Contents

CHIEF COMPLIANCE OFFICER LETTER

The Enterprise Compliance, Risk & Governance Office (ECRG) of the California Public Employees' Retirement System (CalPERS) plays a key role in coordinating, supporting, and advancing an effective compliance and risk program across the organization. As a leader in compliance and ethics, ECRG is dedicated to safeguarding the enterprise and its stakeholders by offering expert advice, guidance, and oversight, helping CalPERS stay committed to adhering to all laws, regulations, and policies that govern our operations.

The Annual Compliance Report highlights key achievements in compliance and risk activities for the fiscal year (FY) 2024-2025. In alignment with CalPERS' values of integrity, openness, and accountability, ECRG recognizes its responsibility to model ethical behavior and practices. We actively collaborate with other program areas within the organization to enhance our effectiveness and maximize our impact. These partnerships are essential to our work, helping to inform and raise awareness about the critical importance of compliance and ethics.

ECRG also acknowledges that successful compliance and risk programs develop organically, with every team member understanding 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
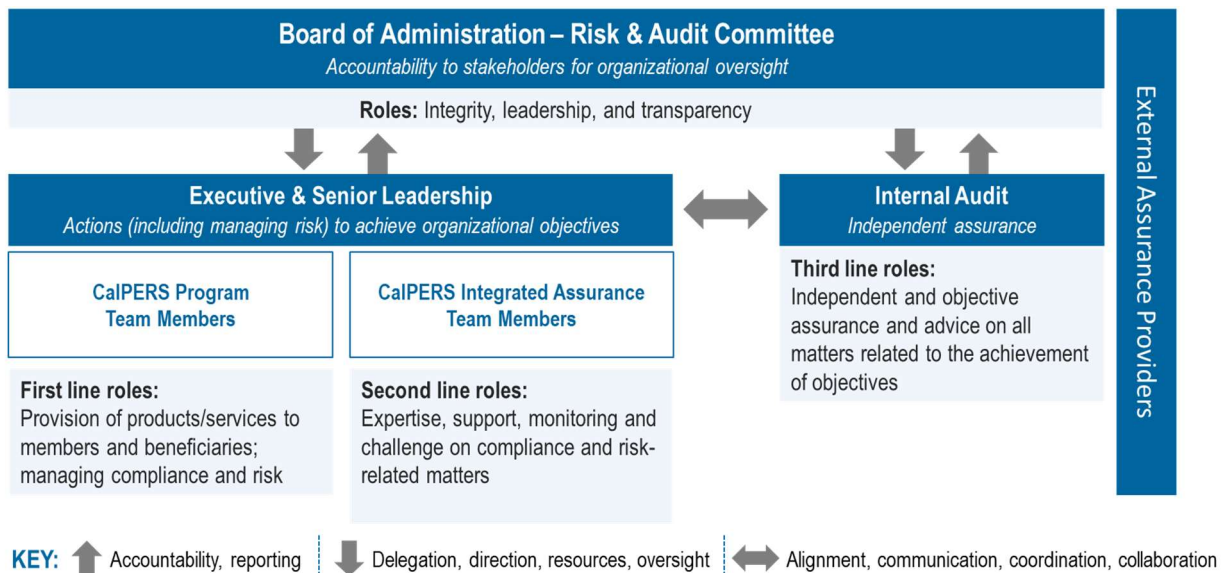
CULTURE OF COMPLIANCE

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

In FY 2024-2025, we continued to strengthen and build upon our strategic plan goal of achieving organizational excellence by fostering a culture of compliance and developing a risk-intelligent organization. The program is currently undertaking several multi-year initiatives aimed at modernizing the compliance, risk management, and governance efforts in the coming months and years.

INTEGRATED ASSURANCE MODEL: THREE LINES OF DEFENSE

CalPERS has adopted 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. As part of 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 program operations and have the best insight into actual or perceived risks and can have the opportunity to identify and prevent undesired outcomes.

Second Line of Defense – ECRG provides advice, guidance, and oversight of compliance risk management and governance activities. This structure provides increased capability to support the organization in 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 – The CalPERS internal audit program provides independent assurance on the effectiveness of governance, risk management, and internal controls. The Office of Audit Services (OFAS) and ECRG participate in a joint, organization-wide risk discussion with leaders. 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.

FY 2024-25 COMPLIANCE AND RISK INITIATIVES AND HIGHLIGHTS

ECRG has traditionally been guided by compliance standards outlined in various federal and state guidelines and regulations. The ECRG team, in collaboration with partners across the enterprise, has continued to evolve the sophistication, scale, scope, and analytical capabilities of the Compliance & Risk Program. We have also made strides in the development and implementation of an Enterprise Risk Management Framework that aligns with industry-leading practices of private sector organizations that operate similar functions of comparable size, scope, and complexity to CalPERS.

Conflict of Interest Oversight

Conflict of interest oversight refers to the processes and systems established to identify, manage, and prevent situations where an individual's personal interests could improperly influence their professional decisions or actions. These measures help maintain integrity, transparency, and trust within the organization and externally with CalPERS members and the general public.

ECRG led organization-wide efforts to identify, manage, mitigate, and prevent conflicts of interest involving employees and external entities doing, or seeking to do, business with CalPERS. These oversight activities are carried out in accordance with CalPERS policies and applicable government regulations.

Through collaboration with ECRG, all branches verified that required team members, supervisors, and contractors completed Form 700, helping to identify potential conflicts of interest based on individual disclosures and roles within CalPERS.

ECRG successfully completed its first full year of Gift and Entertainment disclosure and attestation process using an enterprise compliance, risk, and governance platform. The new process has been well received by team members, quickly becoming a natural and integrated part of CalPERS culture and reinforcing CalPERS' gift disclosure and compliance rules. ECRG also continued to administer the Placement Agent Regulation and Board reporting requirements to support compliance with the Placement Agent Regulation (CCR Title 2 § 559) and disclosure of Placement Agent Fees, Gifts and Campaign Contributions from external managers seeking to do business with CalPERS.

To further strengthen conflict of interest oversight, ECRG developed and is piloting a Third-Party Agreement Conflict Check process to identify and manage potential conflicts of interest between team member's disclosed financial interests and the third parties involved in CalPERS' agreements or contracts. This rigorous and proactive compliance process leads to improved assurance that CalPERS decision-making regarding third parties is free from conflicts of interest, consistent with CalPERS' fiduciary duty, and effectively manages related financial, operational, legal, and reputational risks.

In addition, ECRG enhanced a structured process to review outside business activities (OBAs) of CalPERS team members that could potentially conflict with their CalPERS job duties. The guidance emphasizes transparency, requiring employees to disclose non-CalPERS employment and seek prior approval, if applicable. Requests are reviewed to confirm they do not interfere with job performance, create conflicts of interest, or involve improper use of organizational resources. Approved activities are subject to periodic review to maintain continuing compliance with the CalPERS Statement of Incompatible Activities and other applicable laws.

Finally, in partnership with ECRG, the Investment Office (INVO) enhanced existing conflict of interest oversight processes within the division, including those involving information barriers, personal trading restricted list, and potential conflicts of interest around senior leadership personal holdings.

Monitoring and Assurance

Monitoring and Assurance activities are designed to identify and assess material risks across the organization. Monitoring focuses on utilizing key metric reports to detect patterns, trends, and outliers in critical processes that may signal potential breakdowns or errors, prompting further investigation. Assurance Reviews are targeted, focused evaluations of key controls related to high-risk requirements, ensuring that risks are effectively managed.

CalPERS achieved 100% compliance for the 2024 Annual Form 700 filing season and the Annual Personal Trading Attestation period. Additionally, ECRG conducted an enhanced review of all Form 700 filings, including Assuming, Leaving, and Annual Statements to comply with FPPC regulations. This enhanced

review process provides additional management insight and accountability, further strengthening CalPERS' assurance and risk oversight practices.

ECRG continued to partner with various program areas to monitor and oversee Ethics Helpline complaints and provide executive level metrics and reporting to CalPERS Integrated Assurance Risk Council and the Board's Risk and Audit Committee to promote transparency and accountability.

CSS leveraged artificial intelligence, using PERL BOT, for automated Compensation Compliance reviews of Memorandum of Understanding (MOU) and labor agreement processes, potentially enabling more efficient and accurate reviews.

HPBB completed Milliman's quarterly HITRUST compliance checks and received updated Milliman background screening and HIPAA attestations.

HPBB also collaborated with OFAS to conduct a Health Contributions Review for Non-PERS agencies, ensuring compliance with their health resolutions and Government Code (GC) sections 22890 and 22892 under the Public Employees' Medical and Hospital Care Act (PEMHCA). The review validated employer processes and procedures for collecting health contributions from employees and annuitants, in alignment with their resolutions and applicable statutes. Additionally, HPBB partnered with Milliman and ITSB to update the IP whitelist for MedInsight access. The team completed quarterly and annual audits of users accessing Milliman services, along with regular HITRUST compliance checks to maintain data security standards.

The Human Resources Division (HRSD) is collaborating with ECRG to enhance controls for the identification and maintenance of covered persons positions as part of the Oracle HCM Cloud Migration project to provide timely notification of new hires and position changes and enhance oversight over disclosure and filing requirements. System requirements and design were carried out in FY 2024–25, with project completion anticipated in FY 2025–26.

INVO reviewed and validated user access requirements and standards for trade order management platforms, ensuring compliance with Information Security Control Standards for the private asset class reporting platform, while also procuring and implementing a monitoring tool to oversee disclosure requirements for major shareholding thresholds.

ITSB reviewed enterprise software installations and promptly identified and removed any unauthorized software

Advice and Education

Educate and cultivate ethical and risk-intelligent practices amongst CalPERS team members by providing advice and consultation on policy and regulatory requirements. Leverage training and educational programs to aid employees understand and comply with organization policies, standards, and regulatory requirements.

ECRG promoted a risk-intelligent and ethical culture by providing risk management, Form 700, and other compliance training to new CalPERS leaders and by conducting pre-hire onboarding sessions on compliance rules and disclosure requirements. The team improved tracking and reporting of the Attorney General's Ethics Training in GoLearn and continued compliance advisory sessions with new hires to ensure understanding of CalPERS conflict of interest rules and ethical standards.

The CSS team enhanced member education by making resources available in Spanish, Tagalog and Cantonese, improving counselors' ability to assist members.

HPBB completed its annual training assessment to confirm that CalPERS users accessing MedInsight met CalPERS information security and HIPAA requirements and conducted monthly open office hours and otherwise supported the completion of annual MedInsight trainings led by Milliman.

INVO delivered INVO-wide and new employee training on investment-related conflicts of interest, regulatory matters and other topics relevant to INVO's business model.

Risk Assessment and Mitigation
Identify, assess, and manage risk within CalPERS to aid in ensuring compliance with regulatory requirements, CalPERS policies and standards, and industry best practices.

ECRG, in partnership with the Information Technology Services Branch (ITSB), continued to rollout the Risk and Controls Self-Assessment (RCSA) process with an additional 12 ITSB teams, and concurrently developed and tested a mitigation process to address issues or gaps identified through this process.

ECRG completed the 2024 Enterprise Annual Enterprise Risk Assessment partnering with key stakeholders across CalPERS.

CSS completed a major project to assess the risk of, and to develop and implement a plan to reduce, overpayments in three areas: Retirement Benefits, Refunds, and most importantly, Death Benefits.

HRSD developed an Executive Succession Planning model that integrates comprehensive Workforce and Succession Management practices, aligning with CalHR requirements and informed by best practice research. This initiative is critical for risk mitigation, as it supports a smooth transition of knowledge and skills when key personnel depart, whether planned or unplanned. As part of this effort, Executive-level leaders in mission-critical positions were identified to participate in the Executive Succession talent pool, supported by an extensive workforce analysis conducted in accordance with CalHR's established Succession Management guidelines.

OFAS conducted an annual enterprise-wide integrated risk assessment that supports the development of the annual audit plans.

Data Privacy and Protection
CalPERS' ability to manage member and employee data collected lawfully and responsibly and protects the collected data from access or use by unauthorized parties.

The CSS team in partnership with Policy Research & Data Analytics Division developed strategies to maintain the accuracy and security of customer contact information, aligning with industry standards for data privacy and protection.

HPBB implemented two-factor authentication for both the Long-Term Care member portal and the new Electronic Visit Verification (EVV) tool, enhancing security and protecting user data. Additionally, HPBB developed authorization forms and dashboard attestations for the Health Data Nexus to safeguard sensitive information and prevent unauthorized access.

HRSD is collaborating with ITSB to enhance HR system user access compliance as part of the Oracle HCM Cloud Migration project. User access will be role-based and subject to close monitoring to uphold data privacy and protection standards. Analysis of user access and the development of role definitions are currently underway in FY 2024–25, with project completion anticipated in FY 2025–26.

Fraud Risk Management
Process of implementing measures, technologies, and strategies to prevent, detect, investigate, and mitigate fraudulent activities within an organization or across industries.

The CSS team launched a pilot of Authentication Workshops for contact center agents, resulting in a 50% reduction in failed authentications and a 96% authentication success rate among participating teams within one month of completion. They also conducted a study of industry peers and Golden 1 Credit Union to assess fraud detection and investigation best practices within contact centers, which led to recommendations for ISOF to maintain fraud-related tasks within their division instead of housing a Fraud Customer Service Representative role in the CSS Customer Experience Division.

CSS implemented death and identity verification solutions and introduced an identity verification process for myCalPERS member self-service registration, enhancing the security of high-risk transactions.

HPBB collaborated with its Long-Term Care (LTC) Third-Party Administrator to implement a new and enhanced Fraud, Waste, and Abuse Detection Tool that analyzes claims data against various risk factors to identify potentially fraudulent activities. Suspicious cases are referred to a Special Investigation Unit for further review and possible referral to CalPERS. In addition, HPBB launched the new Electronic Visit Verification tool to improve verification of services rendered and strengthen fraud detection efforts among LTC independent providers.

ITSB replaced the traditional Knowledge Based Identity verification for member self-service account registration to enhance fraud detection and implemented a benefit verification process to perform proof of life checks, preventing benefit payments to deceased members.

Policy, Governance, and Reporting

Establishing CalPERS Policies, conducting governance routines for oversight and awareness at all levels of the management team and Board of Directors, and developing and delivering management reports internal and external as required to support risk processes.

ECRG continued to develop and implement enhanced performance and risk data points for various oversight and monitoring functions to create more meaningful reporting for senior leadership. This included forensic monitoring and reporting across multiple conflict-of-interest types and the development of metrics into a dashboard view, improving awareness and increasing team member compliance rates.

CSS maintained compliance by amending California Code of Regulations section 574 for classified school members, which was adopted by the Office of Administrative Law, clearly defining the process for determining and reporting the full-time pay rate of classified school members to CalPERS by school employers.

INVO established a governance framework to monitor and address existing and emerging operational risks.

Compliance and Regulatory Change Management

Identify and implement changes to business processes and practices to maintain compliance with changes in policies or regulations.

ECRG developed and is piloting a regulatory change management process designed to identify, assess, and implement necessary changes to maintain ongoing compliance with evolving laws, regulations, standards, and internal policies.

CSS implemented system updates to comply with Solano County's new working-after-retirement statute, Senate Bill 1387, and confirmed compliance with Senate Bill 1458, which grants fiduciaries lifetime access to digital assets and communications, aligning CalPERS with California's Revised Uniform Fiduciary Access to Digital Assets Act.

During the 2024 State Legislative Cycle, HPBB addressed 39 health-related bills, including 12 requiring implementations within the CalPERS health program, and worked with internal teams and health plan partners to ensure compliance with new legislative requirements. Following the release of the Mental Health Parity and Addiction Equity Act final rule in September 2024, HPBB provided policy recommendations to senior leadership, organized internal experts to define responsibilities, and initiated outreach to health plan sponsors, regulators, and third-party consultants—efforts that will continue into 2025 and beyond.

Additionally, HPBB partnered with federal health consultants, Impact Health Policy Partners, to monitor legislation and regulations impacting the CalPERS health program. The team kept senior leadership and

program areas informed by submitting nine comment letters to federal agencies and Congress to advocate for CalPERS' health policy priorities during the 118th Congressional Session. Federal legislative activity was summarized in monthly reports to the Board of Administration.

On the state level, HPBB tracked 107 health-related bills, prioritizing seven as Master bills, and provided impact analyses to senior leadership and internal stakeholders. While the Board supported AB 3129 if amended to address anti-competitive behavior, it was ultimately vetoed by the Governor. SB 729, expanding infertility coverage, was the only Master bill chaptered and will necessitate a policy change in the health program as required by law.

Third-Party Risk Management

Third-party risk management involves identifying, assessing, and mitigating risks associated with external vendors, suppliers, or partners to prevent their actions from negatively impacting the organization.

HPBB is actively working alongside other state purchasers, subject matter experts, and pharmacy benefit vendors to secure a new pharmacy benefits contract by January 2026, focusing on enhanced transparency, extensive audit rights, and heightened contract accountability. Additionally, HPBB established a new Performance and Quality Improvement Team in the Contracts section, reflecting a broader effort over recent years to strengthen contract requirements and align more closely with Covered California (CCA) and the Department of Health Care Services (DHCS). These enhancements are expanding HPBB's ability to provide comprehensive oversight and auditing to verify contract compliance by all health plans.

SUMMARY

The Compliance and Risk program at CalPERS continues to evolve and make significant strides. The dedication of our compliance and risk teams, along with the support of our internal partners, represents a valuable investment in strengthening CalPERS' long-term commitment to ethical conduct and strong internal controls. Compliance and risk management are integral to all six of CalPERS' core values: quality, respect, accountability, integrity, openness, and balance. The ECRG team will continue to provide guidance as CalPERS works toward building a sustainable future grounded in ethics, compliance, and risk management.