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CHIEF COMPLIANCE OFFICER LETTER

The Enterprise Compliance Office (ECOM) of the California Public Employees' Retirement System (CalPERS) coordinates, supports, and promotes 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 providing advice, guidance, and oversight which supports the enterprise's commitment to following all the laws, regulations, and policies that govern our business.

The Annual Compliance Report outlines key accomplishments on ethics and compliance activities covering the fiscal year (FY) 2021-22. 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 understand their role in maintaining compliance and mitigating risks to CalPERS

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

Kevin L. Fein

Kevin L. Fein
Chief Compliance Officer

CULTURE OF COMPLIANCE

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

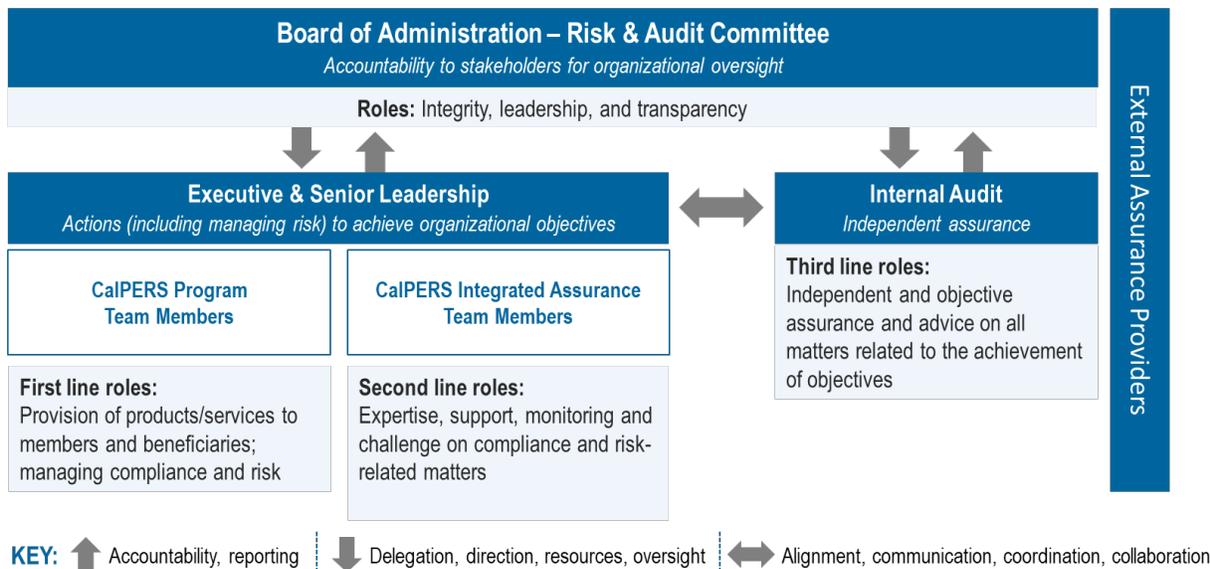
During FY 2021-22, we continued to reinforce and expand upon the work we accomplished during the five-year compliance plan we completed in FY 2019-20. ECOM also recently joined the CalPERS General Counsel Office, and we believe this reporting change will continue to advance our strategic plan goals of cultivating a culture of compliance and a risk-intelligent organization.

With the appointment of a new Chief Compliance Officer (CCO), the program is preparing several new initiatives that will continue to transform the compliance, risk management, and governance program in the months and years ahead.

INTEGRATED ASSURANCE MODEL: THREE LINES OF DEFENSE

CalPERS embraces an Integrated Assurance Model to implement our compliance, risk, and governance 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



Source: Institute of Internal Auditors

First Line of Defense – The first level of the control environment is the program areas that perform day-to-day risk management activities. In addition to performing daily operations, the program areas are responsible to design and implement internal controls to enhance compliance and mitigate risks. 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 provides advice, guidance, and oversight of compliance, risk management, and governance activities. This 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.

Third Line of Defense – CalPERS internal audit program 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 ECOM. This coordination helps CalPERS develop a shared view of risk across the organization.

The Integrated Assurance Model helps clarify roles and responsibilities and promotes 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 share feedback on each partner’s inter-related efforts. These monthly meetings help drive cooperation, improve the timing of reviews by reducing overlapping efforts, and encourage collaboration among the program areas.

ETHICS AND COMPLIANCE PROGRAM INITIATIVES HIGHLIGHTS

ECOM has historically been guided by compliance standards set out in a variety of federal and state guidelines. As the new CCO works with the ECOM team, as well as partners from across the Enterprise, to significantly increase the sophistication, scale, scope, and quantitative analysis capabilities of the Compliance & Risk Program, the development goal will be to establish best practices consistent with Private Sector organizations operating similar functions of like size, scope, and complexity as CalPERS. Once established, the validation of the program as fit-for-purpose will be confirmed by internal and external auditing as well as having subject matter experts (third party auditors/consultants) conduct mock examinations like those to which highly regulated Private Sector firms are subject.

ENTERPRISE COMPLIANCE OFFICE

ECOM provides advice, guidance and oversight to advance CalPERS’ commitment to comply with the letter and spirit of all applicable laws, regulations, and policies in partnership with other CalPERS program areas. During FY 2021-22, ECOM was comprised of three major areas:

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

The following are highlights of compliance-related accomplishments throughout ECOM over the past year:

Enterprise Compliance Policy & Program

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 Highlights

- Obtained 100% compliance of all active filers for the 2022 Annual Form 700 filing season
- Provided Form 700 overview training to over 205 team members
- Obtained 100% compliance of all filers for 2021 Initial Ethics Training
- Increased timely filing of Assuming and Leaving Office filings
- Provided over 100 education sessions on transparency and disclosure of Form 700 filings
- Conducted an enhanced Form 700 review for 100% of all CalPERS Form 700 filers which included a 2–5-year comparison of Form 700s for each filer and a review of financial interests where available, resulting in a review of approximately 3000 Form 700s

Other Compliance Highlights

- Maintained a 99.7% (monthly average) completion percentage for mandatory training for this fiscal year
- Reduced the total number of ethics helpline complaints open to 22; reduced from the fiscal year high of 37 complaints open in October 2021
- Partnered with the Information Security Office to assess compliance with HIPAA security and privacy controls, establish mitigation plans, and monitor plan progress
- Delivered monthly communications across the organization using multiple channels highlighting and educating about the CalPERS Code of Conduct (Our Code)
- Developed and disseminated Our Code discussion guides for use in team meetings

Investment Compliance Oversight and Monitoring

The Investment Compliance team is responsible for surveilling and reporting on investment-related compliance activities, including conflicts monitoring, personal trading regulation compliance, and onboarding of new Covered Persons to safeguard against possible violations of regulatory and fiduciary responsibilities. Investment Compliance also partners with the Investment Office (INVO) to provide compliance assurance with CalPERS' investment activity and to protect Material Non-Public Information (MNPI) through policies, procedures, and information barriers.

Compliance Highlights

- Administered, monitored, and reported on the Personal Trading Regulations compliance activities, including addressing instances of non-compliance
- Delivered bi-monthly personal trading training for Covered Person employees that included frequently asked guidance and industry subjects (e.g., cryptocurrency, GameStop)
- Administered and maintained compliance with the Placement Agent Regulation, including reported disclosure of placement agent requirements monthly to the Investment Committee
- Conducted surveillance of Bloomberg electronic communications to ensure adherence with rules and policies
- Developed conflict of interest guidance for Covered Persons and Form 700 filers including examples applicable to CalPERS
- Strengthened conflicts of interest surveillance and monitoring of Covered Persons

Enterprise Risk Management

The Enterprise Risk Management function is being fully integrated into ECOM and 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

- Completed the 2021 Annual Enterprise Risk Assessment; updated the Enterprise Risk Dashboard (Dashboard), Profiles, and Enterprise Heatmap (Heatmap); facilitated discussions with subject matter experts to review risk drivers and mitigations
- Updated Developing Risks Report in September 2021 and June 2022
- Partnered with Enterprise Strategy & Performance Division (ESPD) in the development of the 2022–27 Strategic Plan to integrate strategic risk indicators into the Enterprise Performance Management framework
- Enhanced enterprise data governance to improve accuracy, consistency, and strengthen data-driven decisions by operationalizing the Employer Data Request Program and implementing the Information Assets Data Retention policy
- Completed the 2021 State Leadership Accountability Act (SLAA) Report and submitted it to the Department of Finance
- Educated CalPERS team members to continue to cultivate a risk-intelligent organization through the implementation of two risk management webinars (Division Risk Assessment and Your Role in Keeping CalPERS Safe) and new employee orientations
- Partnered with the Customer Experience Division to facilitate consultant delivery of five live fraud awareness training events for contact center agents to focus on the latest fraud trends, social engineering tactics, and methods to identify and counter fraud schemes

FIRST-LINE COMPLIANCE HIGHLIGHTS

Actuarial Office (ACTO)

The primary function of 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. The following are highlights of compliance-related accomplishments throughout ACTO over the past year:

Compliance Highlights

- Enhanced our Risk Analysis reporting in our actuarial reports in compliance with Actuarial Standards of Practice No. 51: Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions
- Executed a reduction in the funding discount rate in accordance with CalPERS Funding Risk Mitigation Policy for the first time
- Collaborated with LEGO and BNSD to create and automate procedures for complex calculations in compliance with Internal Revenue Code Section 415 ensuring CalPERS qualified plan status is maintained
- Completed our required quadrennial experience study and actuarial assumptions review including timely third-party audit of actuarial office staff work products and internal processes
- Concluded and presented to CalPERS Board of Administration our annual Funding Levels and Risk report monitoring the fund's long-term sustainability
- Reviewed ACTO's internal procedures and policies for Health Insurance Portability and Accountability Act (HIPAA) compliance and initiated improvements based on the organization's recommended best practices

Customer Services and Support Branch (CSS)

CSS 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 policies that govern our business. The following are highlights of compliance-related accomplishments throughout CSS over the past year:

Risk Reduction

- Implemented changes in the Disability and Survivor Benefit Division (DSBD) to mitigate risk by increasing the effectiveness of death benefit overpayment receivables controls; contracted with additional death verification vendors to improve the ability to identify deaths timely and minimize the issuance of benefit overpayments which will increase the sustainability of the Public Employees Retirement Fund

Increased Control Measures and Process Improvements

- In collaboration with the Employer Account Management Division (EAMD), amended the working after retirement regulation to define the term “limited duration;” this regulation amendment benefits retirees and CalPERS-covered employers by providing a clear definition of how long a retired annuitant can serve in a position in retirement
- Established new business rules to help ensure that non-compliant compensation will be reviewed at the time of retirement or when an estimate is submitted; this change resulted from a collaboration between EAMD and the Retirement Benefit Services Division (RBSD) and Policy Research and Data Analytics Division (PRDA) to analyze business rules about compensation reviews
- Implemented a process to review and approve a Business Partner’s (BP) compensation language (EAMD contacts the BP and assists them to bring their language into compliance and sends a letter approving or denying their proposal); additionally, created a webpage on our external website to provide BPs with guidance on compliance, sample language, a reportable special compensation chart, and more
- Implemented new guidelines in the Member Account Management Division (MAMD) to ensure members with an outstanding service credit balance either pay in full or cancel on a prospective basis at the time of separation from employment; this change ensures compliance with applicable statutes and regulations and supports the long-term sustainability of the pension fund and reduced the number of direct pay members by 31% and the dollar amount owed by this population by 35%
- Employed collaborative process improvements in CSS Ethics Helpline case management within MAMD to improve the integrity of case handling and experience of our stakeholders with concerns about conduct that may be unethical, illegal, or in violation of professional standards
- Conducted a multi-year effort in CSS to enable appropriate use of temporary help positions ensuring going forward CalPERS will meet the requirement that Seasonal Clerks are used only for seasonal or cyclical workload spikes

Health Policy and Benefits Branch (HPBB)

HPBB administers and oversees the CalPERS Health Benefits Program and Long-Term Care Program. The following are highlights of compliance-related accomplishments throughout HPBB over the past year:

Compliance Monitoring and Oversight

- Updated the Parent-Child Relationship regulation to further clarify enrollment eligibility criteria and required primary and secondary supporting documentation needed to establish the relationship with the dependent; these changes streamline and clarify health program guidelines and operations for employers and members to ensure compliance with PEMHCA and increase transparency to ensure only eligible dependents in a PCR are enrolled in the health program

- Revised the Medical Report for CalPERS Disabled Dependent Benefit and created a new Authorization to Disclose Protected Health Information to streamline and clarify the roles of the subscriber and disabled dependent's provider; added additional member communication to increase transparency around this complex program and issued employer guidance to clarify their roles and responsibilities
- Participated in a detailed review of our HIPAA Risk Assessment in which a mitigation plan was established for identified vulnerabilities; worked with ECOM and the HIPAA Unit to complete the mitigation plan
- Conducted annual my|CalPERS user access reviews to comply with information security standards
- Participated in several internal audits that have validated that current processes are compliant with PEMHCA; based on the results, implemented additional controls to mitigate risk and strengthen compliance with the CalPERS Health Benefits 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)

Investment Office (INVO)

Investment Controls & Operational Risk (ICOR) serves INVO by providing compliance oversight and training concerning key policies, laws, and regulations that impact INVO. Additionally, 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. The following are highlights of compliance-related accomplishments throughout INVO over the past year:

Compliance Highlights

- Presented revisions to the Total Fund and Global Fixed Income investment policies following the November 2021 Investment Committee's approval of the asset-liability management framework
- Implemented and validated compliance with various sanctions imposed by the U.S. Treasury's Office of Foreign Assets Control (OFAC)
- Participated in peer interviews surveying for best practices relating to Federal and international investment regulatory initiatives

General Counsel's Office (GCO)

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

Compliance Highlights

- Continued to assist ECOM 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
- Assisted in recruiting and onboarding a new Chief Compliance Officer

Operations and Technology Branch (OPT)

OPT's Embedded Compliance Team acts as branch liaisons between OPT, ECOM, and the Office of Audit Services (OFAS). 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. The following are highlights of compliance-related accomplishments throughout OPT over the past year:

Information Technology Services Branch (ITSB) Compliance Highlights

- Configured direct 911 dialing and notification capabilities in CalPERS multi-line telephone system (MLTS) in accordance with Kari's Law
- Enabled Multi-Factor Authentication (MFA) on the Cohesity backup system and other externally accessible web applications
- Reviewed Windows Defender for Azure for compliance and made changes to the environment based on our Center for Internet Security (CIS) benchmarks
- Validated all network intranet (Inside CalPERS) content is compliant with CalPERS Content Lifecycle Governance Maintenance guidelines
- Ensured all enterprise videophones were registered into the User Registration Database pursuant to the new Federal Communications Commission (FCC) requirement
- Completed the first Annual Disaster Recovery Exercise which complied with the State Mandate
- Created the Disaster Recovery framework and processes that is attainable and deliverable to meet Recovery Point Objective (RPO) and Recovery Time Objective (RTO) requirements
- Assisted/Participated with the Annual Disaster Recovery Exercise
- Facilitated the California Military Department Independent Security Assessment Activity
- Facilitated the recent log4j Vulnerability/Mitigation Activity
- Revised and standardized department email distribution lists to ensure separation of consultants from employees
- Enhanced ServiceNow Incident form to limit exposure of personal phone number data
- Completed iPhone app governance resolving an internal audit finding
- Tested and released multiple iOS patches and security updates

- Implemented multi-factor authentication and ensured accessibility compliance for CalPERS Benefits Education Event Platform
- Ensured the public board agenda search tool met accessibility compliance standards
- Posted biennial certification of the CalPERS website for compliance with applicable state and federal laws and Web Content Accessibility Guidelines 2.1 AA

- Maintained the my|CalPERS member website and CalPERS Education Center to ensure they support state and federal accessibility compliance laws
- Identified 309 unauthorized software installations of which 84 were uninstalled
- Masked data in my|CalPERS Non-production environments to reduce compliance-related risks and support security and data privacy policies

Operations Support Services Division (OSSD) Compliance Highlights

- In coordination with the Office of Public Affairs (PAOF) and Colliers, successfully prepared the campus for the transition of CalPERS team members back to the office following the 2-year pandemic, which included providing ample sanitization materials throughout the facility, reopening the café with a new contactless pay system, reactivating the parking program, introducing new campus security measures, along with delivering effective enterprise communication and signage regarding these activities
- In partnership with Space Planning, the Human Resources Division (HRSD), and ITSB, used ServiceNow to track returning over 300 telework chairs to the office from enterprise team members in compliance with the telework policy
- In a collaborative effort with LEGO and the Records Management Unit, reviewed the current records retention schedule for the board election program and began revising to reduce the retention period of physical board election records to be in alignment with CalPERS' Information Asset Retention Policy
- Worked with CalOES to procure N95 masks for team members in compliance with local and state mandates
- In partnership with Stakeholder Relations (STRL), ensured timely responses to all Public Request Act requests
- Facilitated 100% on-time completion of the Annual Conflict of Interest and Confidentiality Certification & Disclosure Form

Policy Research & Data Analytics (PRDA) Compliance Highlights

- In partnership with OSSD, ECOM, ITSB, and other representatives across CalPERS, developed the Information Asset Retention Policy to align CalPERS retention practices with the State Administrative Manual and ensure appropriate retention and protection of our information assets

Human Resources Division (HRSD) Compliance Highlights

HR Strategic Solutions (HRSS)

- COVID-19 Supplemental Paid Sick Leave (SPSL) 2022
 - Implemented new SPSL 2022 leave code in PeopleSoft HCM
 - Allows eligible team members to use new leave codes on their eTimesheet
 - Allows the ability for report generation and record-keeping
 - Completed March 2022
- Content Lifecycle Governance (CLG) and Accessibility requirements
 - Developed an HRSD Content Author group and MS Teams page
 - Provide a forum that allows for CLG and SharePoint content backups in real-time

- Meet quarterly with HRSD Content Authors to ensure compliance with CLG and CalPERS guidelines
- Monthly Operations Meeting with senior HRSD leadership
 - In 2021, we added Content Lifecycle Governance (CLG) and Accessibility requirements for Inside CalPERS (SharePoint) content
- Automated Exit Clearance Process
 - In collaboration with ITSB, implemented network login disablement upon separating team member's last physical date to reduce access risks
- Implementation of CalPERS Visitor Policy
 - Worked with OSSD to support physical building security by identifying resources for non-CalPERS visitors to HRSD
 - Identified the need for a locked drop box and date stamp to allow non-CalPERS visitors the ability to easily submit paper applications for exams and jobs
- Risk Measures
 - Established two new risk measures with ERMD related to the employee experience regarding innovation and collaboration
- CalPERS Consultant Policy Implementation
 - Acted as a stakeholder on the CalPERS Consultant Policy to eliminate the appearance of an employer-employee relationship with consultants at CalPERS via updates to HR processes, organizational charts, and access to HR systems

Personnel Operations (POps)

- Telework Agreement and Program implementation
 - Collaborated with ITSB on a centralized collection and tracking system that includes the ability to produce state-mandated reports
- COVID-19 Response
 - Implemented and administrated programs, vaccination attestations, tests, and reporting in accordance with state mandates
 - Delivered daily COVID-19 mandated reporting to CalHR and GovOps
- Official Personnel File (OPF) Project
 - Worked on updates to the HRSD Records Retention Schedule
 - Purged active team member OPFs to match retention schedule
 - Continued purging separated team member OPFs to match retention schedule
 - Cleared out 59 of the 167 drawers of files
 - Prepared for digitization to match records retention schedule
- Personnel Specialist Training
 - Gave 15 training lessons on multiple Transaction subjects to ensure staff is aware of the policies and processes and to ensure consistency within the unit; pieces of training included 3 makeup sessions for staff that missed previous training

Talent Engagement & Development

- Launched an enhanced Onboarding Pilot Program, ensuring mandatory training is completed within the first 30 days for all new CalPERS team members

SUMMARY

The compliance program at CalPERS continues to mature and make progress. The efforts of dedicated compliance resources and our internal partners are 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 our Core Values: 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.