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Date: May 8, 2015

TO: MEMBERS, AUDIT COMMITTEE

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 5 - Whistleblower Hotline
II. NAME AND TITLE:	Andreas Acker, Executive Vice President and Chief Administrative Officer; and Dante Robinson, Chief of Internal Affairs
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY

The purpose of this report is to provide the Board a summary of the 71 ethics allegations reported during the period January 1, 2015 through March 31, 2015 as well as the 85 allegations from prior quarters that are currently being investigated or awaiting disciplinary action.

State Fund receives reporting on ethics related issues from a number of different sources to include referrals from management, our privacy office, and our whistleblower and ethics hotlines. For our ethics hotline, State Fund partnered with NAVEX Global on September 3, 2012. NAVEX Global is an independent vendor that provides multiple ways for our workforce to confidentially and anonymously report ethics and privacy concerns. During the first quarter of 2015 there were 31 cases reported through NAVEX Global, 14 management referrals, and 26 referrals from the Privacy Office.

Human Resources will provide the State Fund Board of Directors with a quarterly report regarding the use and effectiveness of State Fund’s reporting hotlines and will include statistical information for the quarter.

Human Resources and Internal Affairs investigate the majority of the matters referred through the Ethics Hotline, California Whistleblower Hotline, Management Referrals, and Privacy Office. For the first quarter of 2015, there were 71 new allegations received and 61 investigations completed. From the 61 completed investigations, 35 resulted in the allegations being unsubstantiated and 26 were substantiated. Of the 26 substantiated allegations, 24 were referred to Manager Services for action and two involved employees who separated or retired from State Fund.

VI. ANALYSIS:

Over the past nine quarters the average number of allegations reported from all sources was 28 per month; ten per month are received from the Ethics Hotline, six per month are received from manager referrals, and 12 per month referred from the Privacy Office.

During the first quarter of 2015, there were 71 reports received from the following sources:

- Ethics Hotline – 31 (~10/mo)
- Management Referral – 14 (~5/mo)
- Privacy Office – 26 (~9/mo)

Attachment 1, Chart 2, compares total reporting by month for this quarter to the previous quarter as well as to the same period last year. Initial indications along with an expected increase in the number of employees for 2015, lead us to anticipate that there will be an overall increase in the total number of reports received in 2015, however, we expect that our ratio of reports to employees will remain consistent at eight reports per 100 employees throughout the year.

Suspected Privacy Breaches: Suspected data breaches and unauthorized transmission of personally identifiable information (PII) outside of State Fund systems continue to comprise the majority of the cases investigated and addressed by Human Resources. From January 2014 through March 2015 privacy related cases comprised 48%¹ of our overall caseload. During the first quarter of 2015 there were a total of 35 privacy breaches reported, 14 of which are currently under investigation. Of the remaining 21, three allegations were unsubstantiated and the remaining 18 were found to be in violation of the Privacy and Confidentiality Corporate Policy.

Non-Privacy Cases: The 36 non-privacy related cases reported during this quarter included nine cases involving misconduct or inappropriate behavior, eight cases involving discrimination or harassment, eight cases involving business and legal practices, and 11 from various other categories.

VII. RECOMMENDATION:

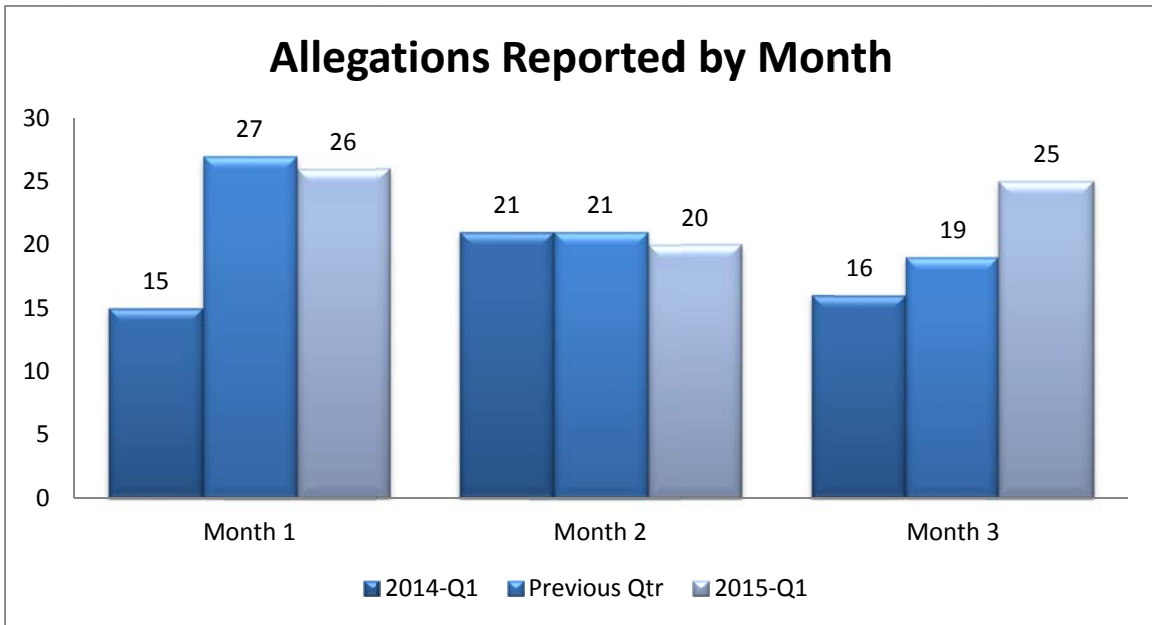
Every instance of observed misconduct and privacy violations represents a risk to the organization. Human Resources and the Privacy Office will work with management on identifying and implementing risk mitigation measures, implementing corrective actions and taking disciplinary measures where necessary, and to seek out opportunities to raise awareness and educate the State Fund workforce of their responsibility to prevent the improper disclosure or use of private/confidential information. Where trends are identified, corrective measures will be developed and implemented and we will continue to work with programs on training and counseling to address identified issues.

VIII. APPENDIX:

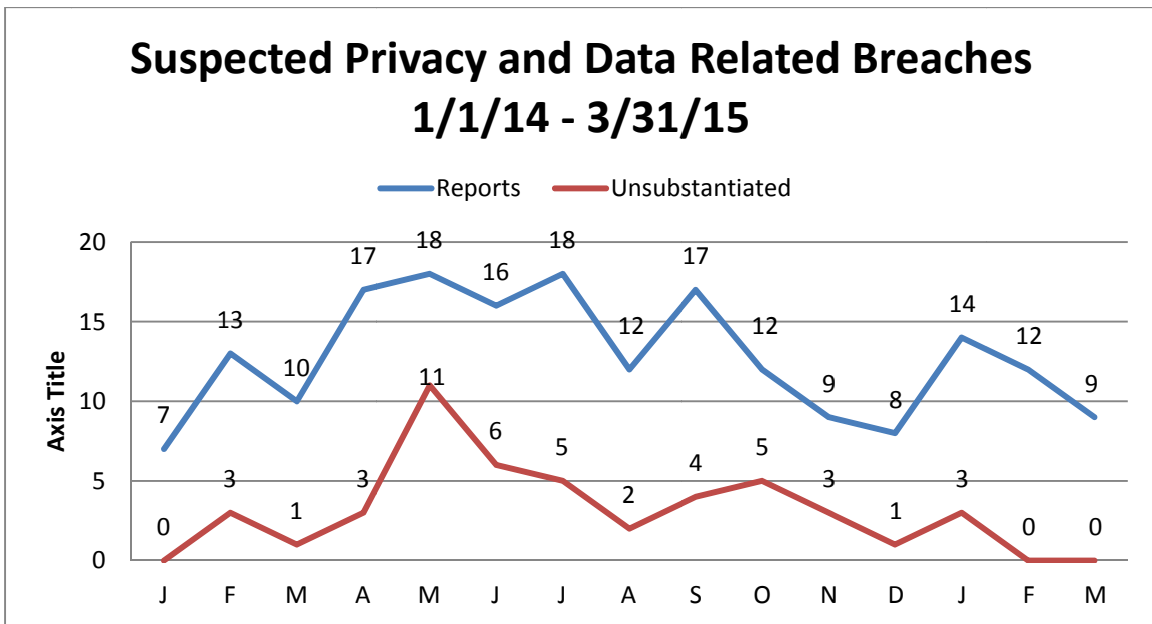
1. Allegations Reported by Month & Privacy Reporting
2. Allegations Reported by Type
3. Q1-2015 Completed Investigations

¹ 189 of the 391 allegations reported in 2014 and 2015 were suspected privacy or data breaches.
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Allegations Reported by Month & Privacy Reporting

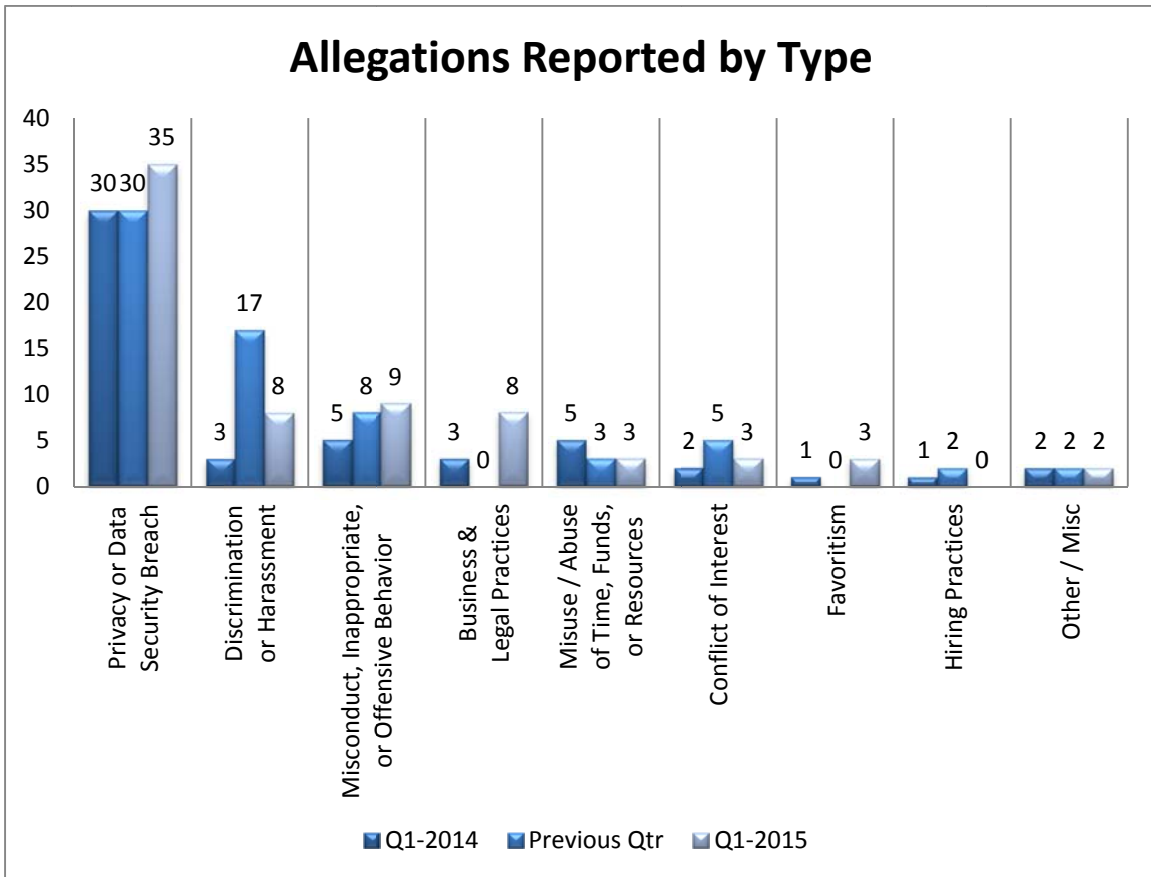


(Chart 1)



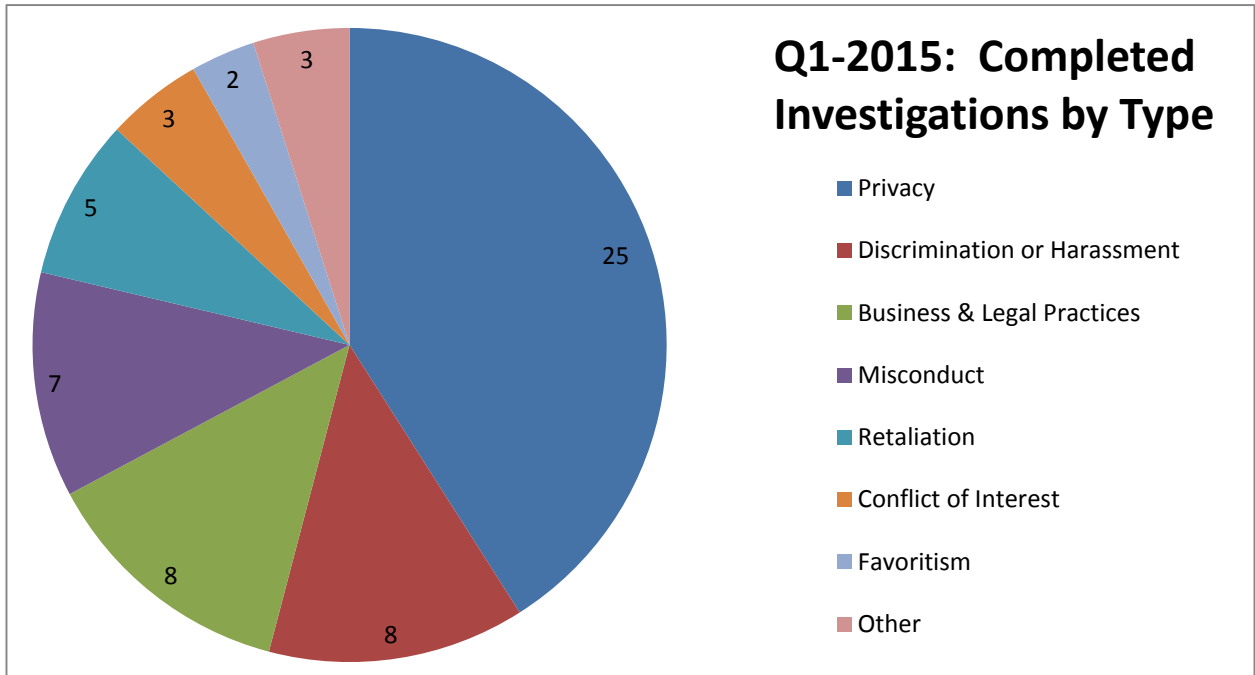
(Chart 2)

Allegations Reported by Type

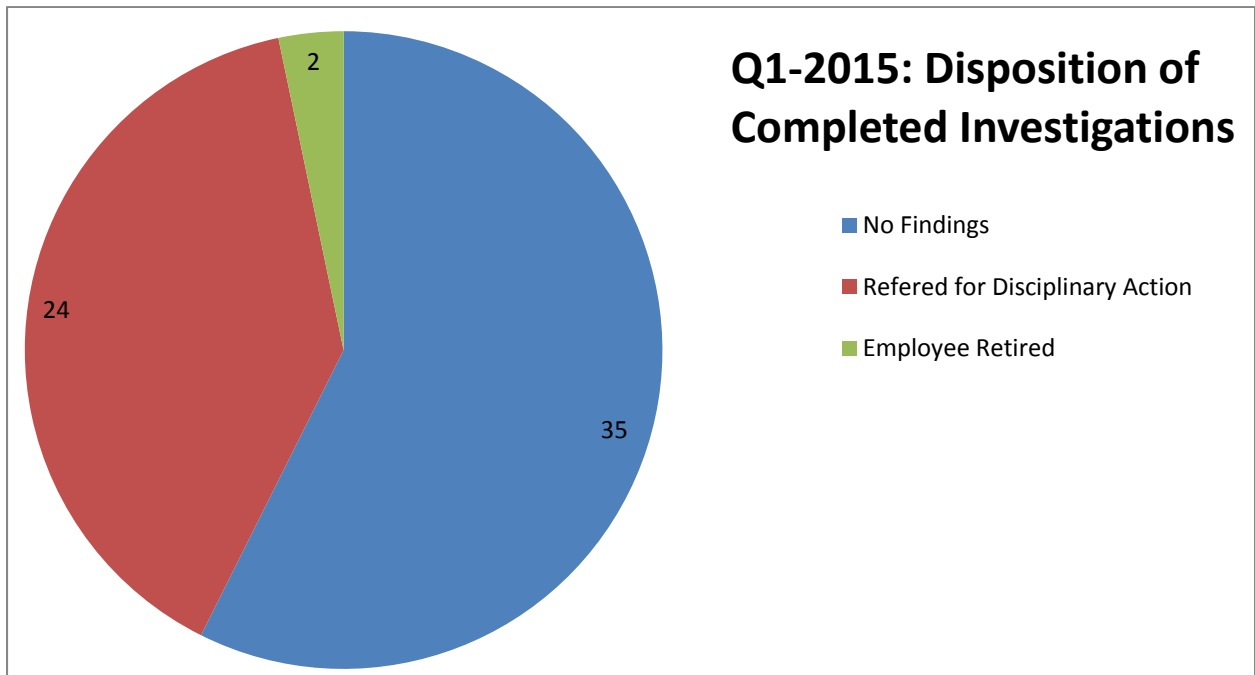


(Chart 3)

Q1-2015 Completed Investigations



(Chart 4)



(Chart 5)