

Quarterly Status Report – CalPERS Compliance Activity

First Quarter FY 2017 -18

Presented to
Risk and Audit Committee
November 14, 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.

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Conflict of Interest Code: Board & Employee Statements

Form 700 Filing Report: Board & Employee Q1 FY 2017-18		
Statement Type	# Past Due	# Filed
Annual	1	2
Assuming Office	-	25
Leaving Office	1	30

Observation(s):

- One filer was referred to the FPPC during Q1 FY 2017-18 for failing to file both their Annual and Leaving Office Statements with CalPERS.

Note(s):

- *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.*
- *“Past Due” is defined as a statement that has not been submitted as of its due date. Filers may be sent an initial filing notification before or after assuming or leaving office, depending on the reporting party.*
- *Board Member and Transparency Filer Form 700s can be viewed at the following link: [CalPERS Transparency and Accountability](#).*

Conflict of Interest Code: Consultant Statements

Form 700 Filing Report: Consultants Q1 FY 2017-18		
Statement Type	# Past Due	# Filed
Annual	28	8
Assuming Office	20	14
Leaving Office	14	4

Observation(s):

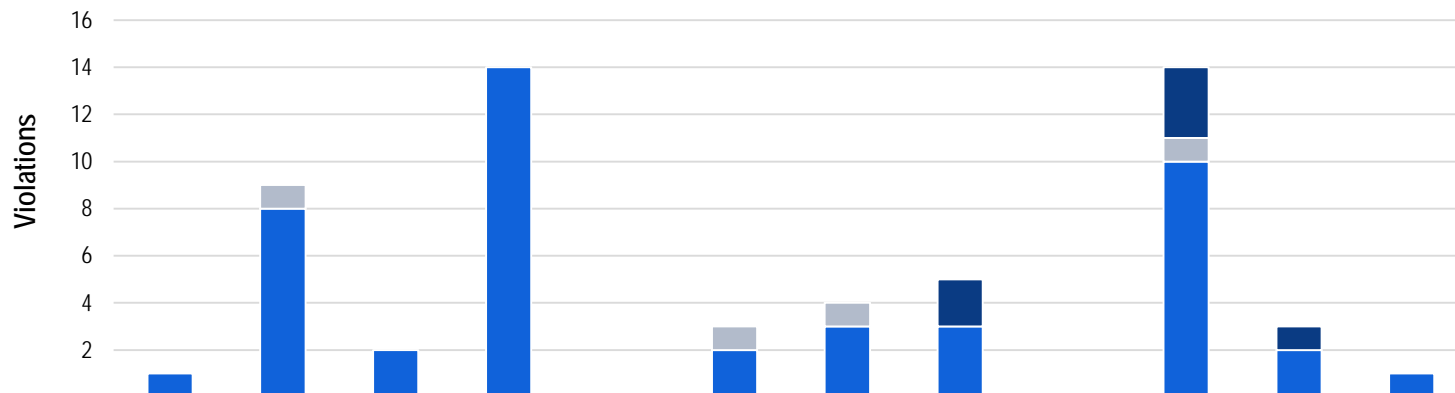
- Initial courtesy notices were sent out to past due consultant filers in August 2017, and secondary courtesy notices were sent out in September 2017 to those that still had not filed.
- Currently, there are 62 past due consultant filings.

Note(s):

- *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.*
- *“Past Due” is defined as a statement that has not been submitted as of its due date. Filers may be sent an initial filing notification before or after assuming or leaving office, depending on the reporting party.*

Personal Trade Monitoring: Violations

Personal Trade Monitoring: Violations by Type October 2016 - September 2017



	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
■ Blackout Period	-	-	-	-	-	-	-	2	-	3	1	-
■ Restricted List	-	-	-	-	-	-	-	-	-	-	-	-
■ Holding Period	-	1	-	-	-	1	1	-	-	1	-	-
■ Missing Pre-Clearance	1	8	2	14	-	2	3	3	-	10	2	1

Observation(s):

- There were 18 violations committed during Q1 FY 2017-18.
- Historically, the majority of violations fall under the Missing Pre-Clearance violation type.

Note(s):

- See Page 19 for violation type definitions.

Personal Trade Monitoring: Personal Trading Regulation Affirmations

Personal Trading Affirmation / Attestation Filing Report Q1 FY 2017-18				
Statement Type	Total Due	Submitted Timely	Submitted Late	Outstanding
Initial Personal Trading Affirmation	43	42	1	-
Q4 FY 2016-17 Affirmation	48	44	4	-

Observation(s):

- There were a total of 43 Initial Personal Trading Affirmations due in Q1 FY 2017-18, and one affirmation was submitted late.
- There were a total of 48 Q4 FY 2016-17 Affirmations due August 2, 2017, and four affirmations were submitted late.

Investment Compliance Monitoring

Investment Office: Policy Exceptions Q1 FY 2017-18					
New Exceptions					
Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Resolution (expected) or Next Steps
No Items to Report.					
Existing Exceptions					
Private Equity	06/30/2014	Est. (12/18/2017)	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 Q2'17 reporting period, the "Core" risk classification represented 74.9% of the Real Assets Program, which is slightly below the policy range of 75-100% 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.

Note(s):

- This report was provided to the Investment Committee on September 18, 2017.

Investment Compliance Monitoring

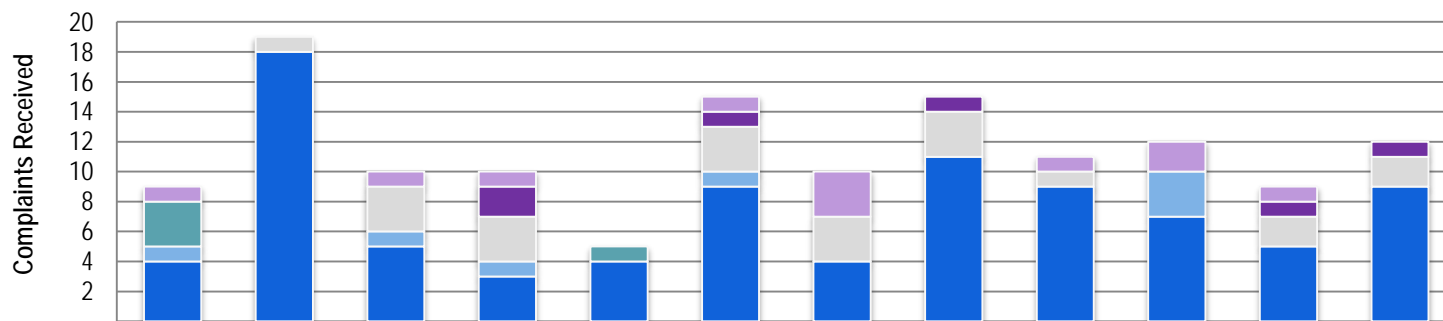
Investment Office: Policy Exceptions Q1 FY 2017-18					
Existing Exceptions					
Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Resolution (expected) or Next Steps
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q2'17 reporting period, the "Core" risk classification represented 74.9% of the Real Assets Program, which is slightly below the policy range of 75-100% for this risk classification.	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 Q2'17 reporting period, the "Value-Add" risk classification represented 39.1% of the Forestland portfolio, which is above the policy range of 0-25% 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.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q2'17 reporting period, DSCR for the Forestland portfolio was 0.71, 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.

Note(s):

- This report was provided to the Investment Committee on September 18, 2017.

Ethics Helpline: Complaints Received

Ethics Related Complaints Received by Complaint Category



	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Other	1	—	1	1	—	1	3	—	1	2	1	—
Accounting, Auditing, and Financial Controls	3	—	—	—	1	—	—	—	—	—	—	—
Information Security and Records	—	—	—	2	—	1	—	1	—	—	1	1
HR, Diversity, and Workplace Respect	—	1	3	3	—	3	3	3	1	—	2	2
Business Integrity & Conflicts of Interest	1	—	1	1	—	1	—	—	—	3	—	—
Retirement Benefits Fraud or Abuse	4	18	5	3	4	9	4	11	9	7	5	9

Observation(s):

- During Q1 FY 2017-18, 33 ethics related complaints were received.
- 64% of the ethics related complaints (21 of 33) received fell under the Retirement Benefits Fraud or Abuse category.

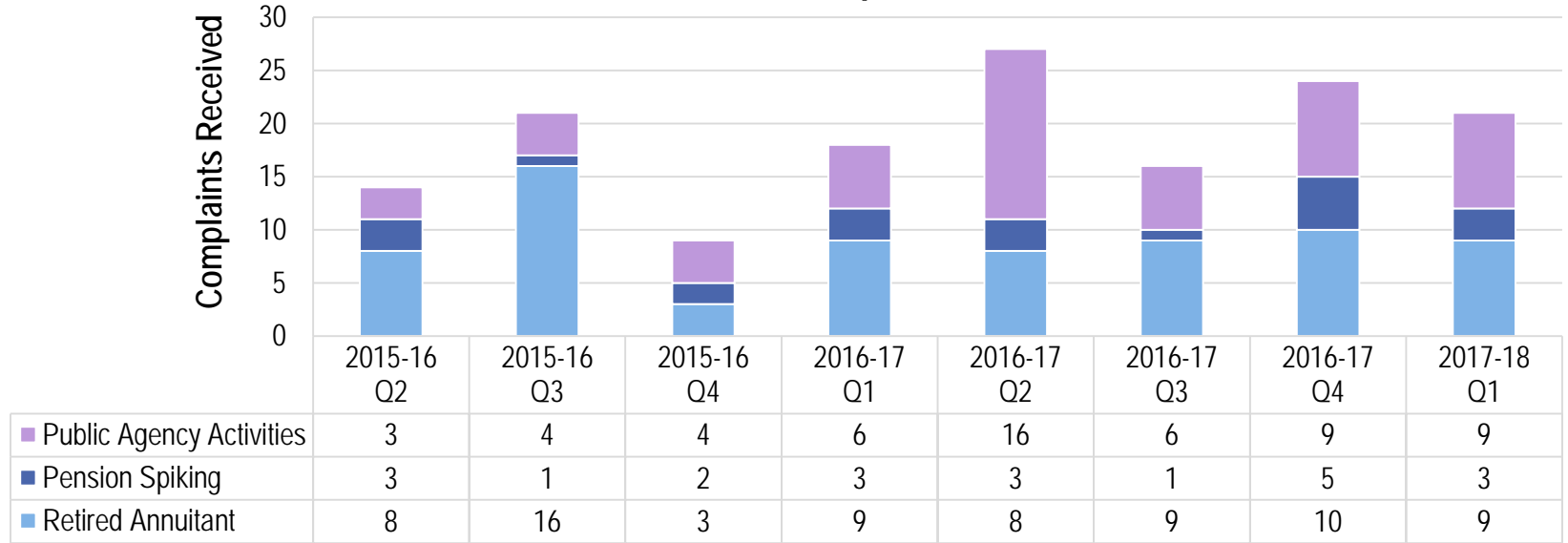
Note(s):

- 16 non-ethics related complaints received during the reporting period are not represented in the above graph since they were not ethics related.
- See Page 20 for category descriptions.

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.

RBFA Complaints Received by Quarter October 2015 – September 2017

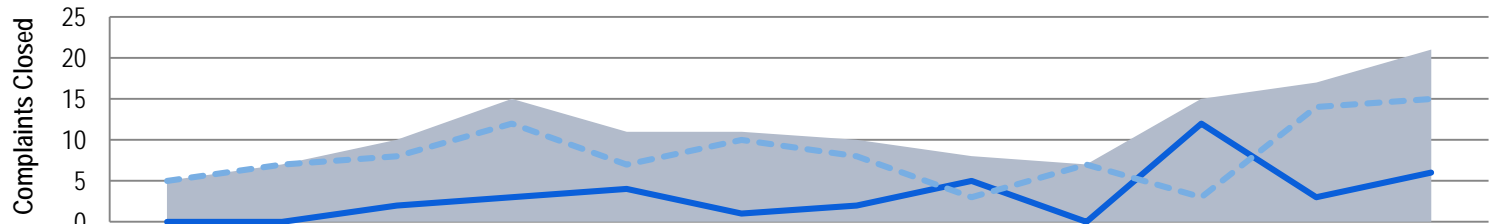


Observation(s):

- Over the past two years, the Ethics Helpline has received an average of 19 new RBFA complaints per quarter. The majority of RBFA complaints generally fall into the “Retired Annuitant” subtype and involve allegations regarding retirees and established Employment After Retirement restrictions.

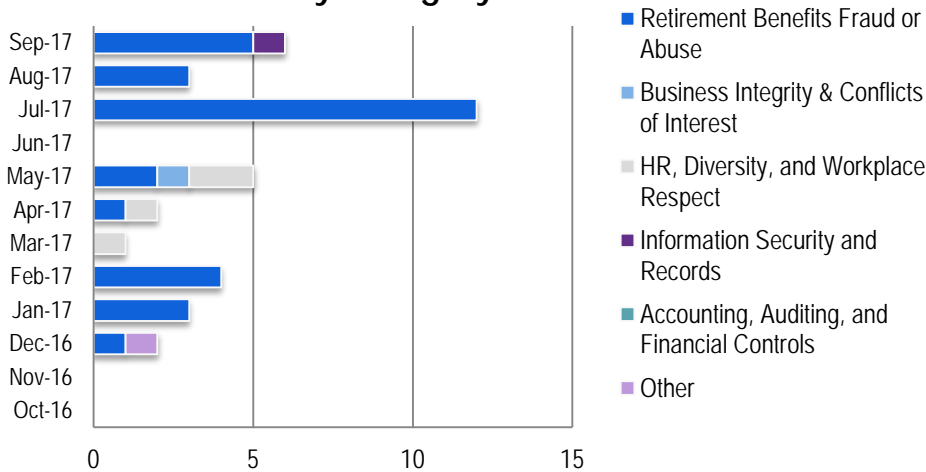
Ethics Helpline: Complaints Closed

Complaints Closed: Substantiated vs. Unsubstantiated



	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
■ Total	5	7	10	15	11	11	10	8	7	15	17	21
— Closed: Substantiated	—	—	2	3	4	1	2	5	—	12	3	6
- - - Closed: Unsubstantiated	5	7	8	12	7	10	8	3	7	3	14	15

Substantiated Complaints Closed by Category



Observation(s):

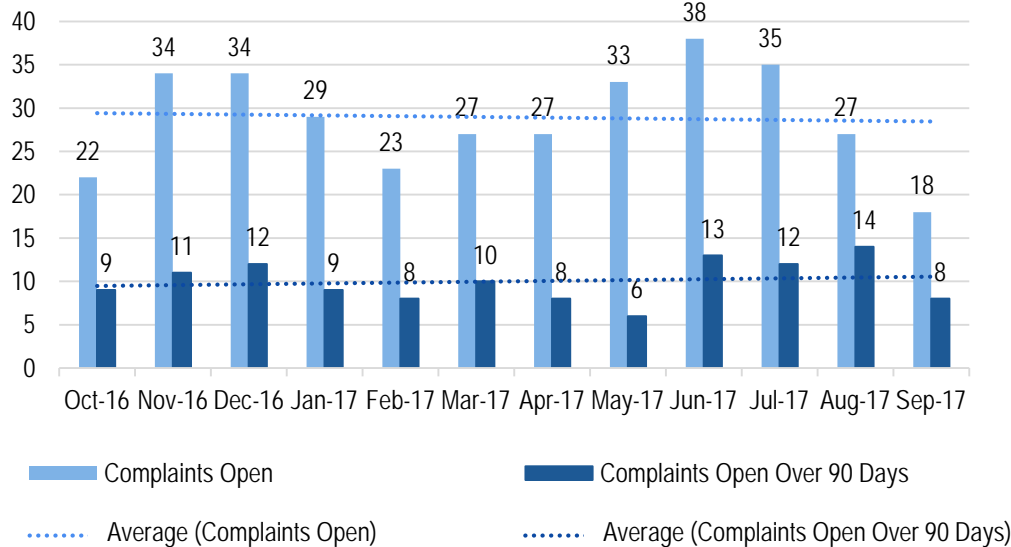
- During Q1 FY 2017-18, there were 21 total substantiated and 32 unsubstantiated complaints closed.
- The Q1 FY 2017-18 reporting period recorded the highest number of complaints closed during a quarter over the past calendar year. This is largely due to the fact that several duplicative complaints were closed during the quarter.

Note(s):

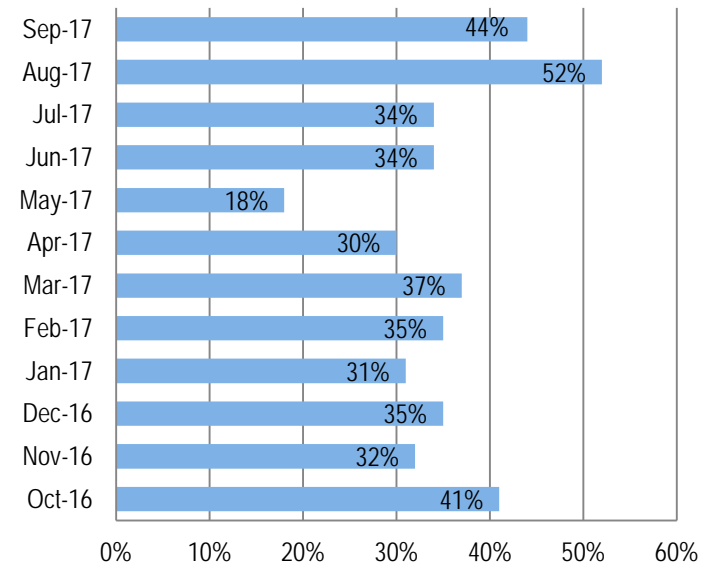
- See Pages 14-17 & 20 for related details.

Ethics Helpline: Complaints Open

Complaints Open



Percent Open Over 90 Days



Observation(s):

- 44% of currently pending ethics related complaints (8 of 18) have been open for more than 90 days.
- The average number of open complaints has decreased since the beginning of Fiscal Year 2017-18.

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 07/2017 – 09/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2017-710a 2017-710b 2017-710c 2017-710d	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is not abiding by retired annuitant hour regulations.	On 08/02/2017, CalPERS reported: Case substantiated. CalPERS is working with the employer and Contracts to bring employer into compliance.	Closed 07/21/2017: Substantiated
2017-725a 2017-725b 2017-725c 2017-725d	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer didn't pay into CalPERS and several employees haven't received benefits.	On 08/02/2017, CalPERS reported: Case substantiated. Employer did not pay into CalPERS. The employer will provide employment data and assist with resolving the issues identified.	Closed 07/21/2017: Substantiated
2017-728a 2017-728b	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer isn't paying into CalPERS in accordance with governmental laws and several employees are not receiving benefits.	On 08/02/2017, CalPERS reported: Case substantiated. Case has been referred to the appropriate CalPERS office.	Closed 07/14/2017: Substantiated

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 07/2017 – 09/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2017-737	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	On 08/02/2017, CalPERS reported: Case substantiated. Case has been referred to the appropriate CalPERS office.	Closed 07/21/2017: Substantiated
2017-738	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	On 08/02/2017, CalPERS reported: Case substantiated. Case has been referred to the appropriate CalPERS office.	Closed 07/21/2017: Substantiated
2017-704	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is not enrolling eligible personnel into CalPERS.	On 08/28/2017, CalPERS reported: Case substantiated. CalPERS is working with the employer to bring employees into membership/compliance.	Closed 08/25/2017: Substantiated
2017-714	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is not enrolling an eligible employee into CalPERS.	On 08/28/2017, CalPERS reported: Case substantiated. CalPERS is working with the employer to bring employees into membership/compliance.	Closed 08/25/2017: Substantiated

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 07/2017 – 09/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2017-718	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	On 08/28/2017, CalPERS reported: Case substantiated. CalPERS is working on a final determination.	Closed 08/25/2017: Substantiated
2017-700	Retirement Benefits Fraud or Abuse	The reporting party alleges that a CalPERS employer has a member on the payroll receiving CalPERS benefits that isn't actually an employee.	On 09/29/2017, CalPERS reported: Case substantiated. Member was incorrectly reported and not eligible for membership. Final Determination letter issued.	Closed 09/27/2017: Substantiated
2017-727	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	On 09/29/2017, CalPERS reported: Case substantiated. Retiree is working as an employee and not as an Independent Contractor through a third party. Pre-deprivation letter sent with determination.	Closed 09/27/2017: Substantiated

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 07/2017 – 09/2017

Case Number	Issue Type	Allegation	Finding	Action Taken
2017-729a 2017-729b 2017-729c	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	On 09/29/2017, CalPERS reported: Case substantiated. Retiree in violation of working after retirement laws. Pre-deprivation reinstatement employment letter sent.	Closed 09/27/2017: Substantiated
2017-732	Information Security & Records	The reporting party alleges personal confidential information was breached.	On 09/26/2017, CalPERS reported: allegation that a drive containing personnel documents was improperly accessed was substantiated. Remaining allegations were unsubstantiated.	Closed 09/26/2017: Substantiated

Appendix - Additional Information

- Personal Trading Violation Type Definitions
- Ethics Helpline Complaint Category Definitions

Personal Trading Violation Type Definitions

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.

Note(s):

- See Page 6 for details.

Ethics Helpline Complaint Category Definitions

In September 2016, ECOM started implementing new, streamlined complaint categories. All Ethics Helpline complaints now fall under one of the following six issue types. These categories were developed with CalPERS’s priorities in mind and to bring our reporting processes in line with established industry standards.

Complaint Categories	Examples of Violations
Accounting, Auditing & Financial Controls	Accounting & Auditing Matters; Compliance with Laws & Regulations; Document Creation & Retention; Fraud (Non-retirement benefits related); Override of Internal Controls; Securities Valuation; Tax Issues
Business Integrity & Conflicts of Interest	Contract Compliance; Foreign Corrupt Practices Act & Improper Payments; Improper Giving & Receiving of Gifts; Insider Trading; Outside Employment & Compensation; Relationships with Clients, Suppliers & Vendors
Human Resources, Diversity & Workplace Respect	Discrimination or Harassment; EEOC or ADA Matters; Human Resources (HR); Retaliation; Safety, Health & Environment; Sexual Harassment; Workplace Violence
Information Security & Records	Badging & Access Control; Computer, Email & Internet Use; Data Privacy; Disclosure of Confidential Information; Health Insurance Portability & Accountability Act (HIPPA) Violations; Identity Theft
Retirement Benefits Fraud or Abuse	Pension Spiking; Public Agency Activities; Retired Annuitants
Other	Reporting parties can select this issue type if they feel the ethical violation they are reporting doesn't fall under one of the other five categories.

Note(s):

- See Pages 10-13 for related details.