in which assets of the State Teachers' Retirement System and the Public Employees' Retirement System are invested, adhere, in compliance with the law applicable in Northern Ireland, to the principles of nondiscrimination in employment and freedom of workplace opportunity.	GC § 7513.5	Annual on or before March 1st.	February 13, 2012
Sudan Report Any investments in a company with business operations in Sudan, a summary of those business operations and the sale or transfer of investments in those companies.	GC § 7513.6	On or before January 1, 2008 and every year thereafter.	December 12, 2011

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date
Iran Report Report on investments CalPERS has in companies with specified business operations in Iran and the sale or transfer of those investments, any costs or investment losses or other financial results incurred in compliance with the provisions of this section	GC § 7513.7	On or before January 1, 2009 and every year thereafter.	December 12, 2011
Chief Investment Officer's Quarterly Report Report of Public Employees' Retirement System's assets.	GC § 20235	Quarterly	June 30, 2012
Emerging Investment Manager Report Report on the progress of the strategic plan for emerging investment manager participation across all asset classes.	GC § 20136	March 1, 2014, and each March 1 thereafter to the Legislature.	June 11, 2012
Contract Investment Services Report on nature, duration and cost of investment contract services used by Public Employees' Retirement System.	GC § 20208	April of each year	Covered by Investment Advisor (LAO) Report, provided January 26, 2012.
Investment Advisor Report Findings, determinations and description of type, quantity and yield of Public Employees' Retirement System investments substituted for residential realty investments.	GC § 20194	Within 20 days following conclusion of Fiscal Year.	January 26, 2012
Use of Placement Agents Report Report on the use of placement agents in connection with investments made by CalPERS and Casts.	Section 9 of Chapter 668 of the Statutes of 2010.	Not later than August 1, 2012	June 11, 2012
World War II – Holocaust ERA Report The Treasurer, the Public Employees Retirement System and the State Teacher's Retirement System shall monitor and report to the Legislature on investments of the state and its pension funds in companies doing business in California and affiliates of those companies, that owe compensation to victims of slave and forced labor from 1929 to 1945.	Section 3 of Chapter 216 of the Statutes of 1999	This section is in uncodified law and does not specify a due date nor the number of reports required or for how long reports should be submitted.	February 13, 2012
Legislator's Retirement System Actuarial Valuation Report on rate of contributions for Legislators' Retirement Fund.	GC § 9358.1	Annual	May 22, 2012
Contribution Rate State & Schools Actuarial report describing the investment return assumptions, discount rates and amortization periods utilized by the CalPERS Board in the calculations of the contribution rates for state employees and employers, including revised calculations of the forecasted contribution rates utilizing specified investment rate assumptions.	GC § 20229	Annual	May 15, 2012
Cost of Living Report Report regarding providing for preservation of purchasing power of benefits under The Public Employees' Retirement System through system of adjustment in benefits based on changes in living costs.	GC § 20233	Not later than December 1 of each year.	February 15, 2012 2011 Cost of Living Report

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date
State Employers Industrial Disability Cost Report Report on number of new state retirees by individual state employer that are processed in the immediately preceding Fiscal Year.	GC § 20238	Annual	June 13, 2012
CalPERS Annual Health Premiums Report 'aka' 100 Day Report Report describing the methods the CalPERS Board employed to moderate annual health premium increases, as specified, including a discussion of actions that the Board plans to take, if any to attempt to reduce the rate of annual premium growth, as specified.	1900-015-0822 of Section 2 of Annual Budget Act	Annually within 100 days of adoption of annual health premium increases or decreases by the CalPERS Board	September 14, 2011
Medicare Part D Subsidies Notwithstanding the requirements of Provision 2, the Public Employees' retirement System (PERS) may choose not to apply for subsidies related to plans for which it is not eligible to act as the sponsor and receive Medicare Part D subsidies related to their enrollees or with respect to persons enrolled in a board-approved Medicare Advantage prescription drug health benefit plan, consistent with actions of PERS for the 2011 calendar year. If PERS chooses not to apply for subsidies pursuant to this provision, PERS shall notify the Department of Finance,the chairpersons of the committees and the appropriate subcommittees in each house of the Legislature that consider the budget, the Chairperson of the Joint Legislative Budget Committee and the Legislative Analyst's Office and PERS shall explain the facts and circumstances underlying that choice.	1900-001-0950 (3) Budget Act – 2011-12 (SB 87)	Contingent upon action taken by CalPERS.	CalPERS was not required to submit this report during the 2011-12 reporting period.
Health Coverage for School Employees Study examining feasibility and cost-effectiveness of creating and single statewide health care pool that would cover all public school employees working in schools districts, county offices of education, community colleges and entities created or established by those school employers.	GC § 22849	Report to the Legislature within one year after funding is secured or budgeted.	Report on file with Leg Counsel March 8, 2008.: "Feasibility of Offering Health Care Coverage to School Employees as Outlined in AB 256." CalPERS was not required to submit this report during the 2011-12 reporting period.
Health Benefit Improvements Report The Public Employees' Retirement System shall report to the Joint Legislative Budget Committee and the Department of Finance on the program improvements and savings in the Health Benefits division resulting from the two limited-term positions authorized in the Budget Act of 2011 by September 13, 2012.	1900-001-0950 of Section 2 of the 2011 Budget Act	September 13, 2012, to the Joint Legislative Budget Committee.	CalPERS was not required to submit this report during the 2011-12 reporting period.

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date
Health Benefit Savings SEC. 4.21. Requires The Public Employees' Retirement System (PERS) will achieve a one-time savings of $80,000,000 of General Fund moneys and $35,704,000 of other funds' moneys in the 2011–12 Health Benefits Program. Beginning in FY 2012–13, PERS will achieve an equivalent amount of ongoing savings in the Health Benefits Program based on the core health plan option or other cost saving measures, or both.	SB 87 Section 4.21 Budget Act – 2011-12	Before October 10, 2011, PERS shall notify the Joint Legislative Budget Committee and the Director of Finance that these savings have been achieved and the source of these savings for 2011–12.	October 10, 2011
Successes and failures of health benefit plans. The Board shall report to the Legislature annually, on November 1, regarding the success or failure of each health benefit plan.	GC 22866	Annually, on November 1 to the Legislature.	April 14, 2009
Financial Integrity and State Managers Accountability Act (FISMA) Report A review of the CalPERS systems of internal control for the biennial period ended December 31, 2011.	Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407 and Executive Order B-12-11.	Biennial period ending on December 31 of each odd-numbered year	December 31, 2011
Annual Workforce Analysis Analysis to identify and determine the cause of any significant underutilization of racial/ethnic and gender groups in the CalPERS workforce that may indicate employment discrimination.	Government Code Section 19797	Annually	June 1, 2012