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CHIEF COMPLIANCE OFFICER LETTER

The Enterprise Compliance Office (ECOM) of the California Public Employees' Retirement System (CalPERS) is responsible for coordinating, supporting, and promoting an effective enterprise-wide ethics and compliance program. ECOM is at the forefront of compliance and ethics at CalPERS, working to protect the enterprise by ensuring we follow all the laws and regulations that govern our business.

The Annual Compliance Report outlines key accomplishments on ethics and compliance activities covering fiscal year (FY) 2019-20. This report is included as a complement to the Comprehensive Annual Financial Report.

Consistent with CalPERS' values of Integrity, Openness, and Accountability, ECOM is keenly aware of our responsibility to set the example of ethical behavior and practices. We embrace partnerships across the organization with other program areas to leverage our effectiveness and maximize our impact. Our work relies on these partnerships to help inform and raise awareness about the importance of compliance and ethics.

ECOM also recognizes that effective compliance programs grow organically and that team members know how they can positively impact our organization. For instance, we have embedded compliance liaisons serving as first-line compliance experts in every CalPERS program area.

Marlene Timberlake D'Adamo

Marlene Timberlake D'Adamo
Chief Compliance Officer

CULTURE OF COMPLIANCE

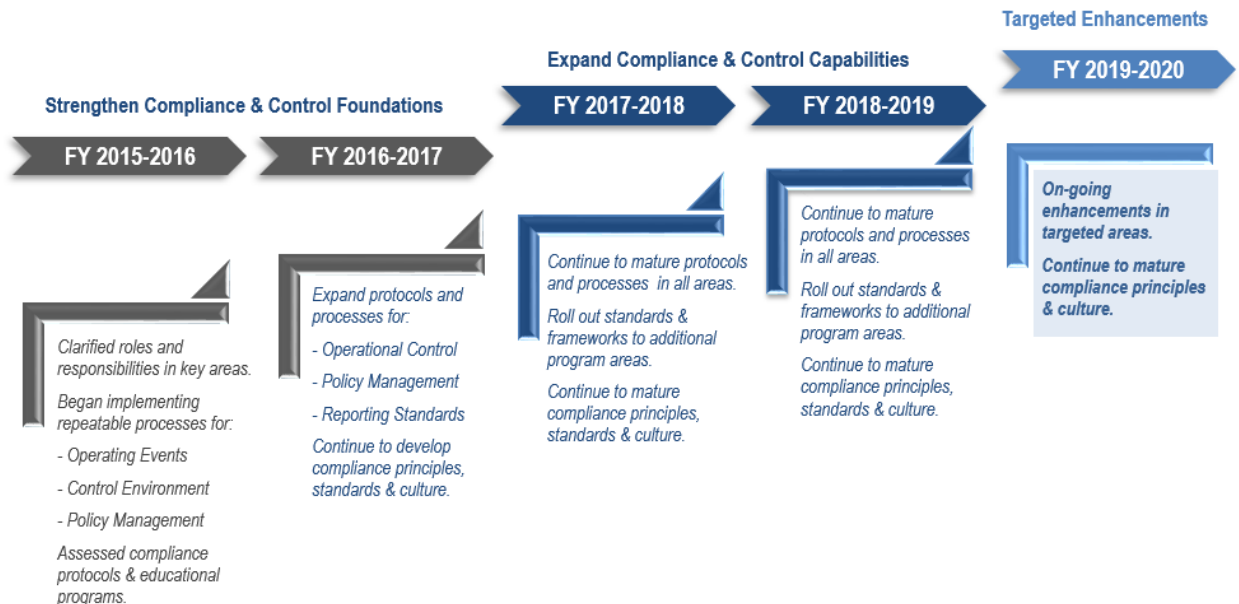
We strive to embed compliance into CalPERS’ culture, strategy, and day-to-day business operations. All ECOM activities and accomplishments directly support our organization’s strategic plan and core values.

In 2004, CalPERS established a separate and distinct compliance office to support an enterprise-level commitment to strong ethics, compliance, and risk management practices. Since then, the office has continued to evolve and mature. In 2015, ECOM developed a new multi-year compliance plan, strengthening the compliance practices already in place.

The five-year compliance plan aims to mature the program by building and enhancing compliance capabilities and is consistent with changes in the broader compliance landscape (see Figure 1). The compliance plan focuses on strengthening our compliance and ethics program by fostering a culture of compliance, clarifying the compliance governance structure, and providing our CalPERS’ Board and management with the tools and information necessary to fulfill their oversight responsibilities.

We have just completed the fifth year of the compliance plan (see Figure 1):

Figure 1: Five-Year Compliance Plan

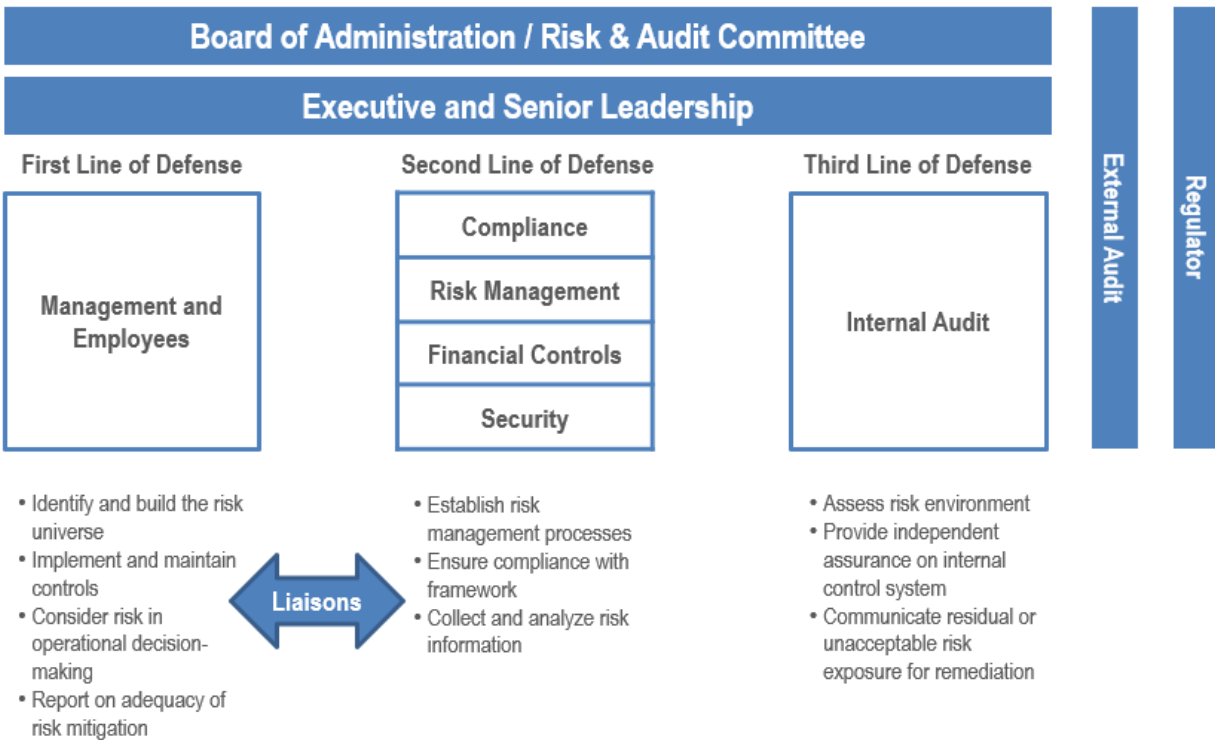


During FY 2019-20, we assessed our compliance program against industry peers. Our assessment score of 3 (out of 5) was consistent with compliance industry benchmarks. We are now on track to begin implementing our FY 2020-21 planned activities.

INTERGRATED ASSURANCE MODEL: THREE LINES OF DEFENSE

CalPERS embraces an Integrated Assurance Model to implement our governance, risk, and compliance practices and to promote a multi-faceted approach to compliance awareness and accountability. The model centers on a Three Lines of Defense framework (see Figure 2) emphasizing collaboration and an increased understanding of roles and responsibilities to detect, prevent, and correct instances of non-compliance.

Figure 2: Integrated Assurance Model



- **First Line of Defense** – The first level of the control environment are the program areas that perform day-to-day risk management activities. In addition to performing day-to-day operations, the program areas are responsible for compliance and risk mitigation.
- **Second Line of Defense** – ECOM and the Enterprise Risk Management Division (ERMD) partner to provide oversight, guidance, and monitoring of governance, risk, and compliance activities. This partnership enables us to support the organization by mitigating strategic and operational risks while strengthening the organization’s control environment and promoting strong ethical business practices. To demonstrate this alignment, both divisions work closely together to develop and implement their annual plans.

- **Third Line of Defense** – Internal audits provides independent assurance on the effectiveness of governance, risk management, and internal controls. The Office of Audit Services participates in a joint, organization-wide risk assessment with ERMD and ECOM. This coordination helps CalPERS develop a shared view of risk across the organization.

The Integrated Assurance Model helps clarify roles and responsibilities and promote ownership of compliance throughout the organization. Through the Three Lines of Defense, CalPERS encourages a do-the-right-thing culture. By fostering a work environment based on our six Core Values, CalPERS recognizes that compliance is every team member's responsibility. The business partners within the Integrated Assurance Model hold monthly working sessions to discuss, plan, and receive feedback on each partner's inter-related efforts. These monthly meetings help ensure cooperation, improve timing of reviews by reducing over-lapping efforts, and encourage collaboration among the program areas.

ETHICS AND COMPLIANCE PROGRAM INITIATIVES HIGHLIGHTS, FISCAL YEAR 2019-2020

ECOM is guided by compliance standards set out in a variety of federal and state guidelines. The Federal Sentencing Guidelines for Organizations identify consistent, continuous promotion and enforcement of compliance and ethics standards as essential components of an effective compliance program. The California State Leadership Accountability Act also sets compliance industry best practices, benchmarks, and organizational needs for California's state agencies.

ENTERPRISE COMPLIANCE OFFICE

ECOM is committed to ensuring CalPERS maintains compliance with the letter and spirit of all applicable laws, regulations, and policies in partnership with other CalPERS program areas.

ECOM is comprised of four units:

- Enterprise Compliance Monitoring and Oversight
- Enterprise Ethical Standards and Investigations
- Enterprise Policy and Delegation Management
- Enterprise Compliance Operations, Communications, and Reporting

Enterprise Compliance Monitoring and Oversight Unit

This unit is responsible for developing consistency in program area compliance activities, as well as ongoing monitoring and reporting on areas such as Personal Trading and Targeted Compliance Reviews.

Policy Management

- Monitored and reported on the timely completion (99%) of CalPERS' mandatory trainings.

Compliance Monitoring and Oversight

- Conducted a targeted compliance review to mitigate risks identified in a compliance and risk assessment.
- Assisted business partners in conducting a HIPAA risk assessment.

Compliance Reporting

- Improved compliance reporting to the Board and executive management to increase reporting efficiency and data integrity.

Personal Trading

- Hosted 12 sessions of Personal Trading Training for Covered Persons who were affected by the revised Personal Trading Regulation.

Legislative Change Implementation

- Presented the new Legislative Change Implementation process at the Division Legislative Representatives Forum to help ensure CalPERS complies with newly State chaptered legislation.

Enterprise Ethical Standards and Investigations Unit

This unit oversees all ethics policies and conflict of interest disclosures. The unit is involved in many business areas of CalPERS where decision makers are required to file the Statement of Economic Interests (From 700) to stay in compliance with the California Fair Political Practices Commission regulations. This unit also oversees the Ethics Helpline, a reporting tool for complaints that are assigned to and investigated by appropriate program areas.

Form 700

- Increased the percentage of timely filings by CalPERS Consultants (93.4% to 95.4%).
- Began development of a Contract Module for the eDisclosure system that will capture both Spring Fed Pool and Single Award consultant Form 700 filers.
- Implemented status meetings with contract managers to provide updates on consultant filing status.
- Leaned the process of information sharing by reducing trainings from monthly to bimonthly for Form 700 Overview Trainings.
- Refined the Form 700 timeline for reminders and due dates.
- Coordinated and educated internal program areas on requirements of capturing Form 700 Assuming Office and Leaving Office statements.

Enterprise Policy and Delegation Management Unit

This unit is responsible for coordinating CalPERS centralized governance management program and providing advice and oversight to program areas as they update their policies, delegations of authority, and other internal rules and guidance. CalPERS has established enterprise-wide standards for policy management and delegations of authority consistent with professional best practices. These standards establish a basic framework and expectations to support the regular, thoughtful review of existing governance documents. This in turn helps program areas identify gaps and provides the organization with reasonable assurance that existing documents stay up to date and work as intended.

Annual Governance Review

- Completed an enterprise-wide governance review, identifying policies, delegations, and charters throughout the organization.
- Prioritized future governance changes, identified potential governance challenges, and strengthen CalPERS business rules to help make compliance easy and natural for our team members.
- Embarked on several initiatives related to streamlining our current governance management processes, prioritizing transparency and effectiveness, and automating/simplifying routine activities.

Compliance Operations, Communications, and Reporting Unit

The Compliance Operations, Communications, and Reporting unit is responsible for external mandated reporting, communications, education, and training.

Communications

- Completed a successful recognition awareness communication campaign.
- Hosted our Fourth Annual National Compliance and Ethics Week in November 2019:
 - Teamed up with ERMD to make it a National Compliance and Risk Week this year.
 - Held six sessions of Annual Compliance Training, three specifically tailored toward CalPERS Covered Persons, and three tailored to all other team members.
 - Conducted a compliance and risk trivia event in the Lincoln Plaza North café with team members and leaders.
- Participated in New Employee Orientation.

EMBEDDED COMPLIANCE PROGRAM

Partnering with embedded compliance liaisons in key program areas is an important strategy ECOM uses to help maximize compliance efforts. These partnerships provide a reporting mechanism and helps solidify an enterprise-wide culture of compliance. Embedded liaisons are team members whose job function partly includes helping their program areas promote, coordinate, and facilitate compliance efforts. Sometimes referred to as Compliance Champions, the embedded compliance liaisons often help bridge compliance concerns between ECOM and program area team members.

Actuarial Office

The primary function of the actuarial office (ACTO) is to calculate the contribution rates that employers must pay to fund their employees' retirement benefits. Each year the actuarial office runs actuarial valuation reports for numerous plans.

Compliance Highlights

- Collaborated with LEGO and CSS for comprehensive review of Internal Revenue Code section 415 practices to ensure compliance with all related laws and regulations.
- ACTO team created to overhaul our internal actuarial peer review procedures – high level interim policy released with immediate required compliance with a formal comprehensive policy to follow.
- The process to track and account for Additional Discretionary Payments remitted to CalPERS by Public Agencies was integrated into our new custom Actuarial Valuation System software. This new utility improved tracking across CalPERS and reduces the possibility for error in our valuation reports.

Customer Services and Support Branch

The Customer Services and Support (CSS) Branch administers pension benefits and related services to our members and business partners. We deliver end-to-end customer service adaptive to our customers' needs. Our embedded compliance program supports a coordinated effort to ensure compliance with all applicable laws, regulations, and polices that govern our business.

Compliance Highlights

- Reduced the unclaimed benefit account by millions of dollars and clearly defined the process for handling unclaimed benefits. Resolved outstanding system issues creating erroneous unclaimed benefits and transferred appropriate deceased member overpayments to receivable collections.
- 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.
- Conducted 216 training classes for new and existing Contact Center and Regional Office team members (1,371 total class participants) to prepare them to accurately and effectively respond to inquiries and process system transactions for customers and business partners.

Financial Office

The Financial Office (FINO) safeguards our members' financial security through control, coordination, and centralization of all CalPERS financial activity, budgeting, and risk management. The following program areas are part of FINO:

- Enterprise Risk Management Division
- Financial Planning, Policy & Budgeting Division
- Financial Reporting & Accounting Services Division
- Pension Contracts and Prefunding Programs

Compliance Highlights

- Continued to enhance FINO communication regarding mandatory training and form 700 filing requirements.
- Facilitated 100% on-time completion of FINO Annual Form 700 submissions and all mandatory trainings.
- Responded to Badge Card audits.
- Received and responded to all FINO Operational Risk Events.

- ERMD, in partnership with ECOM and ISOF, designed and implemented a new user-friendly risk reporting intake form to replace the Operational Risk Event Reporting Form.
- Trained CARLs on the new form and triage process.
- Launched a risk-awareness communications campaign:
 - memos to leaders and team members
 - An Inside CalPERS article on reporting risk
 - Continuous bi-monthly Bulletins, bi-annual risk related Question of the Day, and Spotlight Ads.
- ERMD completed training all Divisions on Operational Risk Events.

Health Policy and Benefits Branch

The Health Policy and Benefits Branch (HPBB) administers and oversees the CalPERS Health Benefits Program and Long-Term Care Program. HPBB is comprised of the following divisions:

- Health Account Management Division
- Health Plan Administration Division
- Health Policy Research Division

Policy Management

- Implemented operational changes to address COVID-19 concerns.
- Extended appeal filing timelines by amending California Code of Regulation 599.518, allowing members with an extenuating circumstance an additional 30 days to file.
- Grievance and Appeals successfully applied the Executive Order N-40-20 issued by Governor Newsom on March 30, 2020 that extended the filing requirements and processing timeframes outlined in California Government Code 599.518.

Compliance Monitoring and Oversight

- Due to Covid-19, updated protocols to limit face to face interactions and accepted member appeals through electronic methods instead of physical mail.
- Conducted semi-annual my|CalPERS user access reviews to comply with information security standards.
- Participated in several internal audits that have validated current processes are compliant with PEMHCA. Based on results, we have implemented additional controls to mitigate risk and strengthen compliance of the CalPERS Health Benefits Program.

Compliance Reporting

- Developed and submitted annual report on health premium increases and decreases.

- Developed and submitted an annual report on Health Benefits Program pursuant to California Government Code Section 22866(a).

Investment Office

Investment Controls & Operational Risk (ICOR) serves as an embedded compliance function and assists our Investment Office team members by ensuring compliance with key policies, laws, and regulations that impact the Investment Office.

Compliance Highlights

- Piloted new compliance functionality of the Travel Review and Expense Claim system with three INVO divisions.
- Partnered with Enterprise Compliance staff to roll out revised Personal Trading Regulation, including in-person training of Investment Office staff.
- Transitioned conflict of interest oversight functions to ECOM, including placement agent and contract-related disclosures.
- Developed and implemented enhancements to compliance testing processes.

Legal Office

The Legal Office (LEGO) represents CalPERS in litigation and provides legal advice regarding all legal issues at CalPERS, including the areas of benefit and membership entitlement, bankruptcy, health care, fiduciary matters, ethics, contracts, public records, open meetings and investment related matters.

Compliance Highlights

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.

Operations and Technology Branch

The Operations and Technology (OPT) Branch's Embedded Compliance Team acts as branch liaisons between OPT, ECOM, ERMD, and the Office of Audit Services. They help ensure compliance with mandatory training and disclosures, assist with policy creation and updates, and ensure compliance with contracting delegations of authority. Additionally, they coordinate the resolution of audit findings within OPT.

Compliance Highlights

- Created and implemented the PeopleSoft tracking of consultants for contracts and Letters of Engagement.
- Conducted three Badge Card audits.
- Ensured timely resolution of all audit findings for OPT.
- Facilitated 100% on-time completion of OPT annual Form 700 submissions and all mandatory trainings.

SUMMARY

The compliance program at CalPERS continues to mature and make progress. The efforts of dedicated compliance resources and our internal partners is an investment in the long-term foundation of CalPERS' culture of ethical behavior and the processes that strengthen internal controls. Compliance elements are interwoven into all six of CalPERS' Core Values of Quality, Respect, Accountability, Integrity, Openness, and Balance. ECOM takes pride in leading these efforts and will continue to give guidance and direction as CalPERS strives to build a sustainable future based on a strong foundation of ethics and compliance.