

Quarterly Status Report – CalPERS Compliance Activity

Fourth Quarter FY 2016 -17

Presented to
Risk and Audit Committee
September 19, 2017

Purpose

Provide the Risk and Audit Committee with compliance monitoring and oversight analytics to aid in fulfilling their role in overseeing key compliance and ethics activities.

Summary

Slide	Functional Area	Description	Results in Brief
4	Conflict of Interest Code - Board and Employee Statements	<ul style="list-style-type: none"> Filing status of Board Members and employees required to file Statements of Economic Interests - Form 700, mandated by the CalPERS - Conflict of Interest Code 	<ul style="list-style-type: none"> 21 Assuming Office forms filed 18 Leaving Office forms filed 8 Past Due Assuming Office/Leaving Office Statements outstanding
5	Conflict of Interest Code – Consultant Statements	<ul style="list-style-type: none"> Filing status of consultants required to file Statements of Economic Interests – Form 700, mandated by the CalPERS - Conflict of Interest Code Resulting from ECOM Consultant Reconciliation Project 	<ul style="list-style-type: none"> 5 Assuming Office forms filed 5 Leaving Office forms filed 17 Annual forms filed 66 Past Due Annual, Assuming Office & Leaving Office Statements
6	Mandated Training	<ul style="list-style-type: none"> Reporting of past due certifications/trainings mandated by law, policy, or regulation 	<ul style="list-style-type: none"> 99.52 percent completion rate for annually mandated training as of 06/30/2017
7	Personal Trading Monitoring	<ul style="list-style-type: none"> Transactions and violations to CalPERS Personal Trading Regulations captured within Schwab Compliance Technologies 	<ul style="list-style-type: none"> 1,547 Total transactions 9 Violations identified
11	Investment Compliance Monitoring	<ul style="list-style-type: none"> Policy Exceptions (Investment Office) 	<ul style="list-style-type: none"> 6 Policy Exceptions Identified
15	Ethics Helpline	<ul style="list-style-type: none"> Complaints or reports received through CalPERS Ethics Helpline 	<ul style="list-style-type: none"> 38 Complaints currently open and under investigation 36 Complaints received during Q4 FY 2016-17 25 Complaints closed during Q4 FY 2016-17

Conflict of Interest Code – Board & Employee Statements

Statement of Economic Interests (Form 700) are public disclosures that must be filed annually, upon assuming office and upon leaving office. These statements are due within 30 days of assuming or leaving office and are past due if not filed within this timeframe.

<i>Assuming / Leaving Office Statements Form 700 Board & Employee Filings Status</i>		
Certifications	# Past Due	# Filed
Form 700 Assuming Office	2	21
Form 700 Leaving Office	6	18
Grand Total	8	39

Observations:

- As of 06/30/2017, eight Form 700 filers were considered past due.
- A total of eight notifications were sent to past due filers throughout the quarter, informing them of their obligation to file.
- There were 39 individuals who filed their Assuming Office or Leaving Office Statements during Q4 FY 2016-17.
- One filer was referred to the FPPC during Q4 FY 2016-17 for failing to file their Form 700 with CalPERS.

Notes:

- Board Member and Transparency Filer Form 700s can be viewed at the following link: [CalPERS Transparency and Accountability](#).

Conflict of Interest Code – Consultant Statements

<i>Annual / Assuming / Leaving Office Statements Form 700 Consultant Filings Status</i>		
Certifications	# Past Due	# Filed
Annual Form 700	37	17
Form 700 Assuming Office	22	5
Form 700 Leaving Office	7	5
Grand Total	66	27

Observations:

- During December 2016 and January 2017, ECOM conducted a reconciliation of 120 consultants to identify overdue Form 700 filers. ECOM has assisted consultants in understanding their filing requirements.
- As of 06/30/2017, there were 66 consultant filers that were past due.
- 2016 Annual Form 700 filing season ended during Q4 FY 2016-17, on 04/03/2017.
- 31 out of 37 past due Annual Statements are from the 2016 filing season, and the remaining six are from the 2015 filing season.

Note:

- *Assuming Office and Leaving Office statements are due within 30 days of assuming or leaving office. Statements are considered past due if they are not filed within this timeframe.*

Mandated Training

Mandated Training - Due 06/30/2017		
Training Type	# Staff Past Due	Completion Rate
Health Insurance Portability and Accountability Act	9	99.68%
Information Security Awareness	16	99.42%
Working Values: Ethical Decision Making	15	99.46%
Grand Total	40	99.52%

Observations:

- 99.52 percent of all staff completed mandated training timely.
- Four out of 10 branches within the enterprise are 100 percent complete with their mandated training as of 06/30/2017.

Personal Trade Monitoring – Personal Trading Regulation Affirmations

Quarterly Transaction Affirmations ¹	
Q3 FY 2016-17 Transaction Affirmation - Due in Q4 FY 2016-17	45
Submitted <30 Days Past Due	2
Submitted >30 Days Past Due	-
Still Outstanding	-

Initial Personal Trading Affirmations ²	
Initial Personal Trading Affirmations - Due in Q4 FY 2016-17	28
Submitted <30 Days Past Due	3
Submitted >30 Days Past Due	-
Still Outstanding	-

Observations:

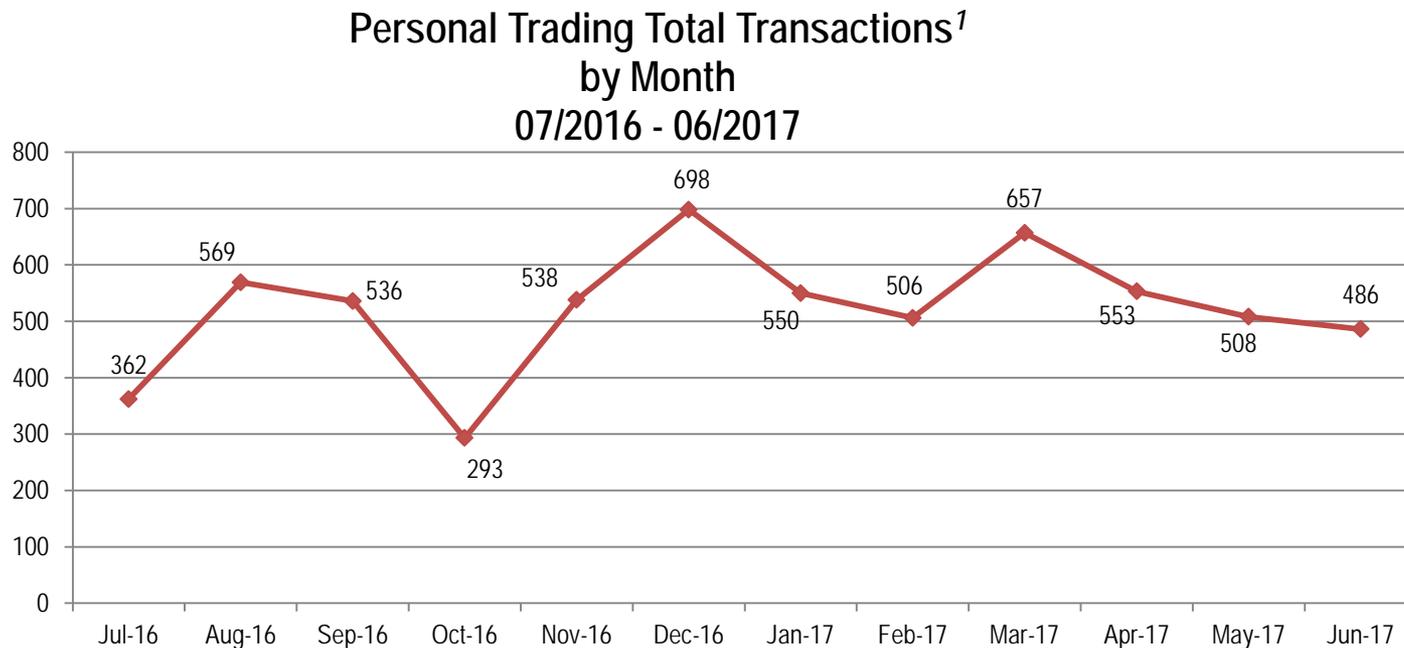
- Quarterly Transaction Affirmations – There were 45 Q3 FY 2016-17 Quarterly Transaction Affirmations that were due May 3, 2017. There were two Q3 FY 2016-17 Quarterly Transaction Affirmations submitted less than 30 days past due.
- Initial Personal Trading Affirmations - There were 28 Initial Personal Trading Affirmations that were due in Q4 FY 2016-17. There were three Q4 FY 2016-17 Initial Personal Trading Affirmations submitted less than 30 days past the due date.

Note:

¹ Quarterly Transaction Affirmations: For Covered Accounts from brokers or broker-dealers that do not provide account activity information electronically to the On-Line Platform, Covered Person Employees and Board Members must report all purchases, sales and transfers of Covered Securities on a quarterly basis, within 30 calendar days after the first day of each new calendar quarter.

² Initial Personal Trading Affirmations: A Covered Person must disclose his or her Covered Accounts and Managed Accounts, and those of his or her spouse or registered domestic partner, within 30 calendar days of the commencement of employment as a Covered Person.

Personal Trade Monitoring – Transactions



Observations:

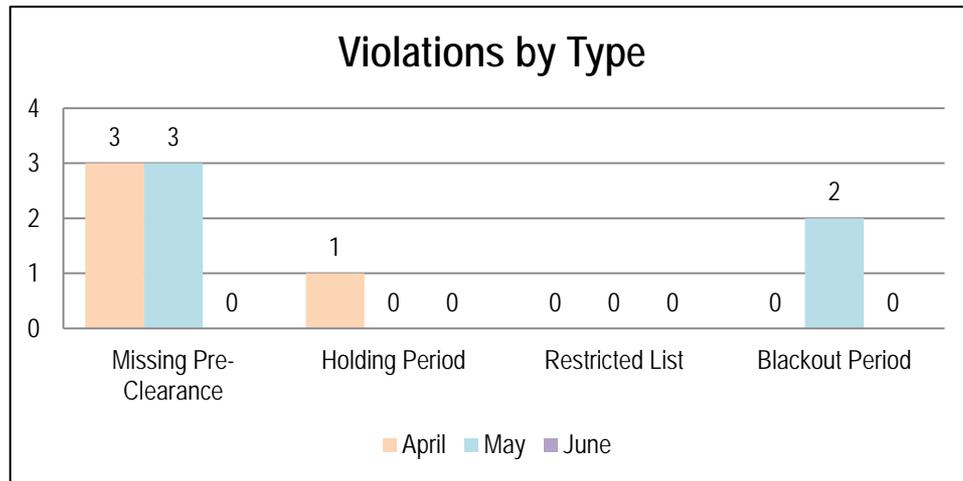
- There were 1,547 total transactions posted in Q4 FY 2016-17. This total is consistent with the 12-month trend analytics.

Note:

¹ "Total Transactions" excludes cash, open-end mutual funds, and municipal bond transactions occurring in Covered Accounts, but includes other non-Covered Securities (e.g., ETFs, etc.). Transactions for Covered Persons with accounts in non-Designated Brokerages are not reflected.

Personal Trade Monitoring – Violations

Personal Trading Violations – Q4 FY 2016-17	
Total # of Violations	9



Violation Types

Missing Pre-Clearance: Covered Persons are required to obtain pre-clearance approval before the purchase, sale or transfer of Covered Securities is executed in a Covered Account, unless the transaction is exempt from the requirement of pre-clearance.

Holding Period: The 30-calendar-day period between the acquisition and sale, and the 30-calendar-day period between sale and re-acquisition, of a Covered Security.

Restricted List: A Restricted List means the list of Covered Securities that identifies companies that CalPERS Employees and/or Board Members have information that may be material non-public.

Blackout Period: Covered Persons are prohibited from buying, selling or transferring Covered Securities during the Blackout Period, which is the three (3) day period of time that commences one market day before and ends one market day after a transaction in Covered Securities by CalPERS.

Observation:

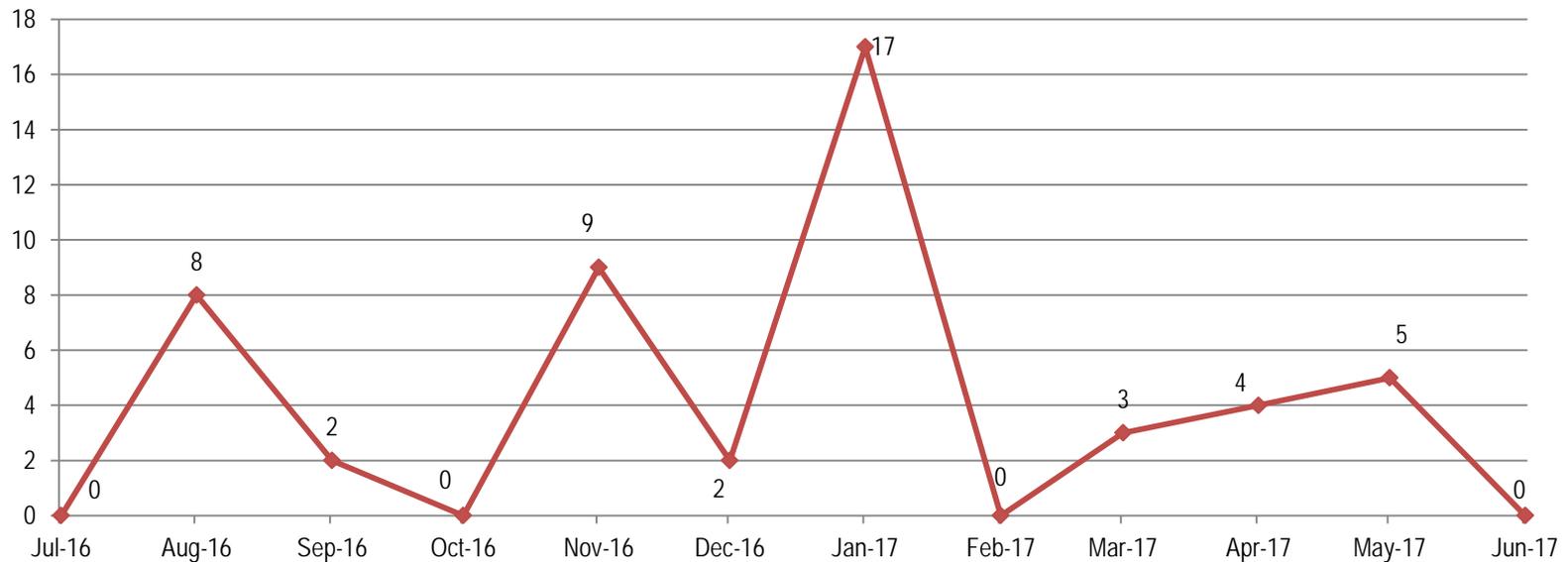
- There were nine violations during Q4 FY 2016-17.

Personal Trade Monitoring – Violations

Observation:

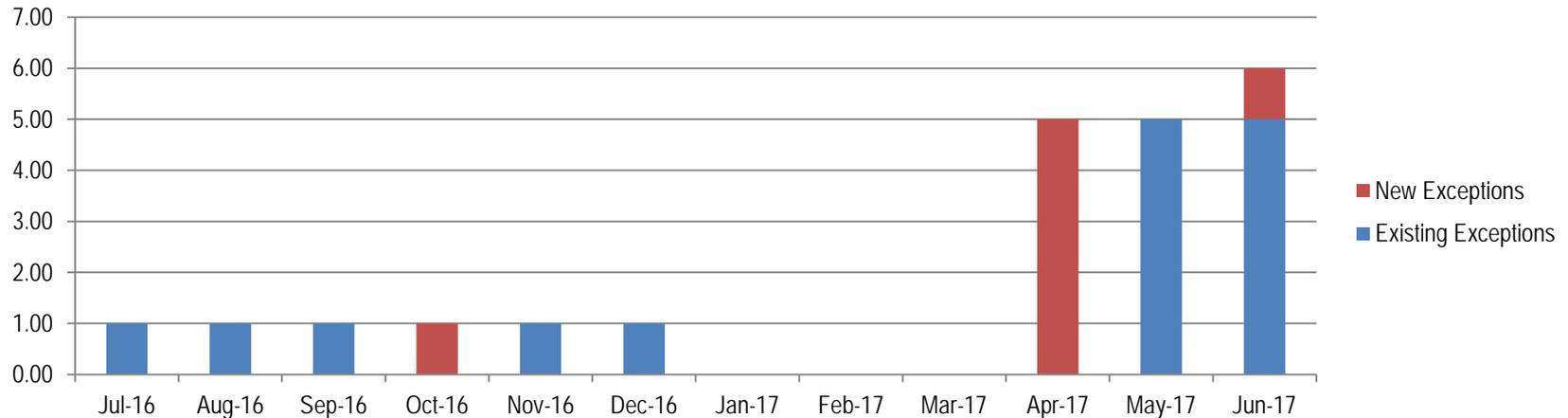
- ECOM continues to provide Personal Trading training to Covered Persons, and as a result has significantly reduced the number of violations since the beginning of last year.

Personal Trading Violations by Month
07/2016 - 06/2017



Policy Exceptions – Investment Office (for Q4 FY 2016-17)

Investment Office Policy Exceptions by Month
07/2016 - 06/2017



Observations:

- A total of six new policy exceptions were identified during Q4 FY 2016-17. There were no existing exceptions from previous quarters.
- Due to a Real Assets Investment Policy change in January 2017, five policy exceptions were identified in April 2017. The existing Real Assets investments were not within the Policy ranges as of 01/01/2017.
 - Given the illiquid nature of the Real Assets portfolios, investment staff anticipates a lag time to make the asset shifts required to bring the portfolios in line with the new strategic plan and policy ranges. Expected resolution is 2-4 quarters.

Policy Exceptions – Investment Office (for Q4 FY 2016-17)

New Policy Exceptions:

Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Event Description and Resolution (expected) or Next Steps
Private Equity	6/30/2014	Est. (12/18/17)	Statement of Investment Policy for Restricting Private Equity (PE) Investments in Public Sector Outsourcers (Policy)	Though PE Staff have reported annually to the Committee on waivers granted (no waivers requested), there has been a gap in required annual reporting on the results and effectiveness of the Policy, and the impact of the Policy on investment opportunities.	The PE Program's Board reporting documents have not addressed two of the three annual reporting requirements in the Outsourcers Policy Procedures Manual since 2013. PE Staff will provide this annual reporting to the Committee at the next PE annual review, which is expected to occur in December 2017. PE Staff have confirmed that to date there have been no adverse impacts on the PE Program's investment opportunities or compliance issues associated with implementation of the Policy.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q1'17 reporting period, DSCR for the Forestland portfolio was 0.97, which is below the minimum DSCR of 1.25, as required by the new RA Policy.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.

Policy Exceptions – Investment Office (for Q4 FY 2016-17)

New Policy Exceptions:

Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Resolution (expected) or Next Steps
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q1'17 reporting period, the "Core" risk classification represented 74.6 percent of the Real Assets Program, which is slightly below the policy range of 75-100 percent for this risk classification.	This slight underweight to core is a necessary consequence of implementing consistent risk classifications across RA, and is expected to be resolved within 2-4 quarters given the RA strategy focus on core assets.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q1'17 reporting period, the "Core" risk classification represented 44.7 percent of the Forestland portfolio, which is below the policy range of 75-100 percent for this risk classification of the Forestland portfolio.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q1'17 reporting period, the "Value-Add" risk classification represented 39.0 percent of the Forestland portfolio, which is above the policy range of 0-25 percent for this risk classification within the Forestland portfolio.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.

Policy Exceptions – Investment Office (for Q4 FY 2016-17)

New Policy Exceptions (continued):

Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Event Description and Resolution (expected) or Next Steps
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q1'17 reporting period, International Emerging Markets represented 16.3 percent of the Forestland portfolio, which is above the permitted policy range of 0-15 percent for this geography segment within the Forestland portfolio.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.

Existing Policy Exceptions:

Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Event Description and Resolution (expected) or Next Steps
No Items to Report					

Ethics Helpline Overview

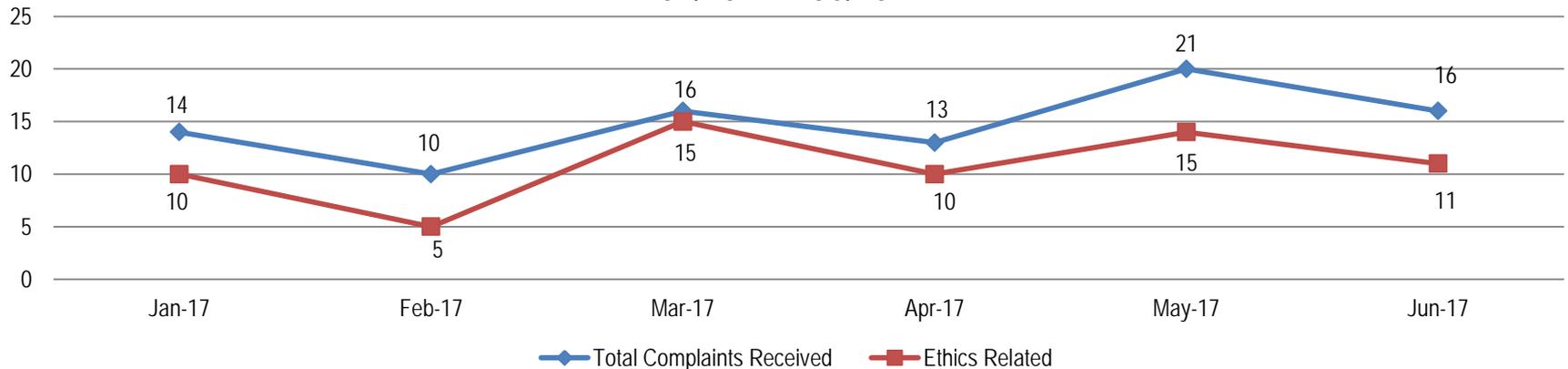
The Ethics Helpline allows individuals to report concerns about possible workplace misconduct, including allegations of fraud, waste, abuse, conflicts of interest, safety violations, harassment, and other potential misdeeds. The Ethics Helpline operates 24 hours a day, online and by phone.

Ethics Helpline Summary – Q4 FY 2016-17	
Ethics Related Complaints Received	36
Ethics Related Complaints Closed	25
Ethics Related Complaints Currently Open and Under Investigation	38

Observation:

- During the Fourth Quarter FY 2016-17, 36 ethics related and 14 non-ethics related complaints were received through the Ethics Helpline. The 14 non-ethics related complaints were assigned to the appropriate program areas to be addressed in accordance with Citizen Complaint Act requirements and organizational standards.

Total Complaints Received by Month
01/2017 – 06/2017



Ethics Helpline: Total Ethics Related Activity by Complaint Category

The table below displays the Ethics Helpline complaint categories and includes complaints closed, open/pending, and totals during the Fourth Quarter FY 2016-17.

Ethics Complaint Category	Closed: Substantiated	Closed: Unsubstantiated	Open: Pending	Total
Retirement Benefits Fraud or Abuse	3	7	34	44
Business Integrity & Conflicts of Interest	1	1	1	3
HR, Diversity, and Workplace Respect	3	5	2	10
Information Security and Records	-	-	1	1
Accounting, Auditing, and Financial Controls	-	-	-	-
Other	-	5	-	5
Grand Total	7	18	38	63

Observations:

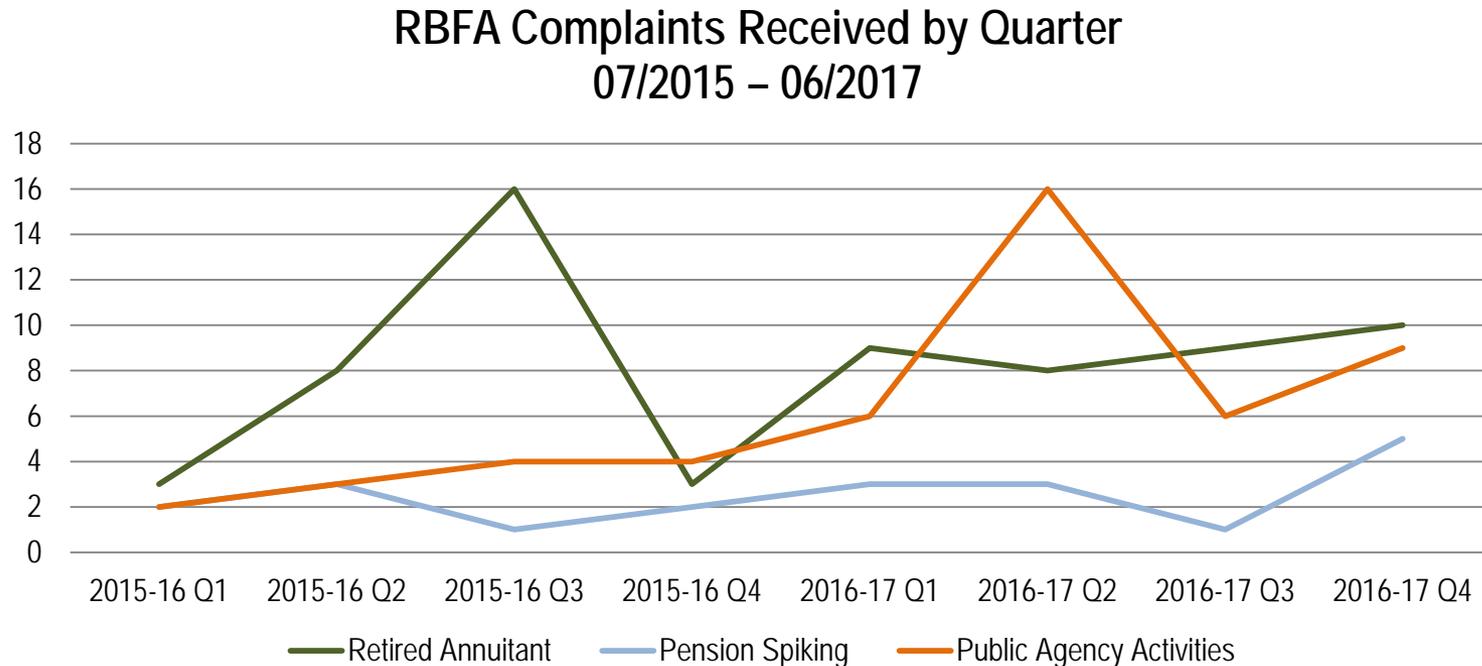
- 60 percent of total Q4 FY 2016-17 ethics related complaints are still open/pending (38 out of 63).
- 70 percent of complaints reported (44 total) fall into the Retirements Benefits Fraud and Abuse (RBFA) category.

Note:

- 14 non-ethics related complaints were received during the reporting period, and are not represented in the above table.

Ethics Helpline Retirement Benefit Fraud or Abuse (RBFA) 2-Year Trend

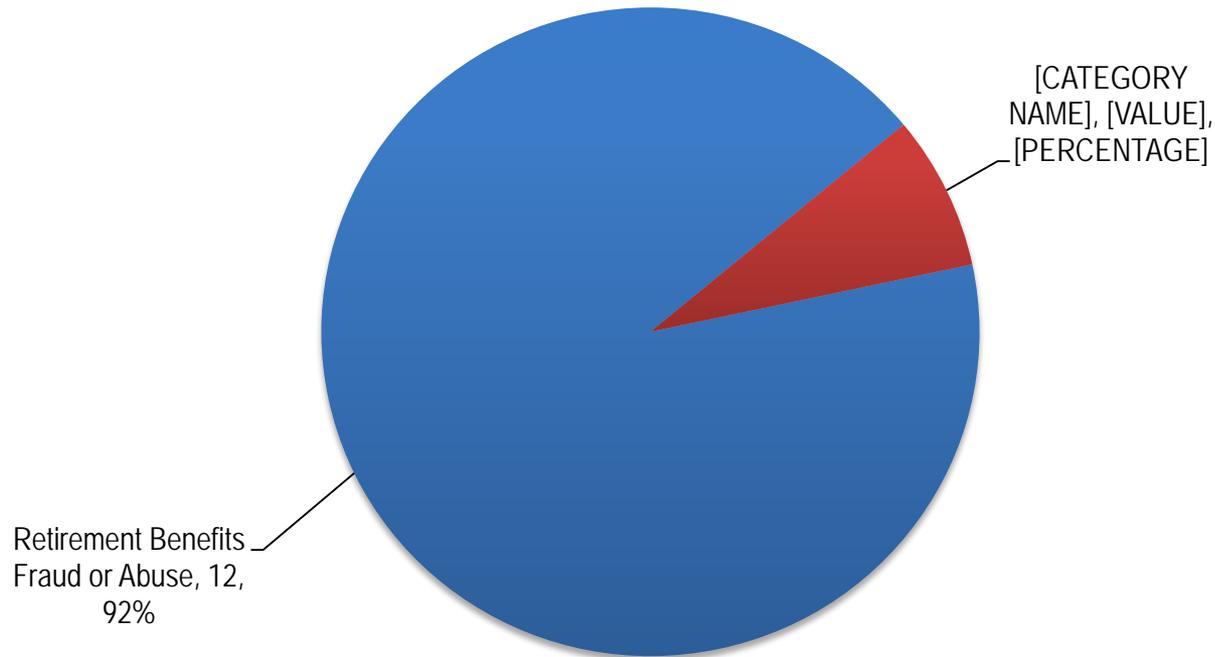
The chart below displays the number of RBFA complaints as received over the past two years by subtype.



Observation:

- Over the past two years, the Ethics Helpline has received an average of 16 new RBFA complaints per quarter. The majority of these complaints generally fall into the “Retired Annuitant” subtype and involve allegations regarding retirees and established Employment After Retirement restrictions.

Ethics Helpline Complaints Open Over 90 Days



Observations:

- The majority of complaints received through the Ethics Helpline involve Retirement Benefits Fraud or Abuse. This has been the trend since the inception of Ethics Helpline reporting.
- As of 06/30/2017, the average number of days open for ethics related complaints was 83 days.

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 04/2017 – 06/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2016-683	HR, Diversity, and Workplace Respect	The reporting party alleges CalPERS management is creating a hostile work environment.	HRSD determined that one allegation was substantiated.	Closed 4/28/2017: Substantiated
2017-692	Retirement Benefits Fraud or Abuse: Pension Spiking	The reporting party alleges a CalPERS member is engaging in pension spiking activities.	CSS determined that a reduction in retirement benefits is warranted.	Closed 4/19/2017: Substantiated
2015-573	Retirement Benefits Fraud or Abuse: Retired Annuitants	An unidentified reporting party alleges a CalPERS retiree is working in violation of retirement laws.	CSS determined that the allegation was substantiated. A final determination letter with 30-day appeal rights was sent to the retiree.	Closed 05/24/2017: Substantiated
2016-648	Retirement Benefits Fraud or Abuse: Retired Annuitants	An unidentified reporting party alleges several CalPERS retirees are working in violation of retirement laws.	CSS determined that the allegations were substantiated. An administrative remedy is in process.	Closed 05/4/2017: Substantiated

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 04/2017 – 06/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2017-691	Business Integrity & Conflicts of Interest	An identified reporting party alleges the son of a deceased retiree is wrongfully receiving his father's pension.	CSS determined that the allegation was substantiated. Collection of remaining overpayment will be reviewed and determined separately.	Closed 05/25/2017: Substantiated
2017-722	HR, Diversity, and Workplace Respect	The reporting party alleges two CalPERS Division Chiefs are misusing government property, abusing of power, and participating in inappropriate workplace behavior/relationships.	LEGO determined that one allegation was substantiated, and corrective action was taken.	Closed 05/30/2017: Substantiated
2017-723	HR, Diversity, and Workplace Respect	The reporting party alleges a CalPERS Division Chief is creating a hostile work environment.	LEGO determined that one allegation was substantiated, and corrective action was taken.	Closed 05/30/17: Substantiated