



## Risk and Audit Committee

# Agenda Item 6a

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**September 17, 2019**

**Item Name:** 2018-19 Annual Compliance Report

**Program:** Enterprise Compliance Office

**Item Type:** Information

### **Executive Summary**

This agenda item presents the FY 2018-19 Annual Compliance Report.

### **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 2018-19 Annual Compliance Report reflects the period of July 1, 2018 to June 30, 2019.

### **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 four of the five-year 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 who 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, who set direction, define policy, and provide assurance.
- **Third Line of Defense** – The third level of the control environment is internal audits, who 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, 2018-19, the program areas achieved the following:

- The Customer Service and Support Branch reduced the unclaimed benefit account by millions of dollars and clearly defined the process for handling unclaimed benefits in accordance with findings from the Office of Audit Services.
- The Financial Office partnered with ECOM to establish a plan to update Financial Office policies, procedures, accounting statements, and guidelines to ensure all are working as intended and in compliance with CalPERS standards.
- The Health Policy and Benefits Branch 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).
- The Investment Office designed pre- and post-travel compliance workflows for the Travel Review and Expense Claim system and implemented changes to public-facing content to comply with recent web accessibility requirements.
- The Operations and Technology Branch updated and communicated the Badge Access Card Policy to require new photos every five years; created Temporary Badge Card Guidelines and Card Access Request Guidelines; and conducted three badge card audits.

### **Second Line of Defense**

CalPERS' Enterprise Compliance Office is responsible for monitoring and oversight activities. In FY, 2018-19, Enterprise Compliance achieved the following:

- Developed an enterprise-wide mandatory training policy
- Transitioned all ethics-related investigations to an online case management system providing a single system of record for the intake, assignment, tracking, and reporting of all ethics-related cases
- Launched our first-ever comprehensive annual governance review
- Hosted the Third Annual Compliance & Ethics Week event that included an anti-retaliation campaign and a compliance and ethics speed mentoring event hosted by senior leaders and team members

## **Budget and Fiscal Impacts**

This item does not have any specific budget or fiscal impacts but is part of the regular and ongoing workload of the Enterprise Compliance Office.

## **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, 2019

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Marlene Timberlake D'Adamo  
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