



Risk and Audit Committee

Agenda Item 6a

June 12, 2024

Item Name: 2023-24 Annual Compliance Report

Program: Enterprise Compliance, Risk, & Governance (ECRG)

Item Type: Information

Executive Summary

This agenda item presents the FY 2023-24 Annual Compliance Report.

Strategic Plan

This item supports CalPERS' FY 2022-27 Organizational Excellence Strategic Plan Goal: Cultivate a diverse, risk-intelligent, and innovative culture through our team and processes, and ECRG's strategic measures of Employee Compliance Awareness, Risk Management Effectiveness, Employee Risk Awareness, and Organizational Compliance Effectiveness.

Background

The Annual Compliance Report summarizes CalPERS' enterprise-wide compliance and risk management accomplishments each year. This year's Annual Compliance Report compiles activities for FY 2023-24.

Analysis

ECRG 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 documents CalPERS' most significant compliance and risk management related activities and accomplishments for FY 2023-24, supporting effective Board oversight and enhancing transparency and public confidence.

Compliance awareness and risk management are integral to cultivating a high-performing, risk-intelligent, and innovative organization. CalPERS has embraced an Integrated Assurance model that incorporates compliance, risk, and governance practices as a multi-faceted approach to promoting compliance awareness and accountability.

The Integrated Assurance model centers on the "Three Lines of Defense" framework that distributes compliance activities within the organization as follows:

- **First Line of Defense** – The first level of the control environment is the program areas that perform day-to-day risk management activities.
- **Second Line of Defense** – The second level of the control environment is the oversight functions, such as ECRG which sets direction, defines policy, and provides assurance.
- **Third Line of Defense** – The third level of the control environment is internal audits, which provide independent assurance of the effectiveness of governance, risk management, and internal controls.

Budget and Fiscal Impacts

This item does not have any specific budget or fiscal impacts as it is part of the regular and ongoing workload of all CalPERS program areas.

Benefits/Risks

The establishment of an effective ethics and compliance program provides significant benefits to the organization by:

- Promoting a culture of compliance and risk intelligence.
- Monitoring and testing operations to assure program area compliance.
- Reporting and disclosures that promote transparency and mitigate potential conflicts of interest.

Implementing the activities outlined in this agenda reduces CalPERS' exposure to legal, financial, reputational, and operational risks from:

- Failure to comply with laws or regulations.
- The appearance of misconduct or noncompliance.

Attachments

Attachment 1 – Annual Compliance Report – Fiscal Year Ended June 30, 2024

Kevin L. Fein
Chief Compliance Officer