Consent

Agenda Item 5f
March 17, 2015

ITEM NAME: Quarterly Status Report – Enterprise Compliance

PROGRAM: Enterprise Compliance Division

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

This item provides a status update of activities and accomplishments for the Enterprise Compliance Division (ECOM) during the period of October 1, 2014 through January 31, 2015.

STRATEGIC PLAN

This item supports CalPERS Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. By providing effective compliance monitoring and oversight, ECOM assists to detect and correct ethical and compliance risks throughout the organization.

ECOM is actively participating in implementing the following 2013-15 Business Plan initiative: "Policy Management – Develop a policy management framework to establish an enterprise-wide policy oversight approach and compliance function."

BACKGROUND

Under the Integrated Assurance Model, CalPERS uses the three lines of defense methodology to integrate risk management and compliance responsibilities. ECOM's role is to provide oversight, ongoing review and monitoring of compliance-related activities, including ethics helpline oversight, internal business controls and statutory and regulatory oversight. Enterprise Compliance staff are responsible for working with program areas to provide an independent source of assurance regarding compliance.

ANALYSIS

In June 2014, the ECOM Annual Compliance Plan established nine goals for fiscal years 2014-15 and 2015-16. Based on an assessment of compliance and risk activities since the plan was established, ECOM will focus on the following activities, as described in this report. A revised Compliance Plan will be submitted to the Risk and Audit Committee in June 2015, as part of the annual process.

Policy-Management Framework
Effective January 1, 2015, the Enterprise Policy Administration function transferred to ECOM for ongoing management. As such, staff will continue to implement and refine the enterprise policy-management framework.

Integrated Assurance Model
ECOM will continue to refine and enhance processes and protocols under the Integrated Assurance Model in order to improve how CalPERS implements the three lines of defense enterprise-wide. ECOM will partner with enterprise programs to ensure program-specific compliance expertise is embedded within programs as part of the first line of defense. Staff is also developing guidelines to centralize and enhance policy and compliance incident management practices. Compliance reviews will continue throughout CalPERS. These include targeted reviews of compliance practices and delegations of authority.

The following activities will be removed from the Annual Compliance Plan and incorporated into ongoing compliance activities:
- Test compliance over provisions of ACA implemented in 2013-14.
- Test compliance with laws, rules, regulations, policies and procedures for divisions processing confidential HIPAA-protected documents.
- Test compliance with applicable laws, rules, regulations, policies and procedures for contracting and procurement processes.

Enterprise Ethical Standards
ECOM will partner with the Legal Office and Human Resources Division to review ethical decision-making and conflict of interest practices, in order to clarify standards and identify enhancements and process improvements. Staff will also conduct the Annual Form 700 Statement of Economic Interests notification and filing process.

Completed Items
The Citizen Complaint Act of 1997 requires CalPERS to provide an online method for individuals to submit complaints or comments relating to the organization's performance. CalPERS completed this activity by launching the Citizen's Complaint Act dedicated web portal on September 24, 2014.

BUDGET AND FISCAL IMPACTS
Not Applicable.

BENEFITS/RISKS

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

- Effective leadership and governance create a positive tone at the top that encourages staff to do the right thing.
- Clear identification of applicable standards and codes helps staff identify the requirements that apply to their work, mitigating risk of oversight.
- Risk assessments and clear prioritization help CalPERS focus efforts on compliance activities that will provide the highest benefit to the organization.
- Effective operating event and incident management helps ensure that the organization responds rapidly and effectively to noncompliance events.
- Monitoring and testing help to provide assurance regarding program area compliance activities.
- Reporting and disclosures help the organization effectively assess and respond to ongoing compliance trends and provide assurance against inappropriate activities relating to conflict of interest.
- Education and communication help ensure staff are up to date and aware of their compliance responsibilities.

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.

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