Contents

CHIEF COMPLIANCE OFFICER LETTER	2
CULTURE OF COMPLIANCE	3
INTERGRATED ASSURANCE MODEL: THREE LINES OF DEFENSE	3
ETHICS AND COMPLIANCE PROGRAM INITIATIVES HIGHLIGHTS, FISCAL YEAR 2020-21	5
ENTERPRISE COMPLIANCE OFFICE	5
Enterprise Compliance Program and Policy	5
Investment Compliance	6
Enterprise Risk Management	7
EMBEDDED COMPLIANCE PROGRAM	8
Actuarial Office	8
Customer Services and Support Branch	9
Health Policy and Benefits Branch	.11
Investment Office	.11
Legal Office	.12
Operations and Technology Branch	.12
SUMMARY	.15

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) 2020-21. 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 and risk liaisons serving as first-line compliance experts in every CalPERS program area.

We hope this report demonstrates our commitment to Enterprise Compliance and the work we do to protect the System and the members and employer partners we serve.

Marsene Timbersake 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 aimed to mature the program by building and enhancing compliance capabilities and is consistent with changes in the broader compliance landscape. The compliance plan focused 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.

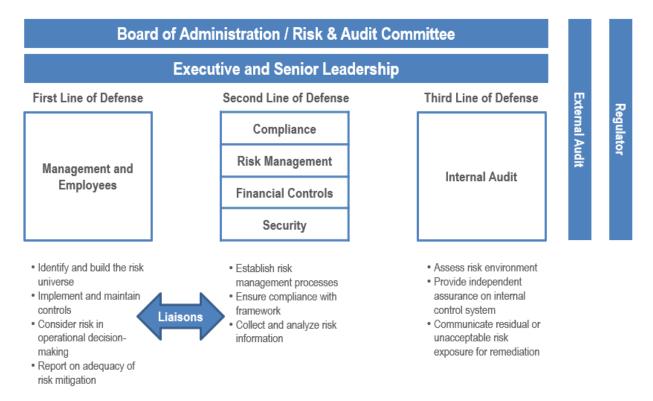
We completed the fifth and final year of the compliance plan in FY 2019-20. During FY 2020-21, we continued to reinforce and expand upon the work we accomplished during the five-year compliance plan. We also recently incorporated the Enterprise Risk Management Division (ERMD) within ECOM to more fully integrate the compliance and risk functions. We think this will continue to advance our strategic plan goals of cultivating a risk intelligent organization and reducing complexity by taking advantage of the synergies that exist between the two functions.

As in prior years, during FY 2020-21 we assessed our compliance program against industry peers. Our assessment score of 4- (out of 5) is consistent with compliance industry benchmarks. We are now on track to begin implementing our FY 2021-22 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 1) emphasizing collaboration and an increased understanding of roles and responsibilities to detect, prevent, and correct instances of non-compliance.

Figure 1: 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. They are closest to the actual risks and have the best insight and opportunity to identify and prevent undesired outcomes.

Second Line of Defense – ECOM and ERMD have combined efforts to provide oversight, guidance, and monitoring of governance, risk, and compliance activities. This new structure provides increased capability to support the organization by mitigating strategic and operational risks while strengthening the organization's control environment and promoting strong ethical business practices and risk informed decision making. To demonstrate this alignment, both divisions worked closely together to develop our annual plans and presented them as a single unified agenda item to CalPERS' Risk and Audit Committee in April.

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

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 three major areas:

- Enterprise Compliance Program and Policy
- Enterprise Risk Management
- Investment Compliance

Enterprise Compliance Program and Policy

This area is responsible for developing consistency in program area compliance activities. It includes the Enterprise Ethical Standards and Investigations Unit; the Enterprise Compliance Monitoring and Oversight unit; the Enterprise Policy and Delegation Management Unit; and the Enterprise Compliance Operations, Communications, and Reporting Unit.

Form 700

- Increased the percentage of timely filings by CalPERS consultant Form 700 filers (81.6 percent to 90.0 percent)
- Completed development of a Contract Module for the eDisclosure system that captures consultant Form 700 filers
- Obtained 100 percent compliance of all active filers for 2020 Annual Form 700 season
- Obtained 100 percent compliance of all active team members for 2020 Ethics Training
- Provided Annual Form 700 training to over 150 team members
- Implemented status reconciliation process with contract managers to provide regular updates on consultant filing status
- Increased the percentage of timely filings by all CalPERS Form 700 filers (e.g., employees and vendors) from 94.8 percent to 97.0 percent.

Other Compliance Highlights

- Launched CalPERS' first-ever Code of Conduct
- Increased training offerings and delivery mechanisms to support the virtual environment; conducted post training surveys to gain feedback for enhancing future sessions
- Revised and streamlined proposed changes to the Conflicts of Interest Code
- Implemented an enhanced onboarding for key positions with additional training and guidance about conflict rules and scenarios
- Implemented a new onboarding and exit clearance process
- Transitioned Placement Agent Disclosure process and reporting function from the Investment Office
- Continuing refinement of automated policy management tool

Investment Compliance

The Investment Compliance team is responsible for monitoring and reporting on personal trading activity to safeguard against possible violations of regulatory and fiduciary responsibilities. They also partner with the Investment Office to ensure compliance in CalPERS' investment activity and to protect Material Non-Public Information (MNPI) through policies, procedures and information barriers.

Investment Compliance Oversight and Monitoring

 Continued to transition the investment compliance oversight and monitoring responsibilities to the Investment Compliance team within ECOM

Disclosure of Placement Agent Fees, Gifts and Campaign Contributions

 Received, reviewed and reported monthly on the Disclosures of Placement Agent Fees and Material Violations of the Placement Agent Regulation with zero material violations identified for the 12-month period

Personal Trading Regulations

- Delivered monthly Personal Trading Trainings along with an annual mandatory training for Covered Person employees; monthly Personal Trading Trainings cover a variety of topics and offer an office hours environment for Covered Persons to ask questions related to the Personal Trading Regulations
- Strengthened communications, outreach and reporting for Personal Trading activities

Enterprise Risk Management

Enterprise Risk Management is responsible for cultivating a risk-intelligent organization at CalPERS. This includes providing risk management training, facilitating program risk assessments, and developing tools to assist CalPERS divisions in identifying, monitoring, and mitigating risks.

Compliance Highlights

- Facilitated the Asset Liability Management Advisory Committee (ALMAC) to kick off the new ALM cycle
- Advanced maturity of the risk management program by adding developing risks to the Enterprise Risk Management Framework
- Integrated enterprise risk analysis in the strategic planning process by providing enterprise risk assessment information to support environmental scan analysis and completing independent reassurance of current strategic performance measures
- Documented internal controls by mapping program level cross-functional processes
- Implemented Operational Risk Event Reporting: Phase III that included creation of the Notice Something, Say Something reporting platform and campaign to promote first line of defense reporting across the enterprise
- Educated CalPERS team members to continue to cultivate a risk-intelligent organization through the implementation of two risk management webinars and new employee orientations
- Enhanced enterprise data governance to ensure accuracy, consistency, and strengthen data-driven decision through data retention policy research and finalizing the Enterprise Business Glossary
- Completed 2019 State Leadership Accountability Act (SLAA) Report Implementation Plan updates
- Reviewed CalPERS' insurance portfolio and made recommendations for updates

EMBEDDED COMPLIANCE PROGRAM

Partnering with embedded compliance and risk liaisons in key program areas is an important strategy both ECOM and ERMD use to help maximize compliance and risk management second line 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

- Improved the tracking of Employer additional discretionary Unfunded Actuarial Liability (UAL) wire payments that are received by the State Treasurer's Office and subsequently routed to CalPERS. ACTO collaborated with FINO on the enhancement of internal procedures to eliminate misrouted wires that would cause delays in timely and accurate reporting of employer funds
- Implemented suggested improvements in our actuarial reports and experience study analysis methodology based on external actuarial audits of our work by contracted consulting actuarial firms
- Revised and implemented our Actuarial Study Program to comply with expense reimbursement requirements of the Financial Office and the State Controller's Office in accordance with the California Code of Regulations and bargaining unit MOUs; the Actuarial Study Program is our internal staff professional development pathway to develop in-house actuarial expertise
- Currently undertaking a detailed review of our Long-Term Care (LTC) data handling and security protocols to ensure compliance with Health Insurance Portability & Accountability Act (HIPAA) obligations

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. The following are highlights of compliance related accomplishments throughout CSS over the past year:

Risk Reduction

- Reduced risk to the fund by eliminating overpayments that result when a payee's death goes unreported; this was achieved through validating the benefit eligibility of CalPERS payees by confirming their status as a living benefit recipient
- Reduced the risk of inaccurate payments to new payees by running an annual report of retirees, beneficiaries and non-members with the system birthdates and comparing it against the Social Security data base; if any discrepancies are found, they are investigated, and adjustments are processed if needed

System and Data Integrity Enhancements

- Implemented significant system enhancements and data audits to not just identify early but also deterworking after retirement violations, avoiding costly litigation and retiree concerns; also significantly enhanced education to create increased awareness related to the requirements for post-retirement employment
- Streamlined the State Social Security Administrator (SSSA) functionality for County
 Office of Education and school districts to improve financial transactions and generate
 receivables; the Annual Information Request form is updated specifically for schools and
 will be system generated to school districts agencies annually; these enhancements
 ensure compliance and financial integrity for administrative expenses of the SSSA
 program
- Implemented system improvements, allowing a streamlined way for members to
 directly enter data into myCalPERS and electronically submit a request for CalPERS
 issued estimate letters; these improvements increase the effectiveness and timeliness
 for CalPERS to issue estimates; also improved user experience for self-serve estimates
 for members who have met retirement age minimum qualifications in myCalPERS to
 automatically display an estimated Unmodified Allowance
- Implemented system improvements to reduce complexity and eliminate manual
 processes for both employers and internal team members for membership reviews and
 service prior to membership requests; these improvements increased timeliness and
 data integrity, ensuring participant accounts and determination letters are accurately
 reflective of what the employer certifies for the members

 Established and communicated secure method to receive encrypted emails sent internally with PHI/PII information in resource mailboxes to ensure data is accessible but remains secure

<u>Increased Control Measures and Process Improvements</u>

- Reviewed and modified the Final Compensation Business Intelligence Report to align
 with the new payrate thresholds; this report supports internal audit controls and
 reduces risks through validating manual final compensation overrides exceeding pay
 rate thresholds
- Reviewed over 700 retired annuitant compliance reviews and exemptions that were filed by public agency, school and State employers to obtain adequate staffing during COVID; the review ensured that the exemptions were compliant with the Executive Order issued by the Governor on March 12, 2020 that lifted some of the restrictions for hiring retired annuitants
- Implemented additional audits in the payroll submission process and the retirement application process that are intended to identify potential data anomalies and potential non-compliant reporting by employers; new data rules should enhance the reliability of the data for a member's retirement calculation
- Implemented new service credit payment guidelines to comply with California
 Government Code and California Code of Regulations, ensuring members with an
 outstanding service credit balance either pay in full or cancel on a prospective basis at
 the time of separation from employment; since the new guideline's implementation, the
 number of direct pay members has been reduced by 19% and the dollar amount owed
 by this population has decreased by 30%
- Enhanced the Unclaimed Benefit process to improve consistency and transparency and including implementing tools to track cash flow of the account
- Strengthened authentication processes in Regional Offices to further prevent risk of fraud to members
- Closed prior fiscal year audit findings

Reporting Accuracy, Verification and Resource Expansions

- Collaborated with the California Department of Military, implemented system changes to ensure National Guard members eligible to elect and receive CalPERS service credit in alignment with 2007 legislation can now be accurately reported and invoiced
- Collaborated with employers to resolve over 90% of prior year outstanding payroll reports, closing errors on member accounts associated with hundreds of payroll

- reports. These efforts will ensure members have accurate service credit and contributions reflected in their account
- In partnership with the Retirement Benefits Service Division (RBSD), Information Security Office (ISOF) and Legal Office (LEGO), established the video-based identification process, enabling Regional Offices to authenticate and verify the identity of the member, spouse and/or Power of Attorney (POA) when witnessing signatures
- Expanded education and outreach efforts to CalPERS members and employers providing an overview of pre-retirement survivor benefits, highlighting the importance of filing a beneficiary designation and naming a CalPERS POA and explaining when to request emergency retirement counseling
- Built a webpage for employers on compensation reported within labor policies or agreements. The webpage will contain education content to answer frequently requested information, approved sample language for labor and employers to utilize in creating agreements, and a portal to request reviews of language currently in place

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.

Policy Management

 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)

Compliance Monitoring and Oversight

- Conducted semi-annual myCalPERS 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

Investment Office

Investment Controls & Operational Risk (ICOR) is responsible for trade controls, policy testing, benchmark and policy governance activities, operational due diligence, and overall support for the operational risk control environment of the Investment Office.

Compliance Highlights

- Achieved 100% timely completion of annual Form 700 and mandatory training requirements
- Participated in two targeted reviews of investment policy testing and compliance with AB 1887

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

- Assisted Enterprise Compliance with several initiatives including COVID-19 related compliance issues
- Addressed numerous inquiries regarding Form 700 filing requirements and related conflict of interest issues under the Political Reform Act

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.

Information Technology Services Branch (ITSB) Compliance Highlights

- Resolved internal audit
- Created Exit Clearance "Deactivate Access" Task in service request system
- Successful distribution of 1099R tax forms to retirees by the federally mandated due date
- Center of Internet Security (CIS) standards 1.1 in both our public cloud instance of Azure and AWS
- Assisted with developing the External Forms Policy
- Maintained my CalPERS Member Self Service accessibility in accordance with Web content Accessibility Guidelines 2.1
- Re-evaluated Electronic Payment Gateway core design in support of annual PCI compliance

- Fulfilled 101 compliance and audit related business data requests (supports internal audits and business process compliance reviews)
- Developed and Implemented the Unauthorized Software Reconciliation (USR) Process to identify, track, and remediate all unauthorized software installations at CalPERS

Operations Support Services Division (OSSD) Compliance Highlights

- In partnership with Central Receiving, asset tagged over 3,700 desktop PCs, laptops, and monitors for telework
- In partnership with Space Planning, asset tagged over 500 office chairs deployed for telework
- Pursuant to the Administrative Forms policy, OSSD ensured the compliance of 47
 administrative forms this fiscal year. The HRSD team is working on an additional 83
 forms which OSSD will process for compliance this fiscal year
- In coordination with Dr. Julia Logan in HPBB, Human Resources, and COVID-19 guidance from California Department of Public Health (CDPH), Centers for Disease Control and Prevention, and other state, federal and local authorities, OSSD successfully assisted in transitioning the majority of CalPERS team members to telework environment while keeping essential team members safe onsite by distributing personal protective equipment and implementing signages and social distancing protocols
- Developed a Return to Office Plan for CalPERS team members to safely return to working onsite once the Governor moves into Stage 3 of the state's Pandemic Resilience Roadmap
- Facilitated 100% on-time completion of OPT's Annual Form 700 submission and Mandatory Trainings
- In conjunction with key business areas, revised contract policies and procedures to allow for electronic approval
- Revised CalCard procedures to ensure timely reconciliation of CalCard purchases
- In conjunction with ISOF, created a new business process to ensure all IT software purchases are reviewed for Information Security Addendums to comply with cloud hosting compliance

Policy Research & Data Analytics (PRDA) Compliance Highlights

In partnership with ISOF, ERMD, and ITSB, developed the Information Asset
 Classification Policy to align CalPERS information asset classifications with the State
 Administrative Manual and protect our information assets according to the appropriate
 classification

Enterprise Strategic Program Division (ESPD) Compliance Highlights

- Achieved 100% timely completion of Form 700
- Achieved 100% completion of mandatory training

Human Resources Division (HRSD) Compliance Highlights

- In collaboration with ITSB and other CalPERS areas, HRSD transitioned to an automated Exit Process in ServiceNow with the goal of reducing processing error and delayed exits
- Collaborated with ECOM to establish weekly automated mandatory training compliance reports
- Ensured all policies comply with the CalPERS Information and Communication Technology Accessibility Policy; by the end of 2021, all will comply with the CalPERS Style Guide and other internal direction on web communication
- Remediated 17 administrative forms to align with accessibility compliance
- Ensured all HRSD SharePoint pages and documents comply with the CalPERS
 Information and Communication Technology Accessibility Policy, as well as with the CalPERS Style Guide and other internal direction on web communication
- Developed and used a custom Access database to track audit findings and resolution processes. The database helps ensure that audit findings are tracked and completed in a timely manner.
- Updated procedures, job aids, training, documentation, and communication related to the following personnel processes and programs:

Salary Advances:

- All salary advance document information has been updated in compliance with audit findings, personnel rules and laws and control agency procedures
- Conducted training for all Personnel Transactions Unit (PTU) team members

Separations:

- All separations document information has been updated to comply with OFAS recommendations and personnel rules and laws and control agency procedures
- Conducted training for all PTU team members

Accounts Receivable (AR):

- Updated all accounts receivable documents to align with audit findings
- · All PTU team members received accounts receivable training
- PTU is working on AR shut down days to remove AR backlog; currently PTU has collected \$136,892.29 in backlog ARs
- Cross-trained HRSD Continuous Improvement Unit team members in the process.
- Updated internal tracking process to aid in timely and accurate fulfillment
- HRSD has conducted approximately five Supervisory Skills Enhancement
 Sessions training over 130 managers on the Recruitment process; this training is to
 ensure that all current supervisors and managers are aware of the changes to the
 recruitment process that took place during 2020.

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 and risk management 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, compliance and risk management.