



Risk and Audit Committee

Agenda Item 7b

June 17, 2020

Item Name: 2019-20 Annual Compliance Report

Program: Enterprise Compliance Office

Item Type: Information

Executive Summary

This agenda item presents the Fiscal Year 2019-20 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 Fiscal Year 2019-20 Annual Compliance Report reflects the period of July 1, 2019 to June 30, 2020.

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 five 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 Fiscal Year 2019-20, the program areas achieved the following:

- The Actuarial Office Collaborated with the Legal Office and Customer Services and Support for a comprehensive review of Internal Revenue Code section 415 practices to ensure compliance with all related laws and regulations.
- The Customer Service and Support Branch published 48 updates to the Employer Reference Guides to ensure employers have the necessary information to be compliant with applicable laws when conducting business with CalPERS.
- The Financial Office continued to enhance Financial Office communication regarding mandatory training and Form 700 filing requirements.
- The Health Policy and Benefits Branch implemented operational changes to address COVID-19 concerns.
- The Investment Office piloted new compliance functionality of the Travel Review and Expense Claim system with three Investment Office divisions.
- The Legal Office assisted Enterprise Compliance with several initiatives including the revision of the Personal Trading Regulation, policy amendments, compliance reviews, and conflict of interest initiatives.
- The Operations and Technology Branch created and implemented the PeopleSoft tracking of consultants for contracts and Letters of Engagement.

Second Line of Defense

CalPERS' Enterprise Compliance Office is responsible for monitoring and oversight activities. In Fiscal Year 2019-20, Enterprise Compliance achieved the following:

- Monitored and reported on the timely completion (99%) of CalPERS' mandatory trainings.
- Began development of a Contract Module for the eDisclosure system that will capture both Spring Fed Pools and Single Award consultant Form 700 filers.
- Completed an enterprise-wide governance review, identifying policies, delegations, and charters throughout the organization.
- Hosted our Fourth Annual National Compliance & Ethics Week (now Compliance & Risk Week) event that included six sessions of Annual Compliance Training and a compliance and risk trivia event in the Lincoln Plaza North café.

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, 2020

Marlene Timberlake D'Adamo
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