



Risk and Audit Committee

Agenda Item 7a

September 25, 2018

Item Name: 2017–18 Annual Compliance Report

Program: Enterprise Compliance

Item Type: Information

Executive Summary

This agenda item presents the FY 2017-18 Annual Compliance Report, which will be included as a section within CalPERS Comprehensive Annual Financial Report (CAFR).

Strategic Plan

This item supports the CalPERS 2017-22 Strategic Plan Goal: *Cultivate a risk-intelligent organization* and the strategic objective of providing enhanced compliance and risk functions throughout the enterprise.

Background

The Annual Compliance Report summarizes CalPERS enterprise-wide compliance activities for each year. The FY 2017-18 Annual Compliance Report reflects the period of July 1, 2017 to June 30, 2018.

Analysis

The Annual Compliance Report documents CalPERS most significant compliance-related activities and accomplishments, supporting effective Board oversight and enhancing transparency and public confidence.

In 2015, the Board approved a multi-year Compliance Plan consistent with industry trends and management input for establishing compliance-focused priorities. This year's Annual Compliance Report highlights activities and accomplishments during "Year Three" of the Compliance Plan.

Compliance awareness and risk management are integral to cultivating a high-performing, risk-intelligent, and innovative organization. CalPERS has embraced an Integrated Assurance model that incorporates governance, risk and compliance practices as a multi-faceted approach to promoting compliance awareness and accountability.

The Integrated Assurance model centers on “The Three Lines of Defense” framework, which distributes compliance activities within the organization as follows:

- **First Line of Defense** – The first level of the control environment is the Program Areas which perform day to day risk management activity.
- **Second Line of Defense** – The second level of the control environment are the oversight functions, such as Enterprise Compliance and Enterprise Risk Management, which set direction, define policy and provide assurance.
- **Third Line of Defense** – The third level of the control environment is internal audits, which provides independent assurance on the effectiveness of governance, risk management, and internal controls.

First Line of Defense

Program areas throughout CalPERS continued to strengthen existing safeguards, establish new controls and implement new legislative and regulatory changes. In FY, 2017-18, the program areas achieved the following:

- The Investment Office produced and presented Assembly Bill (AB) 2833 (Alternative Investment Fee Transparency) report to the Investment Committee as part of the disclosure for Public Investment Funds.
- Operations Support Services Division partnered with Enterprise Compliance to complete a targeted compliance review of contracting practices resulting in strengthened internal controls.
- Implemented health benefit delivery policies and procedures in compliance with the administration of the Public Employees’ Medical and Hospital Care Act (PEMHCA) and Affordable Care Act (ACA).

Second Line of Defense

CalPERS Enterprise Compliance program is responsible for monitoring and oversight activities. In FY, 2017 -18, Enterprise Compliance achieved the following:

- Hosted the Second Annual Compliance & Ethics Week event that included an executive panel discussion on Ethical Leadership for managers and an Enterprise Compliance open house.
- Developed standardized policy and charter templates and tools to strengthen governance practices.
- Developed and rolled out Compliance Discussion Guides to align CalPERS Core Values with compliance principles and help initiate conversations on building strong ethical culture.

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, 2018

Kami Niebank
Deputy Chief Compliance Officer

Marlene Timberlake D'Adamo
Chief Compliance Officer