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

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

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