



## Risk and Audit Committee Agenda Item 5f

February 13, 2017

**Item Name:** Quarterly Status Report - Enterprise Compliance Activity

**Program:** Enterprise Compliance

**Item Type:** Information Consent

### **Executive Summary**

Enclosed is the Quarterly Status Report on CalPERS Compliance Activity for the period of October 1, 2016 through December 31, 2016. As part of the Enterprise Compliance plan, the team continues to improve their compliance monitoring and oversight capabilities and expand upon the Risk and Audit Committee reporting information. New this quarter, the Ethics Helpline Report has been combined with the Quarterly Compliance Activity Report.

### **Strategic Plan**

This item supports CalPERS Strategic Plan Goal B: *Cultivate a high-performing, risk-intelligent, and innovative organization* and the 2015-17 Business Plan initiative:

*Enhance Internal Controls – Develop and implement enhanced internal controls that improve compliance and reduce operational risks.*

By providing effective compliance monitoring and oversight, the Enterprise Compliance Division assists in mitigating compliance and ethics risks throughout the organization.

### **Background**

CalPERS Compliance program promotes a culture of continuous improvement that seeks to detect, correct and prevent potential instances of noncompliance and achieve high ethical and compliance standards.

The Enterprise Compliance Division reports compliance related information each quarter to the Risk and Audit Committee in order to fulfill their oversight role in program and policy compliance.

### **Analysis**

The team has provided key observations regarding the Statement of Economic Interest (Form 700), Personal Trade Monitoring, Ethics Helpline and Policy Management. A summary of the analysis is provided below, and additional information can be found in Attachment 1.

#### *CalPERS Statement of Economic Interest – Form 700*

During the Second Quarter FY 2016-17, 3% (1 of 27) of the Form 700 Assuming Office Filers were past due. For the same timeframe, 25% (8 of 32) Form 700 Leaving Office filers were past due. All 8 past due filers are no longer with CalPERS and have been sent Non-Filer Notifications.

The Compliance team has undertaken a review of the Form 700 filer notification process and outreach materials. Opportunities for improvement have been identified and are underway to strengthen the notification and filing processes in order to reduce the number of past due filers and increase knowledge of the disclosure requirements.

#### *Personal Trade Monitoring*

Quarterly Transaction Affirmations were due on November 2, 2016, with 7 affirmations past due and 2 outstanding at the close of the reporting period. Enterprise Compliance is working with the outstanding Covered Persons and their management team to bring them current. All Initial Personal Trading Affirmations were received timely for the quarter.

During the month of December 2016, Enterprise Compliance added 6 new designated brokerages to the personal trading system to simplify the reporting process for Covered Persons and reduce the number of manual quarterly transaction affirmations required. This has resulted in a significant increase in the total transactions flowing through the system which will provide greater transparency and accountability.

For December 2016, there were 5,146 total transactions which is a significant increase over any prior month. As mentioned above, this is the result of adding the 6 new designated brokers firms to the personal trading monitoring system and capturing more managed account activity electronically.

The Enterprise Compliance Division continues to see a decrease in the number of Personal Trading Regulations violations since the beginning of the year. This decrease is likely due to increased education, communication and reporting, including recently introduced monthly Personal Trading Regulations education for all new Covered Persons.

#### *Ethics Helpline*

Following the November 2016 uptick in ethics related complaints received, December 2016 intake numbers fell back in line with recent trends. The majority of complaints received through the Ethics Helpline involve Retirement Benefits Fraud or Abuse (RBFA). This has been the trend since the inception of Ethics Helpline reporting.

During the Second Quarter FY 2016-17, 59% of the reported claims fall into the RBFA category. For this quarter, the closure rate for complaints averaged 46 days compared to 23 days from the previous quarter.

#### *Policy Management*

The Compliance team continued to educate and collaborate with programs to develop policies consistent with delegated authority and policy standards.

**Budget and Fiscal Impacts**

Not Applicable.

**Attachments**

Attachment 1:

Quarterly Status Report – CalPERS Compliance Activity – Second Quarter FY 2016-17

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**Marlene Timberlake D'Adamo**

Interim Chief Financial Officer

Chief Compliance Officer