2018-19 Enterprise Compliance Annual Plan

Presented to
Risk and Audit Committee
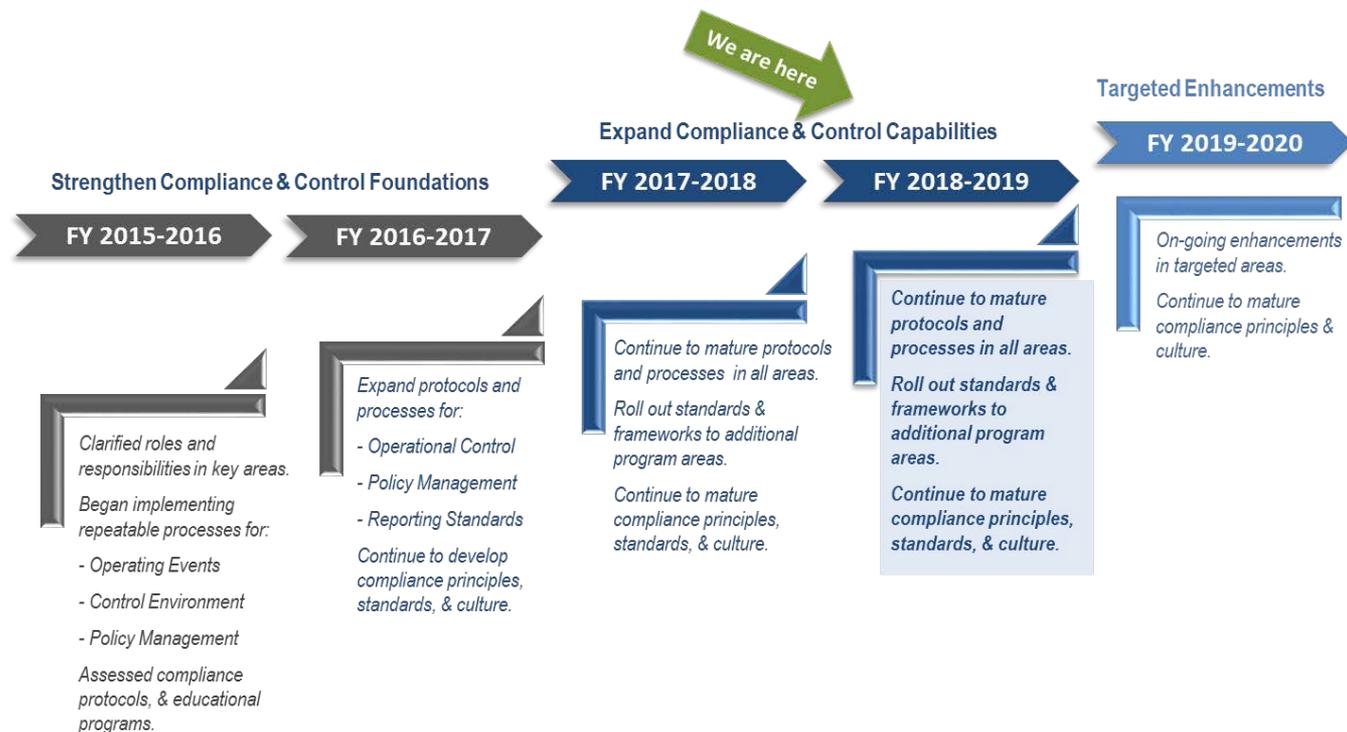## June 20, 2018

CalPERS | Enterprise Compliance

Agenda Topics

- Updated 5-Year Outlook

- Enterprise Compliance Operations Map

- Compliance Program Maturity

- FY 2018-19 Focus Areas

CalPERS | Enterprise Compliance

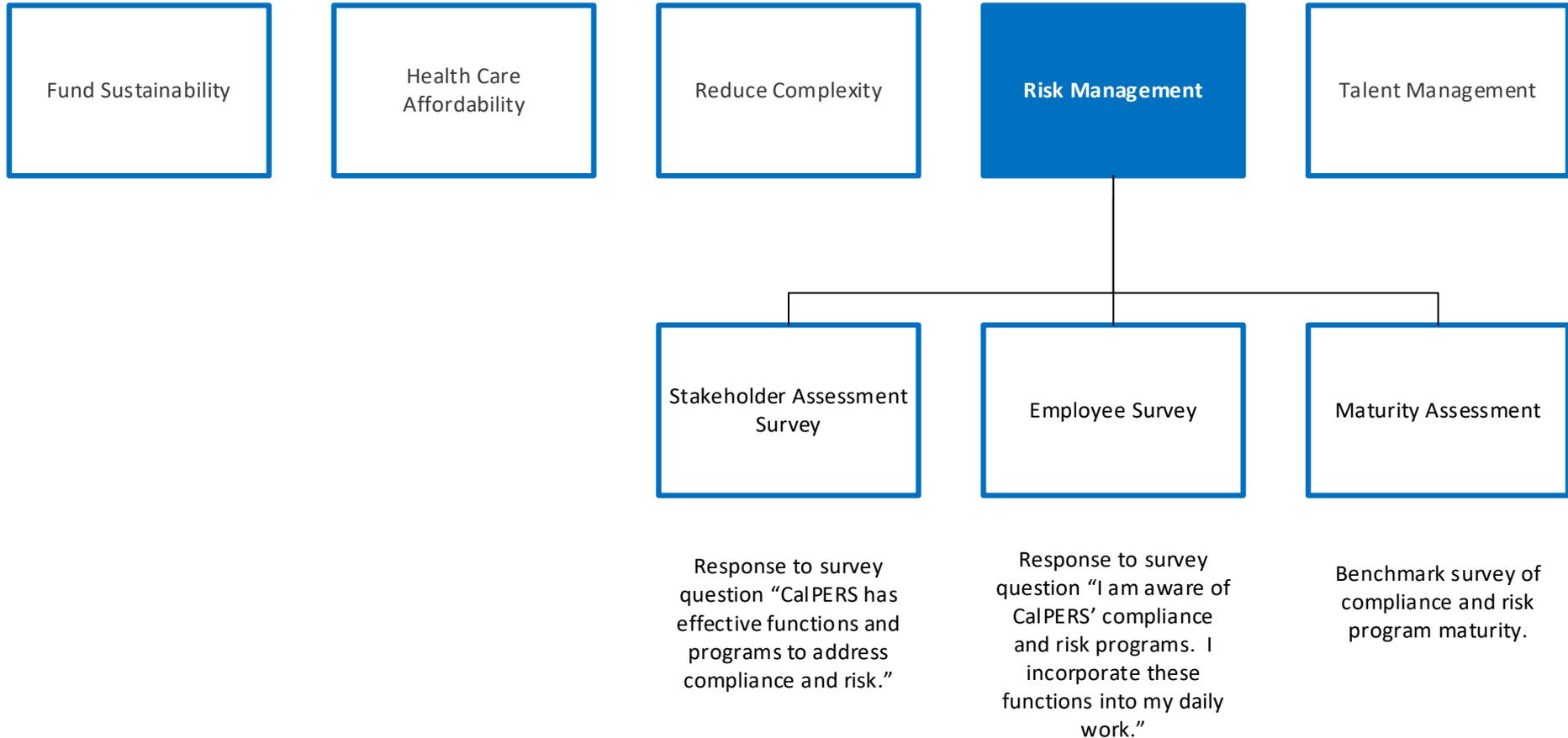# Updated 5-Year Outlook – Enterprise Compliance Maturity

Changes for FY 2018-19 include:

- Updating compliance maturity model using CEB Diagnostic for Compliance & Ethics

- Realigning previous "compliance elements" with compliance functions and sub-functions.

Since the launch of the Compliance Plan in FY 2015-16, the team has been strengthening compliance controls, processes, and awareness.

We are here

Targeted Enhancements

Expand Compliance & Control Capabilities

FY 2019-2020

Strengthen Compliance & Control Foundations

FY 2017-2018

FY 2018-2019

FY 2015-2016

FY 2016-2017

On-going enhancements in targeted areas.

Continue to mature compliance principles & culture.

Continue to mature protocols and processes in all areas.

Roll out standards & frameworks to additional program areas.

Continue to mature compliance principles, standards, & culture.

Continue to mature protocols and processes in all areas.

Roll out standards & frameworks to additional program areas.

Continue to mature compliance principles, standards, & culture.

Expand protocols and processes for:

- Operational Control

- Policy Management

- Reporting Standards

Continue to develop compliance principles, standards, & culture.

Clarified roles and responsibilities in key areas.

Began implementing repeatable processes for:

- Operating Events

- Control Environment

- Policy Management

Assessed compliance protocols, & educational programs.

CalPERS | Enterprise Compliance

3

CalPERS 2017–22 Strategic Plan

Fund Sustainability	Health Care Affordability	Reduce Complexity	**Risk Management**	Talent Management

Stakeholder Assessment Survey	Employee Survey	Maturity Assessment
Response to survey question "CalPERS has effective functions and programs to address compliance and risk."	Response to survey question "I am aware of CalPERS' compliance and risk programs. I incorporate these functions into my daily work."	Benchmark survey of compliance and risk program maturity.

CalPERS | Enterprise Compliance

CalPERS Enterprise Operations Map

Operating Processes

| Accounting for Funds | Managing Investments | Projecting Liabilities | Provide & Administer Retirement Benefits | Provide and Administer Health Care Benefits | Educate Members, Employers & Stakeholders |

Supporting Processes

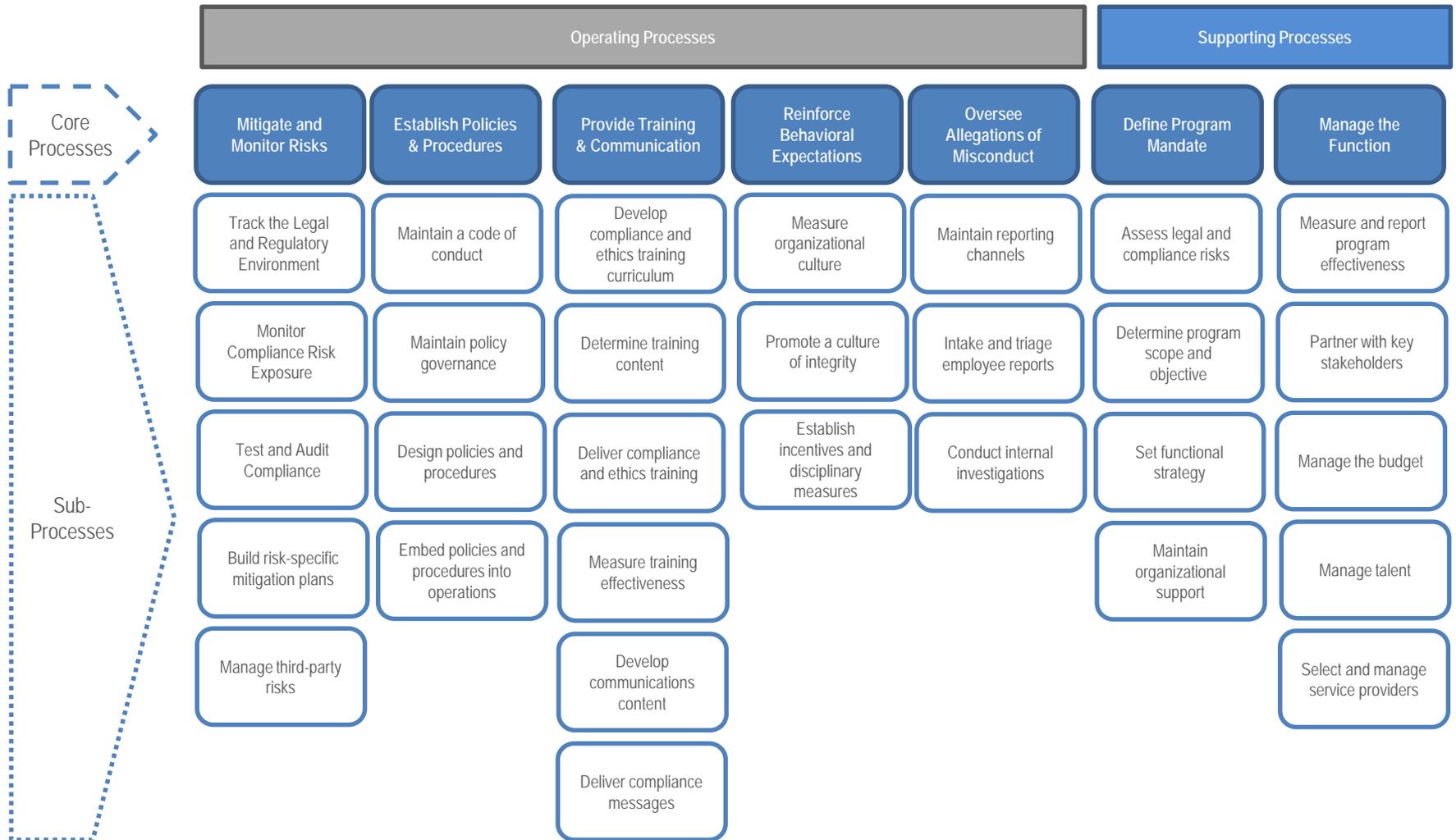| Listening & Informing | Brand Reputation | Compliance & Managing Risks | Purchasing & Acquisitions | Leveraging Technology | Managing Resources & Performance | Attracting & Supporting Team Members |

CalPERS | Enterprise Compliance

Enterprise Compliance Office - Operations Map

	Operating Processes					Supporting Processes	
Core Processes	**Mitigate and Monitor Risks**	**Establish Policies & Procedures**	**Provide Training & Communication**	**Reinforce Behavioral Expectations**	**Oversee Allegations of Misconduct**	**Define Program Mandate**	**Manage the Function**
	Track the Legal and Regulatory Environment	Maintain a code of conduct	Develop compliance and ethics training curriculum	Measure organizational culture	Maintain reporting channels	Assess legal and compliance risks	Measure and report program effectiveness
	Monitor Compliance Risk Exposure	Maintain policy governance	Determine training content	Promote a culture of integrity	Intake and triage employee reports	Determine program scope and objective	Partner with key stakeholders
Sub-Processes	Test and Audit Compliance	Design policies and procedures	Deliver compliance and ethics training	Establish incentives and disciplinary measures	Conduct internal investigations	Set functional strategy	Manage the budget
	Build risk-specific mitigation plans	Embed policies and procedures into operations	Measure training effectiveness			Maintain organizational support	Manage talent
	Manage third-party risks		Develop communications content				Select and manage service providers
			Deliver compliance messages				

CalPERS | Enterprise Compliance

Compliance Program Maturity

Overall functional maturity is the average maturity of all activities assessed.

- Measured on a scale ranging from 1 (low) to 5 (high), maturity is an organization's performance relative to CEB's best practice research. Maturity scores are refined with a (+) or (-) to indicate intermediate levels of maturity.

Low Maturity

High Maturity

2+

1

2

3

4

5
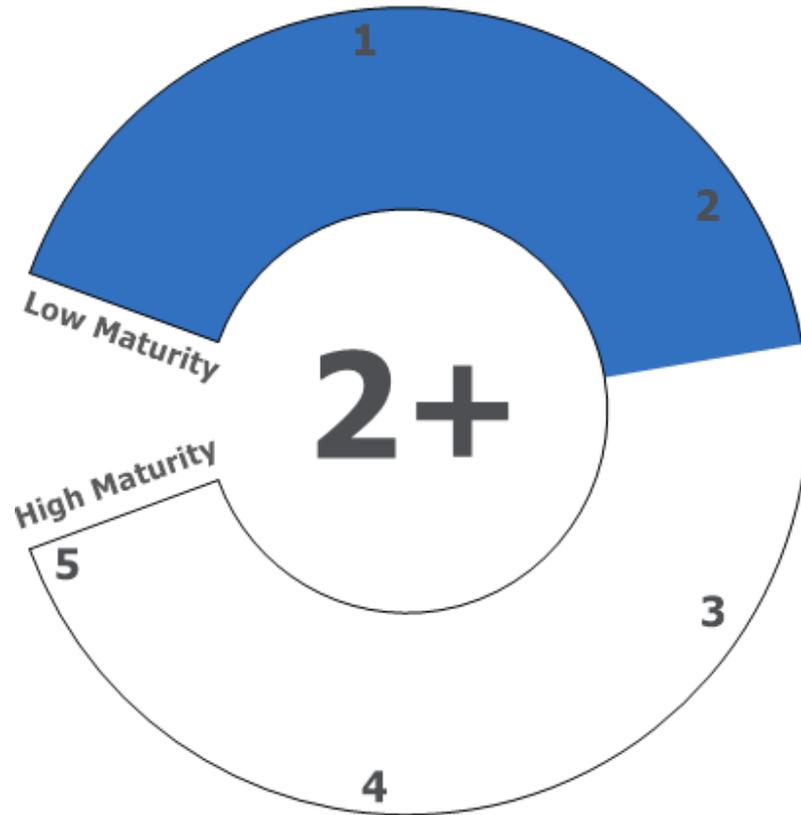
CEB Benchmark = 3

Number of organizations participating in the CEB Ignition™ Diagnostic for Compliance & Ethics = 115
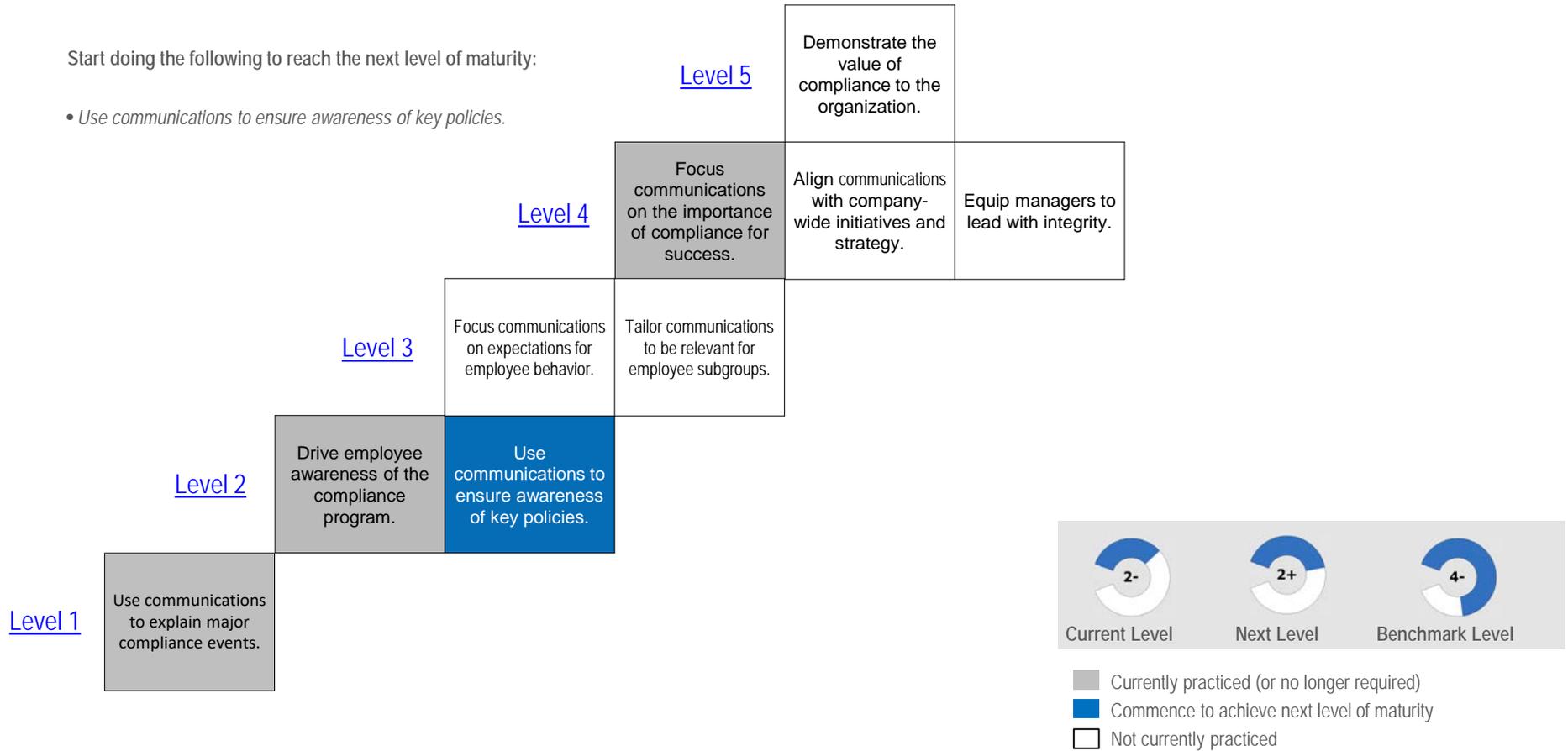
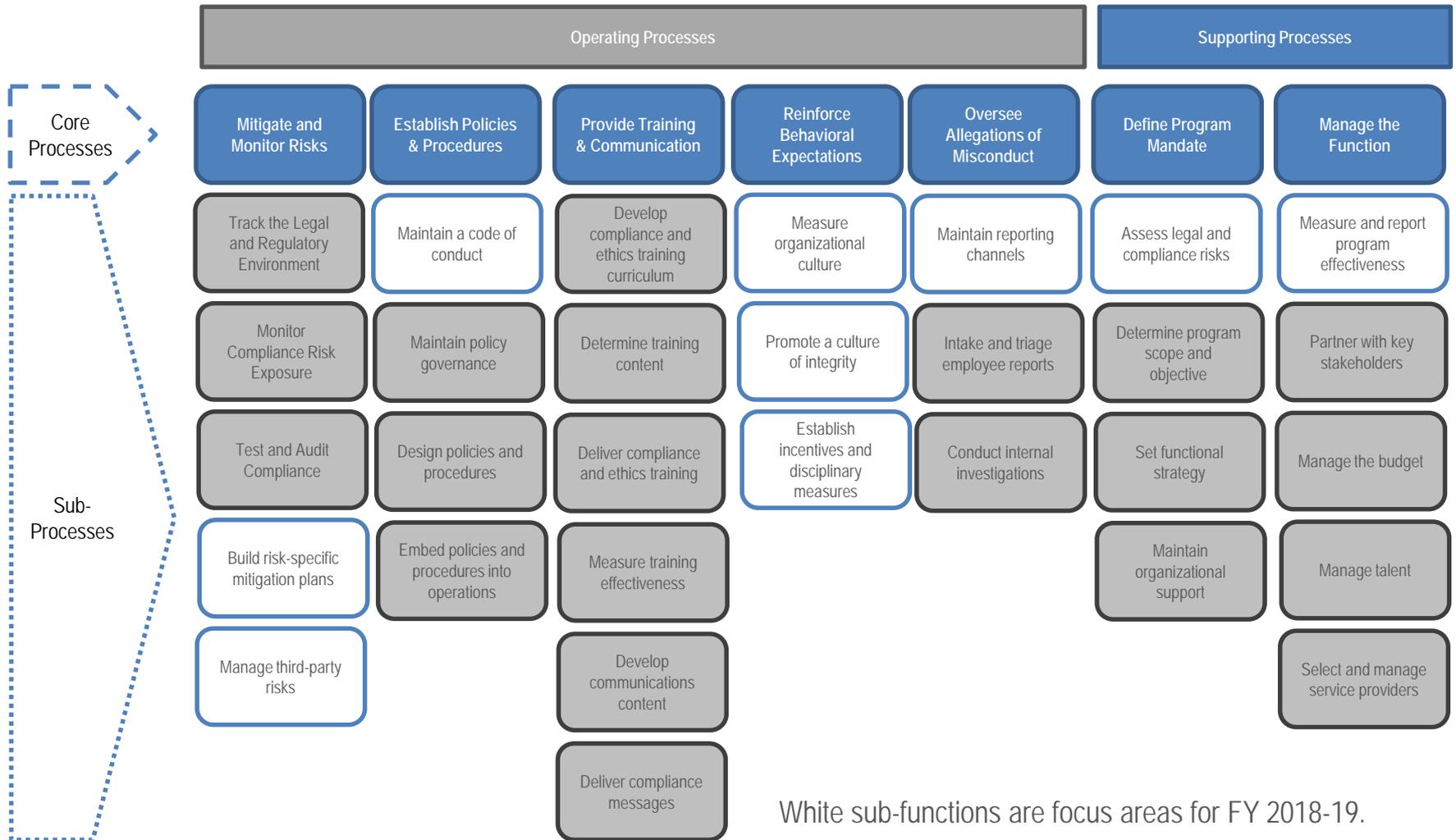# Develop Communications Content –Maturity Path Sample

Path to Maturity

How the compliance program develops key messages for employee-facing communications.

Start doing the following to reach the next level of maturity:

• *Use communications to ensure awareness of key policies.*

Level 5

Demonstrate the value of compliance to the organization.

Level 4

Focus communications on the importance of compliance for success.

Align communications with company-wide initiatives and strategy.

Equip managers to lead with integrity.

Level 3

Focus communications on expectations for employee behavior.

Tailor communications to be relevant for employee subgroups.

Level 2

Drive employee awareness of the compliance program.

Use communications to ensure awareness of key policies.

Level 1

Use communications to explain major compliance events.

Current Level	Next Level	Benchmark Level
2-	2+	4-

- Currently practiced (or no longer required)
- Commence to achieve next level of maturity
- Not currently practiced

CalPERS | Enterprise Compliance

8

FY 2018-19 Focus Areas

	Operating Processes					Supporting Processes	
Core Processes	**Mitigate and Monitor Risks**	**Establish Policies & Procedures**	**Provide Training & Communication**	**Reinforce Behavioral Expectations**	**Oversee Allegations of Misconduct**	**Define Program Mandate**	**Manage the Function**
	Track the Legal and Regulatory Environment	Maintain a code of conduct	Develop compliance and ethics training curriculum	Measure organizational culture	Maintain reporting channels	Assess legal and compliance risks	Measure and report program effectiveness
	Monitor Compliance Risk Exposure	Maintain policy governance	Determine training content	Promote a culture of integrity	Intake and triage employee reports	Determine program scope and objective	Partner with key stakeholders
Sub-Processes	Test and Audit Compliance	Design policies and procedures	Deliver compliance and ethics training	Establish incentives and disciplinary measures	Conduct internal investigations	Set functional strategy	Manage the budget
	Build risk-specific mitigation plans	Embed policies and procedures into operations	Measure training effectiveness			Maintain organizational support	Manage talent
	Manage third-party risks		Develop communications content				Select and manage service providers
			Deliver compliance messages				

White sub-functions are focus areas for FY 2018-19.

CalPERS | Enterprise Compliance

9

Enterprise Ethics

Mitigate and Monitor Risks	**Oversee Allegations of Misconduct**	**Reinforce Behavioral Expectations**
Track the Legal and Regulatory Environment	Maintain reporting channels	Measure organizational culture
Monitor Compliance Risk Exposure	Intake and triage employee reports	Promote a culture of integrity
Test and Audit Compliance	Conduct internal investigations	Establish incentives and disciplinary measures
Build risk-specific mitigation plans		
Manage third-party risks		

- **Manage Third Party Risks**
  - Enhance vendor conflict of interest monitoring

- **Maintain Reporting Channels**
  - Promote awareness of existing non-retaliation protections

- **Establish incentives and disciplinary measures**
  - Explore adding risk and compliance components into performance plans and evaluations

Policy & Delegations

Establish Policies & Procedures

Maintain a code of conduct

Maintain policy governance

Design policies and procedures

Embed policies and procedures into operations

- **Code of Conduct**
  - Formalize ethics values, policies, and expectations in a single document.
    - Include easy-to-understand guidance on high-risk policies.
    - Incorporate learning aids to increase comprehension.

Compliance Monitoring & Oversight

Define Program Mandate	Mitigate and Monitor Risks
Assess legal and compliance risks	Track the Legal and Regulatory Environment
Determine program scope and objective	Monitor Compliance Risk Exposure
Set functional strategy	Test and Audit Compliance
Maintain organizational support	Build risk-specific mitigation plans
	Manage third-party risks

- **Assess Compliance Risks**
  - Partner with the Risk Management Office to establish a compliance risk assessment process
  - Assess compliance risks at the operational and enterprise level

- **Build Mitigation Plans For Key Compliance Risks**
  - Use compliance risk assessment to identify key compliance risks
  - Document risk-specific mitigation plans

CalPERS | Enterprise Compliance

Education, Communications, & Reporting

Reinforce Behavioral Expectations	**Manage the Function**
Measure organizational culture	Measure and report program effectiveness
Promote a culture of integrity	Partner with key stakeholders
Establish incentives and disciplinary measures	Manage the budget
	Manage talent
	Select and manage service providers

- **Measure Organizational Culture**
  - Regularly assess employee perceptions of organizational culture

- **Promote a culture of integrity**
  - Reinforce the importance of ethics in compliance communications

- **Measure and report program effectiveness**
  - Benchmark program maturity against peers
  - Provide context for metrics by analyzing trends over time