Consent

Agenda Item 4f

June 16, 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 February 1, 2015 through April 30, 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 prevent, detect and correct ethical and compliance risks throughout the organization.

BACKGROUND
ECOM has developed a new compliance plan, which will be presented for the committee's review and approval this month. ECOM is also preparing to implement the following 2015-17 Business Plan initiative: "Enhance Internal Controls – Develop and implement enhanced internal controls that improve compliance and reduce operational risks.

ECOM's role is to integrate risk management and compliance activities in order to:
- Promote a positive control environment;
- Prevent, detect, and respond to issues of non-compliance;
- Serve as a resource for guidance about compliance and ethical issues;
- Ensure program and policies reinforce ethical decision making;
- Ensure that CalPERS meets its fiduciary, regulatory and contractual obligations;
- Create and maintain a culture of honesty and integrity; and
- Encourage a commitment to doing the right thing.

ANALYSIS
In addition to ongoing compliance and oversight activities, ECOM initiated the following new activities during the reporting period:

Integrated Assurance
ECOM partnered with the Enterprise Risk Management Division and Office of Audit Services to conduct a joint enterprise-wide risk assessment. This approach is consistent with the integrated assurance model and is designed to streamline assessment efforts, resulting in a more robust, cross-functional understanding of CalPERS risks. Staff from all three areas held a series of joint risk assessment meetings with executive and senior management. ECOM used the information from these meetings to identify and assess gaps in CalPERS compliance controls, allowing prioritization and assignment of resources to address potential risks.

ECOM also continued to refine and enhance the division's oversight approach, in its role as the second line of defense over compliance. The revised procedures can be applied to a broader range of activities and provide a strong basis for continuing oversight enterprise-wide.

Ethical Standards and Culture
The Political Reform Act requires designated employees and consultants to file Form 700, Statement of Economic Interests, annually. The 2014 annual Form 700 filings were due March 1, 2015 for elected Board Members and April 1, 2015 for all other filers. ECOM began notifying affected individuals in January, 2015 and partnered with the Investment and Legal offices to provide communications, training and office hours. Additionally, staff made a significant effort to encourage electronic filing, which ensures a more complete and accurate filing. As of April 1, 2015, 100% of CalPERS staff are in compliance with their annual filings.

ECOM is continuing to revise the CalPERS Conflict of Interest Code ("COI Code") to align the existing regulations with CalPERS current organizational structure. In February 2015, the Board Governance Committee approved moving forward with the amendment to the COI Code, which is currently within the 45-day comment period. Throughout this process ECOM staff partnered with the Legal Office, Human Resources, Operations and Support Services, and the Fair Political Practices Commission (FPPC). Final approval of the revised COI Code is anticipated to go into effect by the end of 2015.

New Compliance Plan Development
During this quarter, significant effort went into identifying and prioritizing the initiatives for the development of a 2015-17 Compliance Plan. In support of this new direction, staff will work closely with all program areas to clarify roles & responsibilities and build and strengthen partnerships enterprise-wide to establish a strong foundation for future compliance activity. Additionally, ECOM will improve and enhance compliance monitoring and reporting activities, including development of internal control and

incident management standards and frameworks. The policy management and delegation functions are also transitioning to Enterprise Compliance to align these processes with the new compliance initiatives.

ECOM is in the process of recruiting for several management and staff vacancies to support new and increased workload resulting from the compliance plan and program enhancements.

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 encourages staff to do the right thing (tone at the top).
- Risk assessments help effectively target compliance priorities.
- Effective incident management helps CalPERS identify and rapidly address noncompliance.
- Monitoring and testing provide assurance regarding program area compliance.
- Reporting and disclosures provide assurance related to conflicts of interest.
- Education and communication strengthen staff knowledge about compliance requirements.

Implementing the activities outlined in this agenda reduces CalPERS exposure to legal, financial, reputational and operational risks from:
- Failure to comply with laws or regulations, and/or
- The appearance of misconduct or noncompliance.

_____
KAMI NIEBANK
Interim Chief Compliance Officer
Enterprise Compliance Division

_____
CHERYL EASON
Chief Financial Officer