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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 ethics and compliance program throughout the enterprise. ECOM is at the forefront of compliance and ethics at CalPERS, working to protect the enterprise and its stakeholders by providing advice, guidance, and oversight which supports the enterprise's commitment to following all the laws, regulations, and policies that govern our organization.

The Annual Compliance Report outlines key accomplishments on ethics and compliance activities covering the fiscal year (FY) 2022-23. 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 with other program areas across the organization to leverage our effectiveness and maximize our impact. Our work relies on these relationships to help inform and raise awareness about the importance of compliance and ethics.

ECOM also recognizes that effective compliance programs grow organically and that all 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, the members, and the employer partners we serve.

Kevin L. Fein

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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.
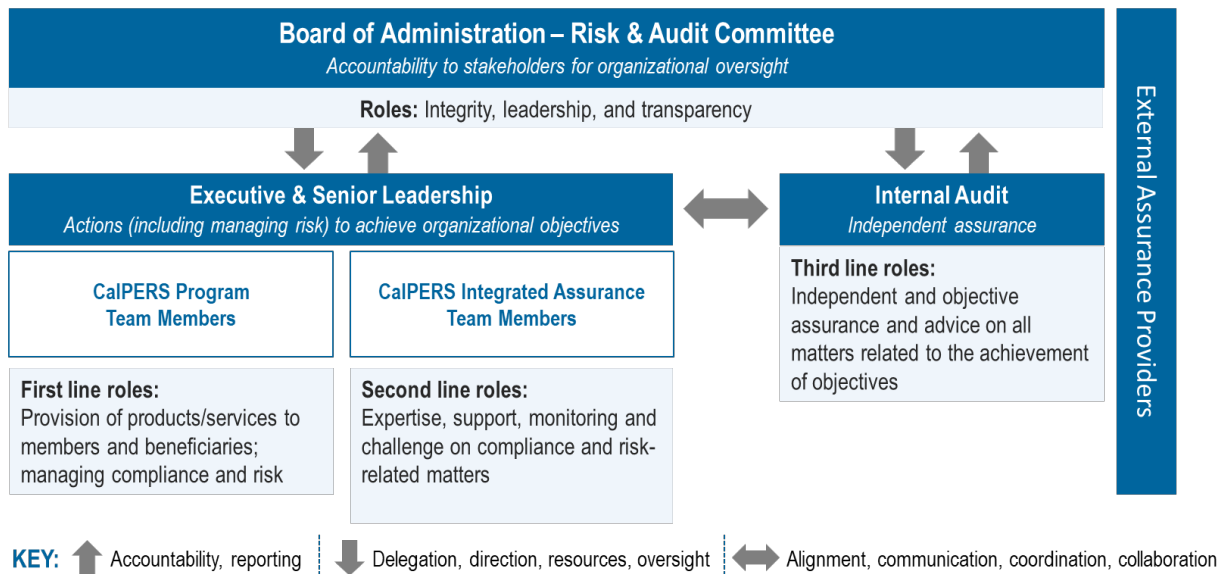
During FY 2022-23, we continued to reinforce and expand upon advancing our strategic plan goal of organizational excellence by cultivating a culture of compliance, and a risk-intelligent organization.

The program is in the process of several new multi-year 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

Board of Administration – Risk & Audit Committee
Accountability to stakeholders for organizational oversight

Roles: Integrity, leadership, and transparency

Executive & Senior Leadership
Actions (including managing risk) to achieve organizational objectives

CalPERS Program Team Members

CalPERS Integrated Assurance Team Members

First line roles:
Provision of products/services to members and beneficiaries; managing compliance and risk

Second line roles:
Expertise, support, monitoring and challenge on compliance and risk-related matters

Internal Audit
Independent assurance

Third line roles:
Independent and objective assurance and advice on all matters related to the achievement of objectives

External Assurance Providers

KEY: ⬆ Accountability, reporting | ⬇ Delegation, direction, resources, oversight | ⬌ Alignment, communication, coordination, collaboration

Source: Institute of Internal Auditors

First Line of Defense – The first level of the control environment consists of the program areas that perform day-to-day risk management activities. In addition to performing daily operations, the program areas are responsible for the design and implementation of internal controls to enhance compliance and

mitigate risks. They are closest to the actual risks, have the best insight, and can have the opportunity to identify/ prevent undesired outcomes.

Second Line of Defense – ECOM provides 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 (OFAS) 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. The ECOM team, as well as partners from across the enterprise, significantly increase the sophistication, scale, scope, and quantitative analysis capabilities of the Compliance & Risk Program. The development goal will be to establish a best-in-class Enterprise Compliance Program consistent with private sector organizations operating similar functions of comparable 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 highly regulated private sector firms.

ENTERPRISE COMPLIANCE OFFICE

- ECOM provides 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 2022-23, ECOM was comprised of three major areas: Enterprise Compliance Program and Policy
- Investment Compliance
- Enterprise Risk Management

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

Enterprise Compliance Policy & Program

The Enterprise Compliance Policy & program 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 Team Members for the 2022 Annual Form 700 filing season.
- Provided Form 700 overview training to over 130 team members.
- Provided Team Leader overview training to over 115 team leaders.
- Built, implemented, launched, and successfully completed a review of all Team Members' Form 700 filings by their immediate supervisor
- Increased timely filing of Assuming and Leaving Office filings.
- Increased timely completion of the Attorney General's Ethics Training.
- Provided over 135 education sessions on transparency and disclosure of Form 700 filings.
- Conducted an Enhanced Form 700 Review for 100% of all CalPERS Form 700 filers.
- Decreased amendments requested by 27.2% when comparing 2020 and 2021 Enhanced Reviews.
- Decreased amendments submitted by 42.3% when comparing 2020 and 2021 Enhanced Reviews.

Other Compliance Highlights

- Conducted an enterprise compliance risk assessment to identify significant risks and develop mitigating controls.
- Partnered with the Information Security Office (ISOF) to assess compliance with HIPAA security and privacy controls, establish mitigation plans, and monitor plan progress.
- Continued development and implementation of an Enterprise Governance, Risk and Compliance (EGRC) system for conflicts of interest disclosure and risk mitigation.
- Identified key functions, risk levels, and performance indicators on the ECOM control inventory.
- Maintained a 99.25% (monthly average) completion percentage for mandatory training for this fiscal year.
- Successfully designed, developed, and implemented a new online delegation repository, improving assurance and communication between ECOM and business partners across the enterprise.

- Conducted detailed review of documents and listings in Policy Directory and Delegation Repository, and reconciled discrepancies to ensure posted records are complete, accurate, and up to date.
- Continued to work closely with program areas to support them in developing policies that strengthen their existing processes and controls, and that are easy to understand and comply with.

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

- In collaboration with the first line of defense (FLOD) in the Investment Compliance Oversight and Monitoring (ICOM) team documented laws, rules, and regulatory requirements and confirmed roles and responsibilities.
- Building on the above, associated controls were consolidated and risk rated to prioritize resources on the areas of most potential impact.
- Implemented the MyComplianceOffice (MCO) personal trading platform to provide heightened governance oversight which also provides additional, enhanced capabilities over the previous system.
- Conducted 167 compliance onboarding sessions to provide education and guidance for employee compliance rules and disclosure requirements.

Enterprise Risk Management

The Enterprise Risk Management (ERMD) team 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 2022 Annual Enterprise Risk Assessment; updated the Enterprise Risk Dashboard, Profiles, Heatmap, Emerging Risks and Risk Appetite Statements; facilitated discussions with subject matter experts to review risk drivers and mitigations.
- Partnered with Enterprise Strategy & Performance Division (ESPD) to integrate ongoing strategic risk indicator reporting into the Enterprise Performance Reporting framework and Board Insight reporting tool for the 2022-27 Strategic Plan.
- Completed the State Leadership Accountability Act (SLAA) Report Implementation Plan updates and submitted them to the Department of Finance.

- Completed reviews of high-rated audit observations to provide reasonable assurance controls are still in place and operating as intended.
- Incorporated risk management and compliance training for new CalPERS leaders to continue to cultivate a risk-intelligent and ethical culture.
- Successfully negotiated and renewed CalPERS business insurance policies.

FIRST-LINE COMPLIANCE HIGHLIGHTS

Actuarial Office
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

- Concluded and presented to CalPERS Board of Administration our annual Funding Levels and Risk report monitoring the fund's long-term sustainability with additional analysis added for the potential impacts of current high inflation.
- Collaborated with PAOF and STRL to create a comprehensive communication plan, including written material added to the CalPERS website and a webinar, to increase awareness and understanding of increasing PEPRA member contribution rates on July 1, 2023.
- Collaborated on enhancements to the CalPERS website regarding explanation and illustration of the complex procedures for determining Cost of Living Adjustments in light of the current high inflation environment.
- Created interactive graphic illustrations of annual valuation results for CalPERS public agencies for the CalPERS website, primarily to assist CalPERS agencies with assessment of the financial health of their plans relative to other CalPERS agencies.

Customer Services and Support Branch

The Customer Services and Support Branch (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:

CSS Compliance Highlights

- The Employer Account Management Division (EAMD) effectively managed the limited duration regulation review and publication process. This regulation clarified how long Retired Annuitant appointments can last. Activities included monitoring the regulation development process, addressing stakeholder issues, and ensuring the regulation remained compliant. The

Board approved this regulation on February 14, 2023, for submission to the Office of Administrative Law (OAL). The OAL is currently reviewing the regulations.

- EAMD implemented several changes to address the increased casework in Compensation Review. They augmented the team with additional resources from other areas and modified the review process to increase throughput of cases. These recent changes have reduced overall inventory and backlogs by 44% since August 2022.

- The Retirement Benefits Services Division (RBSD) implemented a process to provide quarterly wage information to ensure earning limit compliance with disability retirees. Upon completion of the annual reconciliation, any overpayment of disability benefits will be collected. Data will also be used in collaboration with the Disability Survivor Benefits Division (DSBD) on potential disability evaluations that may be warranted. RBSD developed a risk scoring methodology and framework to identify and prioritize benefit payees for the benefit verification process, whose framework will be leveraged for other fraud prevention efforts.

- In collaboration with the legal office, RBSD evaluated the Spousal Signature Form Process compliance as part of the retirement application process and made recommendations to strengthen compliance and identify issues upfront in the retirement process. Upon implementation, this effort ensures invalid lifetime beneficiaries are not elected at the time of retirement, which have resulted in downstream impacts to survivor benefit processing.

- The Member Account Management Division (MAMD) finalized procedures to implement a formal quality assurance program for the Refunds Election Application process. This program will strengthen the integrity of the process, confirm the accuracy of the benefits being paid to members, and ensure compliance with federal and state guidelines.

- The Customer Experience Division (CXD) launched a comprehensive participant verification and security program to improve information security protections, improve the customer experience, and streamline agent work processes. This effort has resulted in the authentication compliance rates improving by approximately 15% since the new program was implemented.

- In the Customer Education & Outreach Division (CEOD), Regional Offices strengthened their authentication processes for in-person and virtual customer interactions to ensure compliance with information security and privacy policies and standards. For in-person services, a valid ID must be presented at check-in and at the counseling window prior to releasing member specific information. For virtual appointments, Regional Offices counselors use updated authentication procedures to authenticate each member. For future improvements, Regional Offices have had preliminary discussions around establishing a quality assurance process to further ensure compliance of policies and procedures.

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

Compliance Monitoring and Oversight

- Updated Medicare letters to ask members and dependents to provide their race and ethnicity information when enrolling into Medicare. Additionally, any race and ethnicity data we collect will automatically be passed to the carriers who will transmit the data to the Centers for

Medicare & Medicaid Services (CMS). This complies with CMS's requirement to request and collect this information in an effort to address health inequities in the health care system.

- 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.

- 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.

- Identified additional controls in safeguarding individual's protected health information (PHI) when sharing electronically with external sources.

- Participated in the confidential five-year HMO Solicitation Contract Evaluations.

- Participated in a detailed review of our HIPAA Risk Assessment.

- Completed Q3 and Q4 of user access audit for Milliman's MedInsight.

- Created a procedure for user access to Milliman's MedInsight and implemented a quarterly check for inactive accounts

- Completed Milliman annual background checks.

- Implemented a policy and procedure for granting access to enrollment folder.

- Participated in an internal audit that reviewed contract requirements for compliance, based on results clarified contract language for brevity and specificity.

- Participated in 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.

- Conducted HPBB's annual myCalPERS user access rights review, with a 98.4% retention rate, to comply with information security standards.

Policy Management

- Set requirements for all contracted health plans to report on 5 high priority quality measures and to achieve a required threshold or benchmark for each of those measures. If the health plans fail to meet the required benchmark, they are subject to financial penalties as a percentage of premium.

- COVID-19 Response – Monitored and communicated all relevant COVID-19 public health guidelines to the CalPERS executive team. Provided team members information and updates on COVID-19 and other health-related topics via "Dr. Julia Logan's Corner" and other communication modes.

- Strengthened the health plan compliance program through the recent HMO solicitation with increased required reporting from the health plans in the areas of networks, quality, equity, behavioral health access and telehealth.

Financial Office

The Financial Office (FINO) safeguards our members' financial security through control, coordination, and centralization of all CalPERS financial activity, budgeting, pension contracts, and prefunding

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

- Conducted a lean process review of the Employer Paid Member Contribution (EPMC) Process in October 2022 and cleared over 200 cases of erroneous EPMC resolutions in the myCalPERS System. Implemented a new quarterly validation process to ensure employer resolutions are received and loaded into myCalPERS for all employers who report EPMC.
- Updated the CERBT/CEPPT reporting portal to improve date security and functionality in May 2023. Held training sessions with employers to ensure they were made aware of the reporting portal changes and new security features in June 2023.
- Initiated a legislative change to automate fund to fund transfers between the CEPPT and PERF to streamline processes and mitigate risks.
- Received and processed 250 actuarial reports to ensure compliance with GASB 75.
- Reduced administrative fees charged to participants of the 457 Deferred Compensation Program to comply with the DCF Reserve Policy in November 2022.
- Collaborated with INVO and ACTO to implement ALM changes for PCPP programs.

Investment Office

Investment Controls & Operational Risk (ICOR) serves the Investment Office (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 INVO. The following are highlights of compliance-related accomplishments throughout INVO over the past year:

Compliance Highlights

- Participated in the review of investment compliance requirements in support of the CalPERS compliance operating model.
- Updated the investment proposal system to comply with accessibility requirements.

General Counsel's Office

The General Counsel's Office (GCO) represents CalPERS in litigation and provides legal advice regarding all legal issues at CalPERS. These areas include 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 support of the Chief Compliance Officer and compliance program enhancements.

- Provide subject matter expertise to help monitor conflict-of-interests and Form 700 disclosure requirements, including responding to inquiries regarding Form 700 filing requirements and conflict of interest issues under the Political Reform Act and related statutes; and development of related training.
- Assisting OSSD & ISOF with new contract automation and vendor management platform.
- Assisting ISOF with various fraud detection and fraud management processes.

Operations and Technology Branch

The Operations and Technology Branch's (OPT) compliance team acts as branch liaisons between OPT, ECOM, and the 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

- Enhanced data governance by adding new review steps for high-risk data fields and improved encryption methods to minimize data risks
- Refreshed the Technology Business Management Division Record Retention Schedule
- Reviewed enterprise software installations and followed through to promptly remove any unauthorized software

Operations Support Services Division (OSSD) Compliance Highlights

- OSSD completed a comprehensive review of the Lincoln Plaza Headquarters badge clearance profiles. This effort includes reviewing over 500 entry types and reviewing and auditing access profiles for all divisions and team members. OSSD also completed a badge photo project to comply with the five-year Badge Access Guidelines.
- In partnership with HRSD and ECOM, facilitated 100% completion of Mandatory Training for OPT.
- In partnership with ECOM, facilitated 100% completion of Form 700 filings.
- Refreshed the Records Retention Program and updated all division's Records Retention Schedules.
- Facilitated 100% on-time completion of the Annual Conflict of Interest and Confidentiality Certification & Disclosure Form which includes Board Members, Executives, and Senior Leadership.

Policy Research & Data Analytics (PRDA) Compliance Highlights

- Developed and established PRDA's information asset retention schedule to ensure appropriate retention and protection of PRDA information assets.

- In partnership with OSSD, improved the procurement process by removing outdated procedures, streamlining the process based on customer feedback, and improved the percent of requisition approved within the five-business day service level agreement from 57% to 80%.

SUMMARY

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