



Consent

Agenda Item 4f

June 17, 2014

ITEM NAME: Quarterly Status Report - Enterprise Compliance

PROGRAM: Enterprise Compliance Division

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

This reporting item provides a current status update of key activities and accomplishments of the Enterprise Compliance Division (ECOM), from January 1 through March 31, 2014. ¹

STRATEGIC PLAN

This item supports CalPERS Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. ECOM is actively participating in implementing the following 2013-15 Business Plan initiative:

- Policy Management – Enterprise Compliance staff are coordinating with ERMD to develop a policy management framework to establish an enterprise-wide policy oversight approach and compliance function.

BACKGROUND

As part of CalPERS Integrated Assurance Model, CalPERS uses the three lines of defense system to distribute risk management and compliance responsibilities.

Enterprise Compliance staff work with program areas to provide an independent source of assurance regarding compliance. ECOM provides oversight, ongoing review and monitoring of program area compliance-related activities, including ethics helpline oversight, automated business controls and statutory and regulatory oversight.

ANALYSIS

The program focus has been on five major areas: compliance monitoring, regulatory oversight, processes and systems, policy documentation and outreach, and recruitment and staff development.

¹ As a result of the transition to quarterly reporting, activities performed during this period and previously reported to Committee in March have not been duplicated.

Regulatory Oversight

Form 700 - The Form 700 Statement of Economic Interests filing for the 2013 calendar reporting period is still in process as of March 30, 2014. Reminders have been sent to individuals who did not submit their Form 700s by the April 1, 2014 deadline.

- Six elected Board officials were required to file on or before March 3, 2014. The six elected Board officials met the March 3rd deadline.
- The final filing date for staff and consultants was April 1, 2014. As of the April 1st filing date, the following Form 700s were received:

Category	# Required to Submit Form 700	# Submitted by April 1, 2014	% in Compliance	e-Filings	
				#	%
Board members <i>(excluding filers due on March 3)</i>	19	19	100%	6	32%
Staff	732	723	99%	677	92%
Consultants	193	154	78%	89	46%
Total	944	896	95%	772	82%

Pursuant to the Fair Political Practices Commission (FPPC) guidelines for agencies with more than 50 filers, will send follow-up notices to non-filers as follows:

- First Non-Filer Notice – within 120 days after the annual deadline
- Second Non-Filer Notice – within 60 days after the first notice
- Enforcement Referral – within 45 days after the second notice

Compliance Monitoring

Consistent with the Annual Compliance Plan presented to the Risk and Audit Committee at its June 19, 2013 meeting, ECOM is finalizing the Compliance11 personal trading platform administration compliance review, which will help provide assurance that administrative controls over personal trading adhere to the Personal Trading Regulations requirements.

Compliance 11 – Staff administer the Personal Trading Regulation via the automated platform, Compliance11.

The CalPERS Personal Trading Regulations require Covered Persons by April 1 each year to:

- affirm their knowledge and understanding of the regulations
- disclose all covered accounts, and
- authorize brokers to provide trade confirmations to CalPERS.

The 2014 Annual Attestations notifications and reminders were not sent timely via the Compliance11 system. Once the reminder failure was identified, ECOM promptly notified and assisted Covered Persons to complete their attestations for the 2014 calendar year by the extended April 11, 2014 deadline. In the future, the Compliance11 system functionality to send periodic automated e-mail reminders to Covered Persons regarding their obligations under the Personal Trading Regulations will be activated. ECOM has updated internal procedures and guidelines to ensure the use of Compliance11's automated notification feature.

As of the date of this report, the Annual Attestation for all Covered Persons has been completed.

Processes and Systems

To enhance CalPERS ability to assess and manage risk and compliance information, encourage collaboration and drive principled performance across the enterprise, the Office of Enterprise Risk Management initiated the implementation phase of the Enterprise Governance, Risk and Compliance (eGRC) RSA Archer automated solution in October 2013. The eGRC solution includes the following six modules: enterprise, risk, compliance, incident, business continuity, and policy management. As of this report, the Compliance Review Process module is in the testing phase, with an expected go-live date in late June.

Policy Documentation and Outreach

In coordination with staff administering the California Employers' Retiree Benefit Trust (CERBT), the Chief Compliance Officer supported CalPERS successful bid to bring the Los Angeles Unified School District into the CERBT program. This involved significant outreach relating to the policies and practices supporting the effectiveness of CalPERS ethical standards and Core Values. CalPERS established new ethics and compliance oversight practices over CERBT engagements, helping to develop a new model for managing ethical conduct and reporting throughout the life of contracts with external customers.

In January, Board members and Senior Management held a round-table on the CalPERS undue influence certification process. In response to the feedback provided by Board members and CalPERS executive staff present at the round-table, recommendations were presented to the CalPERS Board Governance Committee in March.

One recommendation included revising the Board Governance Policy to remove the annual certification process in favor of a requirement that all staff report immediately any instances of suspected undue influence. The Committee was also informed of development activities to revise the CalPERS Undue Influence Policy to address the underlying themes more broadly and effectively. Current development activities address the proposed policy name change to the Ethical Decision-Making Policy and reinforce the theme of emphasizing timely reporting and resolution of potential undue influence.

Staff have initiated amendments to the Incompatible Activities and Conflict of Interest Code regulations to ensure that they accurately reflect CalPERS current business environment and needs as follows:

- The Incompatible Activities Code (2 CCR § 558) forms the foundational basis of all conflict of interest activity and enforcement at CalPERS, has not been updated since enactment in 1989, and proposed revision will include necessary changes to enhance readability and understanding by staff.
- The Conflict of Interest Code (2 CCR § 560) lists the job positions at CalPERS required to file Form 700 based on the nature of duties performed. While last updated following the CalPERS 2010 re-organization, several key new positions have been created since the re-organization which are not accounted for in the current Conflict of Interest Code and are required to file a Form 700.

Recruitment and Staff Development

Enterprise Compliance is recruiting two Staff Program Evaluators (SPEs) to join our team as we continue to expand our compliance monitoring activities to provide broader assurance regarding program area compliance. The two SPEs will provide valuable oversight and review experience, strengthening ECOM's compliance review program.

Clear and complete documentation is essential to a strong compliance program and effective coordination of GRC activities. To build this capability, ECOM Management has arranged specialized compliance training for Enterprise Compliance staff, in coordination with CalPERS Human Resources Division and Los Rios Community College. The skills imparted through this training will allow Enterprise Compliance staff to clearly and effectively document compliance activities and coordinate communications across assurance functions. The first training session occurred on February 25, 2014, with subsequent sessions scheduled through December 2014.

Staff will continue to evaluate opportunities to strengthen CalPERS Integrated Assurance Model by improving and expanding enterprise-wide compliance and ethics awareness activities throughout CalPERS.

BENEFITS / RISKS

The establishment of an effective ethics and compliance program provides significant benefits to the organization:

- Transparency and disclosure activities help provide assurance against inappropriate activities relating to conflict of interest.
- Ongoing monitoring and compliance reviews help detect potential misconduct and identify opportunities to improve compliance structures.
- Policy documentation and outreach help to improve staff's awareness and understanding of compliance requirements, helping position them to do the right thing.
- Recruitment and staff development help to ensure that CalPERS compliance program is supported by qualified, knowledgeable staff.

Implementing the activities outlined in this agenda reduces CalPERS exposure to the following risks:

- Legal and financial risks due to consequences of failure to comply with laws or regulations.
- Reputational risks resulting from significant noncompliance or appearance of misconduct.
- Operational risks resulting from significant noncompliance leading to error or process failure.

BUDGET AND FISCAL IMPACTS

Not Applicable.

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