



Agenda Item 4i

September 16, 2014

ITEM NAME: 2013-14 Annual Compliance Report

PROGRAM: Enterprise Compliance Division

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

This agenda item presents the DRAFT 2013-14 Annual Compliance Report, which will be included as a section within the CAFR.

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. This year's Annual Compliance Report reflects the period of July 1, 2013, to June 30, 2014.

ANALYSIS

Compliance is a central component of the Integrated Assurance Model. The Annual Compliance Report documents CalPERS most significant compliance-related improvements and accomplishments, supporting effective Board oversight and improving transparency and public confidence.

In 2013-14, CalPERS built on existing compliance structures and improved assurance across all three lines of defense.

For the program areas, our first line of defense, there was a significant trend of expanding automation and improving benefit administration accuracy and timeliness, including:

- Implementation of a full file enrollment reconciliation process with health plans, to improve consistency of data held in separately maintained records systems
- Working with employers to reduce outstanding payroll reports by 68 percent
- Unified and streamlined internal financial tracking systems

CalPERS also significantly strengthened its second line of defense, by enhancing compliance monitoring and oversight through:

- Development of an automated Governance, Risk and Compliance (eGRC) solution
- CalPERS first full year of CalPERS Personal Trading Regulation monitoring and compliance

In the coming year, staff will continue to focus on expanding existing compliance initiatives to strengthen compliance structures enterprise-wide. The launch of our new eGRC solution positions CalPERS to establish an integrated, risk-intelligent approach to compliance, building on our existing strengths.

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

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

- Automated systems improve benefit administration accuracy and timeliness, reducing potential for human error
- Improved compliance monitoring and oversight help prevent and detect conflicts of interest and other barriers to compliance
- Compliance structures create a strong foundation to support staff compliance efforts

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.

ATTACHMENTS

Attachment 1 – DRAFT 2013-14 Annual Compliance Report

KATHLEEN K. WEBB
Chief Risk and Compliance Officer

CHERYL EASON
Chief Financial Officer