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Introduction

Scope and Methodology

This report summarizes the compliance accomplishments of the California Public Employees' Retirement System (CalPERS) for the period from July 1, 2012, through June 30, 2013.

The Office of Enterprise Risk Management (OERM) 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, Executives, management and staff throughout the organization and has resulted in significant improvements to the security, stability and quality of our programs.

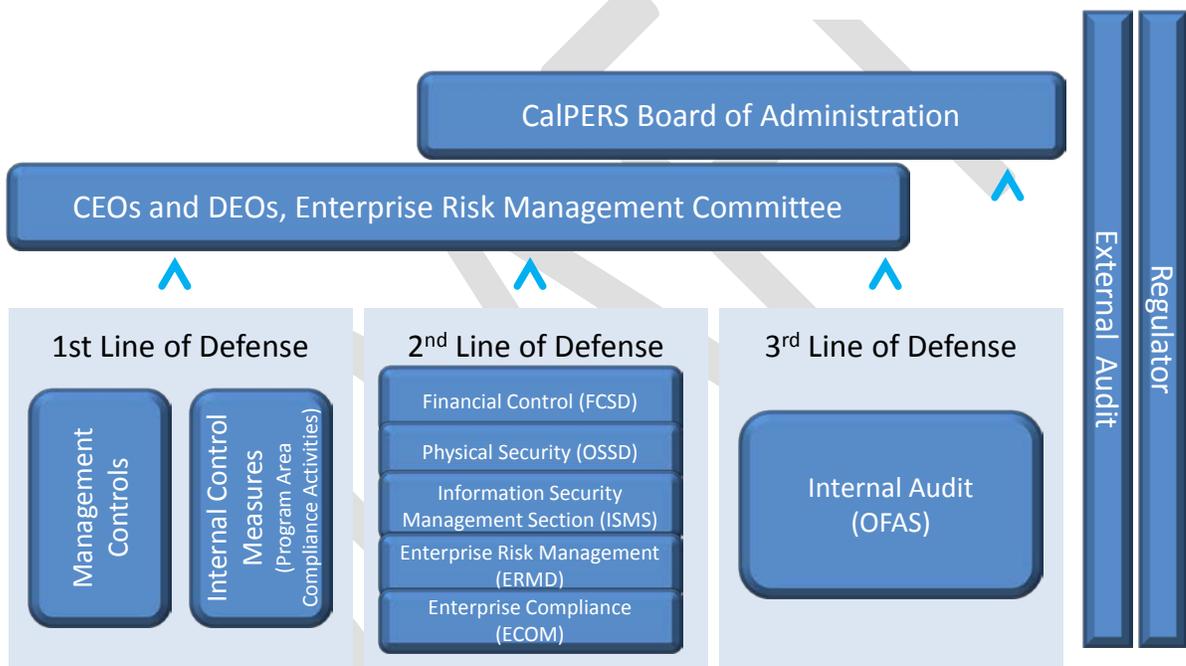
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Integrated Assurance Model

CalPERS Strategic Plan Goal B directs staff to “Cultivate a high-performing, risk-intelligent and innovative organization.”

To achieve this goal, we bring together the right people, processes and systems to methodically manage performance and risk to achieve CalPERS strategic goals and objectives. CalPERS Integrated Assurance Model provides a coordinated approach to the management of risk by leveraging our limited resources while expanding our breadth of services provided through our assurance providers.

The Three Lines of Defense



This chart shows how CalPERS distributes responsibilities under the Integrated Assurance Model, using Three Lines of Defense to coordinate risk management and compliance responsibilities throughout CalPERS. It establishes a proactive framework that provides integrated levels of assurance, promotes ethical behavior and drives ethical decision-making. Compliance is an integral part of our decision-making and business responsibilities, no matter where we are in the organization.

Each line of defense operates in complimentary but different ways.

Program Areas create our first line of defense, by complying with laws, regulations and policies and establishing and administering controls to prevent and detect noncompliance.

The Office of Enterprise Risk Management (OERM) creates a second line of defense, by providing increased objectivity and independent validation through an independent reporting relationship. OERM includes:

- The Enterprise Risk Management Division (ERMD), which is responsible for identifying and monitoring risks of all types throughout CalPERS and helping program areas manage identified risks, and
- The Enterprise Compliance Division (ECOM), which is responsible for oversight of program area compliance with applicable laws, regulations and policies. ECOM staff test and monitor compliance processes within the program areas to evaluate the effectiveness of existing compliance strategies and identify, develop and implement solutions to address potential weaknesses.

The Office of Audit Services (OFAS) creates our third line of defense, by providing increased objectivity and independent validation through an independent reporting relationship. OFAS conducts point-in-time assessments of the design and operating effectiveness of internal controls over business and technology operations, compliance with laws and policies and effective management of risks.

Working together, CalPERS strives to create a positive environment that supports staff acting in good faith, while establishing and maintaining appropriate controls to prevent, detect and address noncompliance.

Program Compliance

Program Areas

Actuarial Compliance

CalPERS responded to a wide range of changes and recommendations relating to actuarial standards and compliance. This fiscal year included the following:

- The CalPERS Board approved shortening smoothing and amortization periods, simplifying actuarial reports and improving system soundness and sustainability. Going forward, staff will use a method known as “Direct Rate Smoothing” to amortize costs over a 30 year period with a 5-year ramp up of rates.
- To ensure compliance with Governmental Accounting Standards Board (GASB) Statement 68, CalPERS implemented processes, procedures and systems to meet reporting requirements and provide employers the reporting information on a voluntary fee for service basis.

In support of GC § 20133 reporting requirements, staff initiated an actuarial investigation into the mortality, service, and compensation experience of members and persons receiving benefits from the system. This report will be completed during FY 2013-14.

The Actuarial Standards Board established two new Actuarial Standards of Practice: (ASOP) No. 46 – Risk Evaluation in Enterprise Risk Management and ASOP No. 47 – Risk Treatment in Enterprise Risk Management. CalPERS assessed its asset liability model, which deals with both risk evaluation and risk treatment, to validate that it meets the new requirements.

Actuarial Report

Staff produced annual government-mandated actuarial reports which set the rates for employers within the systems:

- Actuarial Valuation and Employer Contribution Rates for State and Schools
- Legislators’ Retirement System Valuation Report
- Judges’ Retirement System Valuation Report
- Judges’ Retirement System II Valuation Report
- 1959 Survivor Benefit Program Valuation Report
- Actuarial Section of the Comprehensive Annual Financial Report

Actuarial Transparency

CalPERS took several steps to improve transparency and provide information employers can use to accurately project future financial obligations, allowing them to better anticipate and comply with their future employer contribution obligations. These changes included providing more detailed risk exposure information and disclosure elements in actuarial valuations and posting Actuarial Board Policies to CalPERS On-Line.

CalPERS Logo Usage / Brand Guidelines

To protect and preserve the brand, the Office of Public Affairs updated usage guidelines for the CalPERS logo and has included the guidelines in the CalPERS Brand Guidelines document. Staff began revision efforts for all member publications to comply with CalPERS Brand Guidelines.

Employer Outreach and Monitoring

Staff created new reports to help monitor employer compliance with CalPERS governing statutes and policies. Six new reports have been posted on the my|CalPERS Employer Reports Status page of CalPERS online to improve employer compliance capabilities. In addition, an internal Payroll and Payment Monitoring report was developed to assist staff with overseeing employer compliance, along with two internal reports on SIP Remittance Advice and Employer Defined Contribution Payments.

Program staff also worked with employers to resolve over 300 employer review findings, a significant increase over 2011-12. All employer review findings for the 2008-09 and 2009-10 fiscal years were completed and closed.

GASB Monitoring and Compliance

To help CalPERS remain compliant with all reporting requirements, staff regularly communicates with GASB staff and external auditors. CalPERS is represented on the GASB Other Post-Employment Benefits (OPEB) Task Force.

Health

CalPERS developed and initiated the Dependent Eligibility Verification (DEV) project to validate that only eligible dependents remain enrolled in CalPERS health plans, and established and implemented new processes in support of the Dependent Eligibility Verification Project.

Staff also established the Out of Service Area batch process to identify members who are outside of their health plan service area to notify and transition these members to a valid health or dental plan.

The CalPERS Board approved restructuring the Long Term Care (LTC) Fund, pursuant to CalPERS fiduciary responsibility to provide for stabilization and solvency of the LTC Program. Changes included:

- Adjusting the asset allocation to be more consistent with the LTC Industry
- Obtaining board approval to lower the LTC Fund discount rate
- Adding new 3, 6 and 10-year retained inflation benefit designs for LTC Program policyholders to select to avoid facing future rate increases
- Establishing a 10 percent LTC Fund margin as the threshold for reopening the LTC Program.

By February, 2013, the LTC Fund was sufficiently stable that the CalPERS Board approved re-opening the LTC Program to new applicants in 2013. Actual fund stabilization, policy conversion and margin statistics will be reported in the 2013 LTC Fund valuation.

Investments

CalPERS tested high-risk investment policies and best practices, developed a formal compliance program operating plan, and created new policies and procedures that reflect asset management industry best practices. Investment Office staff also attended internal comprehensive investment conflict of interest compliance training.

Pension

CalPERS revised member retirement publications to ensure compliance with the Public Employees' Pension Reform Act of 2013 (PEPRA).

Staff developed and implemented policies and procedures related to eligibility and notification for the surviving beneficiaries of safety members. As a result, all related review findings were completed prior to the deadline for the Safety Officer Survivor Program internal review determinations.

The Judges' and Legislators' Retirement System achieved 100 percent payroll reporting compliance, improving confidence in financial reporting and annual member statement accuracy.

Staff established a late/missing payroll tracking process to improve payroll monitoring and compliance. To handle escalated service credit purchase requests, an escalation team has been created including related monitoring procedures. The escalation team helped staff to complete the more than 62,000 service credit costing requests, reduce the backlog by more than 20,000 items and improve compliance with laws governing service credit purchases.

At the June 2013 Board of Administration meeting, the Board determined that Additional Retirement Service Credit (ARSC) purchases made by employers were unlawful; this decision was made precedential.

CalPERS also implemented changes to my|CalPERS system parameters to more effectively monitor for pension spiking.

Public Records Act

In January 2013, staff conducted a second-annual internal training on the Public Records Act (PRA) laws and processes, which was delivered to CalPERS staff assigned to facilitate PRA requests for their divisions.

The Organization proudly supported "Sunshine Week 2013," a week dedicated to promoting transparent and open government. CalPERS used established social media channels to share the goals of Sunshine Week and to remind the public about steps CalPERS has taken to become more transparent.

Section 218

CalPERS is California's "State Social Security Administrator," (SSSA) and is responsible for all aspects of Section 218 coverage. The SSSA provides public employers with information and advice about Social Security and Medicare coverage for state and local government employees.

To support member and business partner understanding and compliance, CalPERS provided a comprehensive update at the 2012 CalPERS Educational Forum, maintained educational webpages and issued Circular Letters and Periodic Bulletins for California employers.

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Education and Outreach

Employer Education and Outreach

CalPERS revised retirement publications, State and Public Agency manuals and online content to maintain compliance with the system disclosure policy, system changes and Public Employees' Pension Reform Act (PEPRA).

Additionally, staff provided educational opportunities to State, School, and Public Agencies. Over 271 classes on CalPERS laws and business rules were held, to help employers reduce errors and inquiries and improve the accuracy of members' benefits. Staff also provided 36 Disability/Industrial Disability Employer Workshops throughout the State.

In order to support accurate and timely reporting and benefits, customer education channels were expanded to include four Business Rules Training webinars, my|CalPERS system training and 22 new computer-based training modules, including modules that address proper reporting of reportable compensation. In addition, CalPERS conducted PEPRA teleconferences for more than 1,500 Business Partners.

Staff updated our Employer Reference Guides to provide employers with accurate compliance information and CalPERS business protocols. Staff issued multiple Circular Letters, informing employers about new online resources, CalPERS Health Benefits Program business rules, and legislative and procedural changes.

Other avenues for communication were also developed to assist members with health benefit questions, including the new Public Agency Billing Inquiry Queue for Employer and participation in the Retirement Planning Fair.

Equal Employment Opportunity

Annual Workforce Analysis

GC § 19790, 19791 and Executive Order S-6-04 require the State of California to establish an effective EEO program and to provide EEO to all individuals in all its activities. CDOP submitted its 2012 CalPERS Annual Workforce Analysis to CalHR.

Disability Advisory Council

CalPERS hosted monthly meetings of the CalPERS Disability Advisory Council (DAC), pursuant to GC § 19230–19237 and 19795(b).

The DAC provided its members with the opportunity to attend Disability Awareness Training facilitated by the California Department of Rehabilitation, including information about the Americans with Disabilities Act of 1990 (ADA) and Equal Employment Opportunity (EEO). DAC members also participated in a Veterans Day event that included education and awareness related to disabled veterans.

Disability Survey

The Rehabilitation Act of 1973 and GC Section 19233, the California Department of Human Resources (CalHR) requires State agencies to provide employees with the opportunity to self-identify any disabilities. Survey data is confidential and protected under the Privacy Act of 1974. CalPERS last completed this survey in February 2011. The next CalPERS Employee Disability Survey is scheduled for October 2013 to coincide with National Disability Month.

Equal Employment Opportunity Program

CalPERS EEO Counselor received certification as a CalHR Certified EEO Investigator and received an Investigator certification from the National Association of Workplace Investigators.

To support management compliance with State fair-hiring practices and EEO laws, the organization conducted two Limited Examination and Appointment Program (LEAP) workshops for managers and supervisors and conducted EEO presentations at two Leadership Essentials and Direction for Your Emerging Role (LEADER) trainings and at ten New Employee Orientation (NEO) trainings. CalPERS also developed and delivered workshops related to Diversity and Inclusion initiatives.

CalPERS maintains an internal discrimination complaint process that is utilized for all concerns and complaints alleging discrimination, sexual harassment, or hostile work environment by all employees and/or official representatives of CalPERS.

Employees have additional protection through complaint processes with the Department of Fair Employment and Housing and the Equal Employment Opportunity Commission. CalPERS continues to respond to employment discrimination complaints within 90 days of the complaint filing pursuant to 2 CCR 64.4.

Information Technology

Accessibility

As a state agency, CalPERS is required to comply with federal and State laws that forbid discrimination against persons with disabilities, including the accessibility of its services provided via electronic and information technology. CalPERS established the Web Accessibility Policy and Social Media Employee Usage Guidelines and continues to make ongoing Web accessibility enhancements to the site, pursuant to GC § 11135(d), which requires that all electronic and information technology developed or purchased by the State of California Government is accessible to persons with disabilities.

CalPERS Intranet

To enhance sharing of information CalPERS implemented a new intranet, including a complete review of all pre-existing human resource-related content for relevance and accuracy prior to and after migrating to the new intranet.

Human Resources

CalPERS upgraded PeopleSoft HCM to increase automation and provide new system functionality while reducing system customizations to facilitate future upgrades. This upgrade also introduced new system features, including single sign-on and an application portal, which provides limited self-service functionality to staff.

Staff piloted an automated timesheet, allowing staff and managers to process and approve timesheets electronically, improving accuracy and efficiency. CalPERS will also be able to automatically submit leave data the control the agency via data interface.

In addition, CalPERS implemented a new applicant tracking system, which improves compliance with hiring laws by providing guidance to managers through the hiring process. The new system also improves business processes and provides detailed metrics, electronic archival of hiring records and enhanced audit tools.

Assurance

Audits and Compliance

Audit Resolution Policy

CalPERS revised the Audit Resolution Policy to support internal audit findings resolution, consistent with the Standards for the Professional Practice of Internal Auditing. As of June 30, 2013, CalPERS is compliant with Board policy discouraging unresolved internal audit findings over one year old.

Board Fiduciary Training and Certification

Staff continued to monitor Board completion of the Fiduciary Training and Fiduciary Certification requirements.

Compliance Reviews

The Enterprise Compliance Division (ECOM) developed and piloted an approach for conducting program compliance reviews to assess program area compliance with laws, rules and regulations. Compliance review findings will be used to assist each program to identify best practices and deliver continual business process improvement support.

ECOM also provided ongoing oversight and monitoring of systems used by the Investments Office and for personal trading activity conducted by key CalPERS staff. The Chief Compliance Officer investigated and oversaw resolution of violations identified through these monitoring activities.

Contract-Related Disclosure Policy

Staff continued to conduct contract-related disclosure reviews on all solicitations, contracts and purchase orders over \$10,000, pursuant to the Contract-Related Disclosure Policy.

Contracting Public Agency Reviews

The Public Agency Review Program ensures CalPERS contracting public agencies comply with the requirements section of the California Government Code (GC) and the California Code of Regulations. The reviews validate that membership and earnings were reported accurately. During the year, public agency reviews found issues such as excessive pay rates reported for pension purposes, employees enrolled who were not eligible members, and misclassified positions to enhance benefits. CalPERS expanded the program to increase the number of public contracting agencies reviewed per year.

Ethics Training for Form 700 Filers

In July 2012, CalPERS developed a new Ethics training program for Form 700 filers through the Learning Management System (LMS). This web-based course provides information on ethics and conflict of interest training required for all employees that file Form 700s. The LMS now logs the completion of this mandatory training automatically, in support of ongoing staff compliance monitoring efforts.

External Audits and Reviews

CalPERS complied with federal audit requests regarding CalPERS Early Retiree Reinsurance Program (ERRP) claims pursuant to the Patient Protection and Affordable Care Act. CalPERS also contracted with a consultant auditing firm to improve death benefit payment reliability and accuracy, improving CalPERS compliance with the Public Employees Retirement Law (PERL).

Financial Statement Audit

GC § 20228 requires the CalPERS Board of Administration to annually employ a certified public accountant, who is not in public employment, to audit CalPERS financial statements. CalPERS external auditor completed an audit of the CalPERS Financial Statements for FY 2011-12. The 2012 Management Letter accepted by the Board at its March 20, 2013 meeting identified several significant deficiencies in controls over financial reporting and identified opportunities for strengthening internal controls. There were no deficiencies in internal controls that were considered to be substantial weaknesses. Staff established a preliminary implementation plan for each response and staff is in the process of implementing these changes, which will help address risks of noncompliance with financial reporting standards.

Financial Integrity and State Managers Accountability Act

The Financial Integrity and State Managers Accountability Act of 1983 (FISMA), GC § 13400-13407 requires a biennial review of internal accounting systems, administrative control and monitoring practices. CalPERS satisfied the biennial reporting requirement in FY 2011-12 and will submit the next required FISMA report by December 31, 2013.

CalPERS management complies with FISMA requirements by maintaining a system of internal controls which provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and financial statements are reliable.

Form 700 Process

To help detect and prevent potential conflicts of interest, CalPERS went above and beyond Fair Political Practices Commission (FPPC) minimum requirements for state agency oversight of the Form 700 filing process. During the period from May 1, 2013 through August 15, 2013, ECOM's Filing Officer conducted reviews of all Form 700s submitted by CalPERS staff, Board members and consultants, including all annual, assuming office and departure from office Form 700 submissions.

In February 2013, CalPERS received certification by the Fair Political Practices Commission to accept electronic filings of the Statement of Economic Interests (Form 700) using the automated Form 700 system. This certification provides additional benefits to CalPERS filers who electronically submit Form 700s, in the form of:

- Digital signatures and automatic date/time stamps
- Instant notification when Form 700 is successfully filed
- Reduced time and cost to file

Internal Audits

The Office of Audit Services 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. CalPERS also evaluates risk exposures relating to the organization's governance, operations and information systems.

As a result of CalPERS effective audit program, CalPERS has recovered significant funding from vendors for failing to meet contractual requirements.

Personal Trading Regulations

The CalPERS Board of Administration approved the Personal Trading Regulation in November 2012, which became codified effective December 2012 as California Code of Regulations Section 558.1. Individuals defined as Covered Persons must now comply with the regulation, including use of the CalPERS automated personal trading platform to disclose all trading-related activity and avoid transactions that could result in allegations of insider trading or front running.

Early adopters have been using the Personal Trading Platform since October 2012. The regulations went into effect for all users on December 1, 2012. As of June 30, 2013, CalPERS had achieved 100 percent compliance on the Initial Personal Trading Attestations.

Staff has produced nine web-based tutorials introducing users to Compliance 11, providing step-by-step instructions on how to log into the system, submit Pre-Clearance Requests, and manually enter transactions. The tutorial series is available on the ECOM Personal Trading Information Center as a training resource.

Ethics

Ethics Inquiries

The CalPERS Ethics Helpline allows CalPERS employees, members and business partners, contractors and the general public to anonymously and securely report concerns about potential misconduct or inappropriate activities, consistent with U.S. Federal Organizational Sentencing Guidelines. The CalPERS Ethics Helpline is hosted and monitored externally by a third-party vendor. A reporting party can either submit an Ethics Helpline report by calling a toll-free phone number and speaking with a live vendor employee or by completing and submitting an online report via a secure website 24 hours a day 365 days a year. Complaints can also be submitted to the Whistleblower Hotline administered by the California Bureau of State Audits.

During FY 2012-13, 96 ethics-related complaints were submitted to the CalPERS Ethics Helpline, of which 72 (75%) had been closed as of June 30, 2013. Centralized compliance staff coordinated intake, conducted preliminary research, assigned the complaint to the appropriate program area and monitored ongoing ethics inquiries by program staff to promote timely completion and consistent reporting.

Staff presented status updates and trend analysis to the Risk and Audit Committee throughout 2012-13.

Undue Influence

In 2012, CalPERS implemented the Undue Influence Policy which requires Executive Staff and Investment Senior Management to certify annually that they have been free of all undue influence during the prior year. Certifications were received for the reporting period January 1, 2011 through December 31, 2011. ECOM conducted interviews and monitored compliance with the annual undue certification process. No incidents of Undue Influence were substantiated for Calendar Year 2011. CalPERS will continue to evaluate and enhance the Undue Influence process.

Financial Controls

In FY 2012-13, CalPERS received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 17th consecutive year. This award acknowledges CalPERS for producing an efficiently organized and readable comprehensive annual financial report that meets generally accepted accounting principles and applicable legal requirements.

CalPERS initiated development of strategic measures to comply with Governor's Executive Order B-13-11, which directs the Department of Finance to collaborate with agencies and departments to create a budget plan incorporating methods such as strategic planning, performance measures, and zero-based budgeting.

In 2013, CalPERS implemented the zero-based budgeting methodology to develop the Fiscal Year 2013-14 CalPERS Budget. Using zero-based budgeting, CalPERS identified potential budget reductions based on critical priority considerations, including alignment to business plan objectives, managing top risks, continued pension reform implementation, vacancy management of unfilled positions, and delivering on Board approved commitments. This enhanced process ensured CalPERS focused on true budgetary needs rather than past expenditures. As a result, CalPERS developed a budget that addressed organizational needs and funding to meeting strategic objectives while eliminating unnecessary expenses.

The development of new annual cash forecasts supports the monitoring and assurance of CalPERS financial stability for the following funds:

- Public Employees' Retirement Fund
- Legislators' Retirement Fund
- Judges' Retirement Fund, Judges' Retirement Fund II
- Supplemental Contributions Program Fund
- Public Agency Deferred Compensation Program
- State Peace Officers' and Firefighters' Defined Contribution Plan Fund

CalPERS developed and implemented monthly investment expense reporting to track costs for public assets, hedge funds, administrative costs, and Real Assets. These monthly financial reports ensures investment expenses are appropriately captured, allocated, and reported, as well as allows CalPERS to analyze investment expenditures to increase operational efficiencies and cost effectiveness.

To improve internal accountability, staff updated the process for clearing outstanding Travel Advances and implemented a new requirement for submitting timely Travel Expense Claims (TECs) when a Travel Advance is requested. The improved monitoring and reporting include a monthly report of all outstanding Travel Advances to the CalPERS Chief Executive Officer, contacting CalPERS employees on the 11th day following the completion of travel if a TEC has not been received, and providing employees with 15 days from contact to submit a TEC. Failure to comply within 15 days following notification, results in a recovery of costs in the employee's next regular pay warrant if the TEC remains delinquent.

CalPERS reviewed the Supplemental Income Plan (SIP) programs and will be implementing new fees to participants in October 2013. The continued maintenance and monitoring of SIP pricing ensures the ongoing financial sustainability of the three funds, Public Agency Deferred Compensation Plan (IRC 457), State Peace Officers' and Firefighters' Defined Contribution Plan Fund, and Supplemental Contributions Program Fund.

CalPERS enhanced the assurance review process for the Fiscal Year 2012-13 Incentive Compensation awards program. These enhancements included a review and assessment of the process and data sources utilized in the calculation of the quantitative investment performance plan measures. As a result, there is greater independence and assurance of the accuracy of individual quantitative assessment calculations.

Investment-Related Disclosures Process

Staff instituted a secondary review process for investment-related disclosures that are reported in the Comprehensive Annual Financial Report.

Pension Plan Funding Levels and Risks Report

CalPERS conducted the second annual review of Pension Plan Funding Levels and Risks report as part of the Board Governance project for the Finance and Administration Committee. This report is designed to allow the CalPERS Board to assess the overall soundness and sustainability of the pension plans within the PERF.

Monitoring and Oversight

Contract Services

Staff continued to streamline and automate the contracting process to improve oversight and efficiency. The contracts database was brought in-house and staff successfully piloted contracts with several divisions, including development and provision of related training.

To ensure accountability for leaders given delegated authority to sign general contracts for less than \$1 million, mandatory contract training is required for Division Chiefs and Executive Staff. Training is required within 90 days of appointment and every other year thereafter. The training provides an overview of the State and CalPERS contracting policies, processes, and their responsibilities for receiving delegated authority to sign contracts.

In compliance with the Board's Contracting Activity Reporting Policy, reports were prepared and submitted to the Board for approval in December 2012 and April 2013.

Policy Library

CalPERS established a new oversight function to create and administer a central policy repository and governance adoption processes. Following a structured life-cycle process of policy creation, review, revision, retirement, approval, implementation and enforcement will allow CalPERS to develop and maintain policies to remain compliant with applicable laws, directives, ethical norms, acceptable standards and best practices.

These processes serve as an internal control measure to manage risk and provide controls to our business processes.

Regulatory Compliance Repository

CalPERS established an online Regulatory Compliance Library as a centralized reference source for statutes, regulations and rules governing each CalPERS division.

The Library contains live links to all statutes, regulations and rules and is located on the CalPERS intranet. The Library allows staff to access, sort and view statutes and regulations. Staff can also follow links within the library, leading to current, full text of the law, regulation, rule, or to the portal leading to the specific citation.

Risk Management

CalPERS is conducting a business strategy review to centralize all enterprise risk, compliance and security functions. As part of this process, staff has outlined the functions that are provided for the enterprise related to information security, compliance, emergency management, and risk assessment and intelligence.

Business Continuity Program

Pursuant to Executive Order S-04-06, CalPERS has coordinated and implemented an enterprise-wide Business Impact Analysis, Gap Analysis and Business Continuity Plan updates. These activities examine CalPERS business processes to determine the impact of interruptions and identify existing risks that may prevent CalPERS from responding to an incident and recovering from a disaster.

Risk Identification Activities

In FY 2012-13, CalPERS conducted enterprise-wide risk assessments to identify the areas of highest risk. CalPERS completed 11 of 18 planned annual risk assessments and multiple ad-hoc risk management projects requested by the Board or Executive Risk Management Committee.

CalPERS recalibrated and refreshed the following risk exposure reports for CalPERS management and Board members:

- Enterprise-wide risk dashboard to identify key risk results
- Top risk lists
- Emerging risks list
- Risk Portfolio

Staff also developed tools and methodologies to help management identify, track and manage residual risks.

Security

Customer Service

To promote worker safety, CalPERS conducted an internal training for customer service staff and developed a new procedure for interactions with challenging customers.

Processes, procedures and training were created to protect member confidentiality and privacy while responding to inquiries received through the Member Secured Messaging channel.

The CalPERS Customer Contact Center achieved an average Quality Assurance evaluation score of 92 percent for member and employer phone teams, reflecting a high rate of compliance with proper security and verification procedures.

Staff also developed a Regional Office Minimum Security Roadmap and implementation plan to mitigate potential risks associated with worker safety. Implementation measures pursuant to the plan have been completed at Walnut Creek and San Jose Regional Offices.

Health Insurance Portability and Accountability

CalPERS responded to two complaints received from the Office of Civil Rights (OCR), alleging that CalPERS violated the Health Insurance Portability and Accountability (HIPAA) rules and regulations by releasing Protected Health Information (PHI) without consent. CalPERS conducted a full investigation into the allegations and provided responses and documentation to the OCR. The OCR then conducted their own investigation with the information provided and concluded that CalPERS used member information within the HIPAA guidelines and therefore no violation occurred.

Information Access Controls

Staff conducted access-rights clean review for certain benefit administration staff who have not accessed the system in more than 90 days. CalPERS updated and revised my|CalPERS Access requestor and approver procedures and rolled out updated procedures to business users.

Information Security

By establishing a new Information Security training through the online Learning Management System, CalPERS continues to enhance awareness enterprise wide.

Information Security Policy Refresh

The Information Security Policy Refresh Project is updating all CalPERS Information Security Policies to become fully compliant with applicable laws, regulations, national standards and best practices. Currently all 532 applicable information security requirements from the following sources have been incorporated into CalPERS Information Security Policies which are currently being approved by CalPERS stakeholders:

- Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- Health Information Technology for Economic and Clinical Health (HITECH) Act

- International Organization for Standardization (ISO/IEC 27001-27002)
- US National Institute of Standards and Technology
- Cloud Security Alliance
- CA State Administrative Manual (SAM 5300)
- Information Technology Infrastructure Library (ITIL)

Seventeen information security policies and 435 of 751 new or updated control standards were approved by the Enterprise Architecture Board to meet today's technology, regulatory and threat landscape. A new Information Security Policy Management System was also implemented, which includes a component for automatically updating security policies and standards as federal regulations and industry best practices evolve. This makes it easier for CalPERS to maintain up-to-date compliance regarding information security and privacy regulations.

Investigations/Breaches

CalPERS has handled eighteen information security incidents involving a variety of subjects pursuant to GC § 11549 and State Administrative Manual (SAM) Section 5300. Thirteen of these incidents were not "Notice Triggering" events (e.g., not involving Security Breach Notices) and did not involve any unauthorized disclosure of personally identifiable information. Corrective actions were taken to prevent future occurrences.

Four incidents involved "Notice Triggering" events (e.g., involving Security Breach Notices) and did involve the unauthorized disclosure of personally identifiable information. For these incidents, CalPERS offered each affected CalPERS member the opportunity to enroll in a credit monitoring service at no cost to them.

The one remaining incident involved the infringement of the CalPERS Domain Name. For this incident, the registered Domain owner of the CalPERS infringed domain Web site agreed to release domain name from his ownership. To prevent this type of error from occurring in the future, CalPERS will monitor the usage of the CalPERS name and logo on the Internet.

CalPERS has also conducted eleven information security-related investigations to support CalPERS compliance with GC § 11549, California Penal Code, and California State administrative rules and procedures.

Mail and Packages

Staff developed and implemented a policy pertaining to the delivery and receipt of personal packages at the Lincoln Plaza complex to ensure a higher level of safety and security at the facility.

To enhance the security and accountability of parcels and envelopes received via Express mail carriers, CalPERS also modified the existing incoming Express Mail Tracking Log information to include the requirement of a manager or supervisor's signature, verifying that they agree with both the package count and the time the parcels or envelopes were delivered by Central Receiving staff to the mailroom counter.

Periodic Security Assessment Project

In FY 2012-2013, the Periodic Security Assessment (PSA) Project developed a standardized and repeatable process for identifying information systems security vulnerabilities and reducing risks with mitigation strategies, establishing a framework to assess technical security compliance on a periodic basis.

United States Government Configuration Baseline

Staff is working to bring CalPERS computer workstations into compliance with the United States Government Configuration Baseline (USGCB). Of the 556 USGCB controls 79 percent were applicable to CalPERS and were used to create a new CalPERS Windows Configuration Baseline (CPWCB). CalPERS compliance with the new CPWCB is currently 94 percent.

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Legislation and Regulations

At the close of each legislative session, CalPERS compiles a list of all newly enacted legislation and monitors implementation progress.

CalPERS successfully lobbied for the passage and enactment of the following Board sponsored state legislative proposals:

- CalPERS Wellness and Risk Adjustment Programs – AB 2142 (Chapter 445, Stats. 2012) authorizes CalPERS to develop and administer wellness and risk adjustment programs based on rules and regulations established by the Board.
- CalPERS 2012 Omnibus Bill – SB 987 (Chapter 833, Stats. 2012) makes minor policy and technical changes to the Public Employees' Retirement Law (PERL).

Additionally, staff appeared before the Joint Legislative Conference Committee on Public Employee Pensions to provide information and analysis to lawmakers as they developed their Report, which was enacted in AB 340 (Chapter 296, Stats. 2012). AB 340 (PEPRA) extensively changes public employee retirement benefits for the State and most local government employees and employers.

Staff also provided support to lawmakers, in the form of comments on regulations associated with federal healthcare and financial market reform and supported 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.

Health

CalPERS promulgated regulations implementing AB 2142 (Chapter 445, Statutes of 2012), which allows risk adjustment and premium offsets for participation in health promotion and disease prevention programs (2 CCR 599.500 and amendments to 2 CCR 599.508).

Staff implemented these changes by conducting a risk-adjustment across 2014 health plan rates and partnered with Blue Shield of California and the California Department of Public Health to launch the Good Health Wellness Program in Richmond, California. The wellness program also complies with federal law establishing new restrictions on employer-sponsored wellness programs to safeguard employees against unintended discrimination (26 CFR 54, 29 CFR 2590, 45 CFR 146, 45 CFR 147).

CalPERS also amended 2 CCR 599.500 – 502 and 599.508, providing CalPERS with the flexibility to offer Medicare supplement health plans from the same or different carriers that provide basic coverage to CalPERS members. These regulations will enable CalPERS to consider opportunities to be part of a larger pool of enrollees, which would reduce administrative costs associated with maintaining a supplemental equivalent for each basic plan option.

CalPERS amended 2 CCR 599.506, which authorizes the Board to provide amnesty for employees and annuitants who voluntarily terminated their ineligible dependent(s) enrollment in a CalPERS health benefits plan on or before June 30, 2013. The amnesty period encouraged health plan members to voluntarily comply with CalPERS enrollment requirements.

Pursuant to 42 CFR 423, CalPERS also implemented the Employer Group Waiver Plan for over 130,000 self-funded Medicare members, resulting in predicted savings of \$60 million annually in Medicare Part D drug costs.

Affordable Care Act (ACA)

In 2012-13, CalPERS continued to actively track, assess and implement requirements of the Affordable Care Act and related federal regulations. CalPERS developed a business process to implement the Patient-Centered Outcomes Research Institute (PCORI) annual fee, pursuant to Affordable Care Act (ACA) regulations 26 CFR 40, 26 CFR 46 and 26 CFR 602. CalPERS partnered with California Department of Human Resource and State Controller's Office to identify impacts and to implement changes related to Employer Shared Responsibility regulations, pursuant to ACA regulations at 26 CFR 1, 26 CFR 54, and 26 CFR 301 (2013).

Staff maintained the monthly enrollment reports on the health care plans and total covered lives required to comply with ACA-related taxes and fees, including requirements at 26 CFR 40, 26 CFR 46 and 26 CFR 602.

As part of outreach efforts to help improve contracting agency compliance with ACA-related laws and regulations, CalPERS participated on numerous panels and gave presentations related to federal and State healthcare market reform efforts. Staff also drafted Circular Letters providing guidance and direction for complying with ACA provisions.

Pension

Internal Revenue Code (IRC) Sections 414(d) Compliance

The IRS issued Advance Notice of Proposed Rulemaking Regarding Definition of a Governmental Plan. These regulations clarify which organizations qualify as governmental plans, affecting future eligibility for new contracting agencies.

In order to position ourselves to comply with the regulations when they take effect, staff has established preliminary eligibility verification and tracking systems that will allow us to accommodate whatever definitions are ultimately established.

In particular, staff created a database to record how all prospective agencies have met the eligibility requirements, as informed by the IRS Advance Guidance. Staff is reviewing new contracting employers and has established a denial and appeals process for new agencies that do not meet the legal parameters to contract with CalPERS.

In addition, CalPERS informs prospective employers of the legal requirements to

contract with CalPERS and assures them that CalPERS is an IRC-compliant trust administrator.

Public Employees' Pension Reform Act (PEPRA)

CalPERS extensively reviewed, tested and implemented the requirements of PEPRA, including updating procedures and systems, and training staff to ensure that PEPRA rules and regulations were being followed appropriately. Staff revised publications and developed staff and employer communications, including revisions to six division owned members publications.

Two new Risk Pools were created and approved by the Board to accommodate the four new reduced retirement benefit formulas and increased retirement age provisions for new members hired after January 2013.

CalPERS also promulgated two regulatory packages related to PEPRA, describing CalPERS scope of authority and defining and clarifying definitions, calculations and compensation.

Staff also contributed several amendments to Senate Bill (SB) 220, the CalPERS sponsored PEPRA conformity bill for the Public Employees' Retirement Law (PERL), and SB 13, the PEPRA urgency legislation.

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Appendices

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Appendix A

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 2012-13:

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
Contracts Delegated Authority Training	Contracts Delegated Authority Training is required for any position being given delegated authority to sign contracts on behalf of CalPERS.	Condition of appointment	CEA level and above	Within 90 days of hire and biennially thereafter.	13	10	76.9%
CalPERS Ethics Training	Familiarizes staff with Form 700 reporting obligations, gift limits and other ethical requirements.	GC § 11146.1	Form 700 filers.	Biennial	728	663	91%
Health Insurance Portability and Accountability Act (HIPAA)	Familiarizes staff with HIPAA privacy and information security requirements.	HIPAA staff training policy	All CalPERS staff, all contractors and consultants	Within 90 days of hire and annually thereafter.	2526	2523	99.9%
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.	2521	2517	99.8%

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
LEADER	<p>Introductory training for new supervisors and managers.</p> <p>Includes:</p> <ul style="list-style-type: none"> • 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	98	85	87%
New Employee Orientation (NEO)	<p>Includes:</p> <ul style="list-style-type: none"> • 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.	356	355	99.7%

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.	<ul style="list-style-type: none"> • CalPERS Harassment Prevention Policy, revised October 2011 • State and Federal law • U.S. Federal Sentencing Guidelines 	<p>All Supervisors and managers.</p> <p>CalPERS policy requires all employees to take the training within 90 days of hire and every other year, including students and retired annuitants.</p>	<p>All new supervisors or managers within six months of start and every other year thereafter.</p> <p>All non-supervisory employees within 90 days of start.</p> <p>All staff must complete biennially.</p>	502	483	96.2%
First Aid/CPR Training	Provides staff with limited first aid/ CPR skills.	<ul style="list-style-type: none"> • Injury and Illness Prevention Program (IIPP) • Section 3203 of the General Industry Safety Orders • SAM § 4842.2 • CalOSHA guidelines 	Voluntary	Every three years to remain certified	Voluntary	156	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	2,280	2,270	99.6%

Appendix B

Mandated Licenses and Certifications

Division	Classification	License / Certificate Required	# of Staff
LEGO	Attorney Series (I, III, IV)	California State Bar Membership	25
ACTO	Pension Actuary Class Series	Associate of the Society of Actuaries	16
BPPP	Nurse Consultant Class Series	Active valid license as a registered nurse in California.	1
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

Appendix C

Mandated Reports

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date by Legislative Counsel Office
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.	6/8/12
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.	3/22/12
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.	10/11/12
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.	10/11/12
Independent Auditor's Report of Comprehensive Annual Financial Report	GC § 20228	Annually	3/18/12
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.	10/11/12
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.	10/11/12
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.	10/11/12

Report Title/Summary	Mandate Source	Due	Most Recent Publication Date by Legislative Counsel Office
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.	10/11/12
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	10/11/12
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	4/13/09
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, pursuant to 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.	5/4/12
Chief Investment Officer's Quarterly Report Report of Public Employees' Retirement System's assets.	GC § 20235	Quarterly	5/10/13
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	1/23/13
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.	4/15/09
Legislator's Retirement System Actuarial Valuation Report on rate of contributions for Legislators' Retirement Fund.	GC § 9358.1	Annual	6/08/12
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	7/05/11
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.	4/14/09