



## Consent

### Agenda Item 4e

September 16, 2015

**ITEM NAME:** 2014-15 Annual Compliance Report

**PROGRAM:** Enterprise Compliance

**ITEM TYPE:** Information Consent

#### **EXECUTIVE SUMMARY**

This agenda item presents the FY 2014-15 Annual Compliance Report (Attachment 1), which will be included as a section within CalPERS Comprehensive Annual Financial Report (CAFR).

#### **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, Enterprise Compliance aids in the prevention, detection, and correction of ethical and compliance risks throughout the organization.

Enterprise Compliance also supports the following 2015-17 Business Plan initiative: "Enhance Internal Controls – Develop and implement enhanced internal controls that improve compliance and reduce operational risks."

#### **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, 2014 to June 30, 2015.

#### **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.

CalPERS Board of Administration and executive management team provide direction and oversee the effectiveness of the organization's compliance practices using the three lines of defense model.

- **First Line of Defense** – The first level of the control environment are the Program Areas which perform day to day risk management activity.

- **Second Line of Defense** – Oversight functions, such as Enterprise Compliance and Enterprise Risk Management, set direction, define policy and provide assurance.
- **Third Line of Defense** – Internal and external audit are the third line of defense, offering independent challenge to the levels of assurance provided by program areas and oversight functions.

### First Line of Defense

As the first line of defense, program areas throughout CalPERS continued to strengthen existing safeguards, establish new controls and implement new legislative and regulatory changes:

- Pension staff established new agency merger procedures to accurately and efficiently administer pension benefits and provide CalPERS business partners with merger guidelines to support compliance.
- The Health Benefits Program continued the Dependent Eligibility Verification process, which validates that only eligible dependents are enrolled in CalPERS health plans. As of October 1, 2014, nearly 9,000 ineligible dependents were removed from coverage with a total estimated savings of \$106 million.
- The Board approved implementation of the Treasury Management Policy to ensure the payment of member benefits and organizational expenses without interruption. The Policy sets forth the responsibilities, structure, and approach to:
  - Ensure the payment of member benefits and organizational obligations are provided without interruption,
  - Provide an integrated oversight structure,
  - Maintain appropriate coverage and reserve levels for programs and the enterprise, and
  - Manage enterprise liquidity risk.
- CalPERS Human Resources Division implemented a new criminal history background check for all prospective CalPERS employees, to:
  - Support increased security of CalPERS employees, information, and assets
  - Support consistent hiring and screening practices
  - Proactively reduce the risk of employee-related loss
  - Mitigate the likelihood of an adverse incident(s) occurring within CalPERS that could jeopardize member, employer, and/or public confidence

### Second Line of Defense

CalPERS Enterprise Compliance Division and Enterprise Risk Management Division partner and collaborate as the second line of defense in order to provide oversight, guidance and monitoring of governance, risk and compliance activities.

CalPERS Enterprise Compliance program is responsible for monitoring and oversight activities, which include:

- During FY 2014-15, Enterprise Compliance assumed responsibility for CalPERS enterprise-wide Policy and Delegation Management Framework and Library.
- CalPERS maintained ongoing compliance with regulatory and investment policy requirements and continued activities to mitigate investment compliance risks.
- As part of the Enterprise Compliance Program's monitoring, reporting and disclosure responsibilities, it regularly produces several internal and external reports including:
  - Conflict of Interest Code - Form 700 Statement of Economic Interests
  - Ethics Helpline and Citizen Complaint Act of 1997

The Enterprise Risk Management Division facilitates the creation and maintenance of a risk-intelligent culture at CalPERS by providing risk management training, conducting risk assessments, performing risk dashboard recalibration, and developing tools to assist staff in the identification of, monitoring, and response to organizational risks.

### Third Line of Defense

CalPERS maintains an effective audit program comprised of internal audits and contracting public agency reviews.

In Fiscal Year 2014-15 CalPERS audit program provided assurance over the following activities:

- Internal audits included global equity manager contract compliance, self-funded health plan administration compliance, health plan compliance and external real estate manager contract compliance reviews.
- CalPERS issued 85 public agency final reports and completed 40 limited scope reviews (38 of the reviews were related to validating member census data) for a total of 125 reviews.

### **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:

- Monitoring and testing provide assurance regarding program area compliance.
- Reporting and disclosures provide assurance related to conflicts of interest.

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.

### **ATTACHMENTS**

- Attachment 1 – Annual Compliance Report – Fiscal Year Ended June 30, 2015

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KAMI NIEBANK  
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