



Agenda Item 6a

September 17, 2013

ITEM NAME: Annual Compliance Report

PROGRAM: Enterprise Compliance Division

ITEM TYPE: Action

RECOMMENDATION

Staff recommends approval of the proposed Annual Compliance Report (report) for inclusion in the CalPERS Comprehensive Financial Report (CAFR).

EXECUTIVE SUMMARY

This agenda item requires the review and approval of the DRAFT 2012-13 Annual Compliance Report, which will be included as a section within the CAFR in order to improve the report's visibility and underscore CalPERS commitment to compliance and transparency.

We would like to extend our appreciation to the CalPERS Board and executive staff for their continuing strong support and to CalPERS staff throughout the organization for their compliance efforts and contributions to this report.

STRATEGIC PLAN

This item supports CalPERS Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization.

BACKGROUND

The Annual Compliance Report summarizes CalPERS' enterprise-wide compliance activities for each year. The Annual Compliance Report reflects the period of July 1, 2012, to June 30, 2013, which aligns with the CAFR's Fiscal Year reporting cycle.

ANALYSIS

A key component in the delivery of an Integrated Assurance Model is the role of compliance. The Annual Compliance Report provides a mechanism for documenting CalPERS compliance-related improvements and accomplishments enterprise-wide, improving transparency and supporting effective Board oversight. This year's Annual Compliance Report has been reorganized to reflect CalPERS Integrated Assurance Model delivered through a three lines of defense system that distributes risk management and compliance responsibilities throughout CalPERS.

Staff across all three levels of defense reported significant compliance achievements during FY 2012-13.

Through integrated assurances, the first line of defense is the program areas. This year, key compliance trends driven by program staff were structured around improving the information and systems staff use as a basis for their determinations:

- Re-evaluation and restructuring of financial and actuarial guidelines to improve fund stability and related decision-making processes,
- Improvement of benefit accuracy and supporting processes, including the Dependent Eligibility Verification process, improved monitoring of pension spiking and improved payroll reporting and monitoring, and
- Multiple initiatives to streamline and automate human resource administration.

CalPERS also significantly strengthened its second and third lines of defense, by strengthening monitoring and oversight in all major assurance functions. Key assurance-related accomplishments included:

- Expansion of existing compliance oversight and monitoring efforts, including piloting of a new internal compliance review process by ECOM staff,
- Conducting enterprise-wide risk assessments to identify CalPERS top risks,
- Extensive updates to information security policies, as part of the Information Security Policy Refresh,
- Significant physical security improvements, including development and initial implementation of a Regional Office Minimum Security Roadmap, and
- Expansion of Contracting Public Agency auditing capabilities and activity.

Going forward, staff will continue to focus on establishing and maintaining solid compliance fundamentals, creating a stable platform from which we can confidently respond to a constantly changing environment. This commitment to basics will provide us with a sound structure that supports our long-term mission to provide responsible and efficient stewardship.

BUDGET AND FISCAL IMPACTS

The inclusion of the report in the CAFR results in minor cost savings, attributable to the production and publication of a single unified report instead of two separate reports that were previously produced.

BENEFITS/RISKS

CalPERS realizes several benefits from annually reporting compliance activities:

- Provides assurance that program areas are building compliance best practices into their business planning and operations
- Documents that CalPERS has an effective compliance program, consistent with U.S. Federal Sentencing Guidelines
- Demonstrates CalPERS commitment to good governance
- Improves transparency, accountability and stakeholder confidence

ATTACHMENTS

Attachment 1 – DRAFT 2012-13 Annual Compliance Report

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Chief Officer of Risk, Compliance and Ethics

CHERYL EASON
Chief Financial Officer